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SALES & MARKETING INSIGHTS

Understanding Your Brand's Performance: Creating Robust Forecasts by Integrating Commercial and Clinical Drivers

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Pharmaceutical forecasts address critical business questions for all areas of a company. What are the financial targets? What is the brand budget? What is the head-count plan? What is the right level of inventory to have on hand at any given time?

Forecasts that integrate commercial drivers of a brand's success, such as sales and marketing investment and payer coverage, along with clinical assumptions, are more robust than those that do not, and help lead to better decisions on financial and brand planning, resource allocation and manufacturing. Although commercial drivers are vital elements of a pharmaceutical brand's success, companies may not fully account for these drivers in forecasting.

This paper will show how integrating commercial elements within in-market pharmaceutical forecasts allows pharmaceutical companies to develop robust forecasts that help executives make well-informed decisions.

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Introduction

Robust forecasts are essential for pharmaceutical executives to make thoughtful, well-informed decisions. A company's functions—financial, research and development, marketing and sales operations—depend on forecasts that provide a strong indication of how a brand will perform. With this in mind, the pharmaceutical industry devotes ample resources to forecasting, hoping to develop a likely scenario of how revenues will fare in the future.

So why do so many forecasts fall short—or, to put it another way, why do revenues so often fall short of forecasts?

The answer lies in how forecasts are built. A brand's clinical drivers constitute the main elements of any forecast, but its commercial drivers—including promotional effort and payer coverage—are also important. Unfortunately, not all forecasts—perhaps yours—systematically consider these drivers as diligently as a brand's clinical drivers.

Failing to properly capture promotional effort and payer coverage in a forecast can reverberate throughout an organization. Poorly constructed forecasts can result in a brand's supply not matching demand. Just as troubling, when a forecast indicates a brand will perform better than its true potential, scarce corporate resources are allocated inappropriately, while other, potentially more lucrative, opportunities go without appropriate resourcing (see Figure 1).

Figure 1. Failing to properly capture commercial drivers in a forecast can have negative consequences across an entire pharmaceutical company.

So if failing to account for promotion and payer dynamics can cause a weaker forecast, why aren't these elements always included?

Pharmaceutical forecasting is often exclusively based on a brand's clinical strength relative to competitors: the assumption being that a brand with a better clinical profile should be more successful in the marketplace. When pressed for promotional and access plans upon which the forecast is based, the company will often assume that it will provide the brand with enough resources to capitalize upon its clinical strength.

For example, the company may assume equivalent promotional spending as competitors, and that it will be able to contract to get adequate access to payers. From the point of view of the forecasters, it may seem impossible to obtain such assumptions because the specific promotional strategy is not yet formulated. Additionally, while payer dynamics have become increasingly important in the pharmaceutical industry, they have historically not been systematically considered in forecasting.

Forecasts for in-market brands and prelaunch brands often have numerous similarities, but are different enough to warrant separate examination. This paper will examine integrated forecasting for in-market brands. Through looking at Monumenta BioSciences, a fictitious firm that mirrors what we have seen at numerous companies, one can observe the factors that make integrated forecasts more credible and help deliver long-term success.

Monumenta's Forecasting Dilemma

MettaBetta had been a leading diabetes treatment for Monumenta BioSciences the three years it had been on the market. The drug had greater efficacy and fewer (and less severe) side effects than the market leader. MettaBetta met forecast expectations—at first. But brand performance deteriorated over time. MettaBetta began to miss forecasts, and the gap between expectations and reality grew substantial.

The marketing team was frustrated. Research indicated that physician and patient perception of MettaBetta relative to competitors was still positive, and Monumenta's management was giving the brand adequate promotional support. Yet sales growth was waning.

The problem wasn't that MettaBetta's marketing team had failed to do its job, but rather lay in how the company viewed the market. Brand managers figured that if MettaBetta had the best profile—and if doctors understood the brand's value and benefits—how could it not be the market leader?

While Monumenta had pursued other promotional avenues for MettaBetta (sales force promotion with messages emphasizing clinical superiority, physician education and support from key opinion leaders to the broader prescribing audience), competitors had aggressively pursued contracts with third-party payers. This strategy put MettaBetta at risk, since competitors' access had improved, and even if physicians thought that MettaBetta was the superior brand, patients were not able to pay for it.

Unfortunately, once it became clear that competitor access had reduced the rate of growth for MettaBetta, Monumenta lacked a well-defined way to understand how steps to improve access would affect performance. As a result, the MettaBetta brand team and forecasters were at a loss to quickly adapt.

The Pharmaceutical Industry's Traditional Forecasting Approach

Monumenta's forecast did not incorporate all commercial drivers relevant to MettaBetta's commercial success, and the company was unable to deliver a revised forecast quickly when it needed a new one.

In retrospect, Monumenta needed to integrate commercial drivers into its MettaBetta forecast. Understanding why pharmaceutical companies in general may make the same misstep requires examining the basic forecasting methodology for in-market brands, which consists of three parts:

- **Baseline Projection**: A forecaster first constructs statistical trends of historical data, working under the assumption market conditions will remain static.
- **Market Events**: A forecaster then considers market shifts or changes not reflected in historical data (and therefore not reflected in the baseline projection).
- **Conversions**: Finally, a forecaster adjusts for wholesaler and distributor stocking activity, and applies financial assumptions to determine revenue forecasts.

The crucial gap comes in the second step, accounting for market events. While forecasters routinely include events such as new competitor launches, patent expiration and introductions of generic competitors, promotional effort and payer coverage are not always explicitly modeled. These factors are often ignored because companies sometimes simply assume that brands receive enough support.

(It is worth noting that often forecasting and marketing analytics are housed in separate departmental silos within pharmaceutical companies, which may exacerbate challenges to communicate information between entities and set proper expectations about the forecast.)

Yet as seen with MettaBetta's competitors, an event such as changes in payer coverage can significantly alter brand performance.

A Recommended Approach

1. Identify the commercial drivers that will affect brand success.

The first step entails identifying the precise shifts in promotional effort and payer coverage in the forecasted time frame.

For instance, optimizing sales force effort means aligning the right degree of sales force effort to the correct physician audience to generate physician interest in prescribing a brand. Direct to consumer (DTC) advertising can increase brand awareness, which can increase demand for a brand. Efforts to secure a better tier status with major payers also can increase demand for a brand. Understanding the dynamics in each of these three examples enables a company to maximize usage of its brands.

In order to fully understand true product demand, it is often necessary to understand broader market dynamics and treatment patterns by patient segment to inform why the brand is performing in a particular manner. In this case, a patient-based forecast can serve as a powerful way to triangulate with the projection-based forecast to understand how commercial drivers are affecting both patient dynamics, and market and brand trends.

2. Map commercial drivers to the forecast where they have impact.

Linking commercial drivers to how they affect forecasts is essential. For example, sales force effort can help convince physicians of a brand's clinical superiority relative to competitors and increase brand share. Or sales force effort can increase physician awareness and knowledge of a given disease, increasing overall market volume.

Linking commercial drivers to how they affect forecasts is essential.

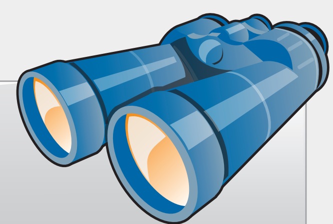
3. Model forecast sensitivity to promotional efforts and payers.

The final step is to assess the quantitative effects on volume or share that these changes will have on a given brand. This step requires understanding the value of changes of each commercial driver. For most in-market brands, forecasters can access historical data relating to these kinds of activities to understand the effect that future changes in such activities will have. For example, historical call data can be used to estimate the effect of shifts in sales force effort. Information on distribution of patient lives across plans and plan-level sales data can help predict the effect of a shift in tier status.

The benefits of the recommended approach include the ability to create stronger, more flexible forecasts with greater analytical power to model a larger array of market dynamics and set cross-functional, well-founded business objectives that can inform the upcoming brand planning process (see Figure 2).

Figure 2. The benefits of integrating commercial drivers into forecasts provide for deeper understanding of the market and flexibility to adapt.

THE BENEFITS OF INTEGRATING COMMERCIAL DRIVERS INTO FORECASTS



1. Greater understanding of promotional and payer landscape
2. More rapid assessment of the effect of events
3. Forward-looking approach offers greater control and more robust forecasting
4. More transparency in assessing feasibility of meeting corporate expectations for growth
5. Greater ability to communicate impact of brand strategy on forecast

Because this approach means forecasters work with stakeholders throughout an organization to gather forecast assumptions, they can create predictions based on well-founded, cross-functional assumptions. Furthermore, since stakeholders throughout an organization are familiar with how a forecast reflects their own aspect of the objective, it is easier to use the forecast in commercial planning.

CASE STUDY

Hoping to avoid a similar forecasting debacle—and the turmoil it caused at Monumenta BioSciences—during its next annual budgeting process, the MettaBetta team took a more comprehensive approach to building its forecast. The forecasters realized that they would have to consider all the commercial drivers relating to promotion, access and reimbursement just as rigorously as they would consider MettaBetta's clinical attributes.

As their first task, forecasters identified all of these commercial drivers that would affect their brand. In addition to the levels of sales force effort, access and reimbursement, forecasters identified DTC campaigns and outreach programs to key opinion leaders (KOLs) that were likely to affect the success of MettaBetta but had not been previously modeled in the forecast.

Likewise, historical data of DTC campaigns helped identify the effect of such efforts with a great level of detail, like knowing a campaign's effect in a metropolitan statistical area using specific advertising media.

Plan-level historical sales data showed the relationship between brand sales and tier placement, and the incremental benefit MettaBetta gained through better tier status.

Historical sales data and sales force promotional activity allowed the brand team to develop the relationship between sales force investment and incremental sales, so they could be certain that promotional activity would have a realistic effect on the forecast.

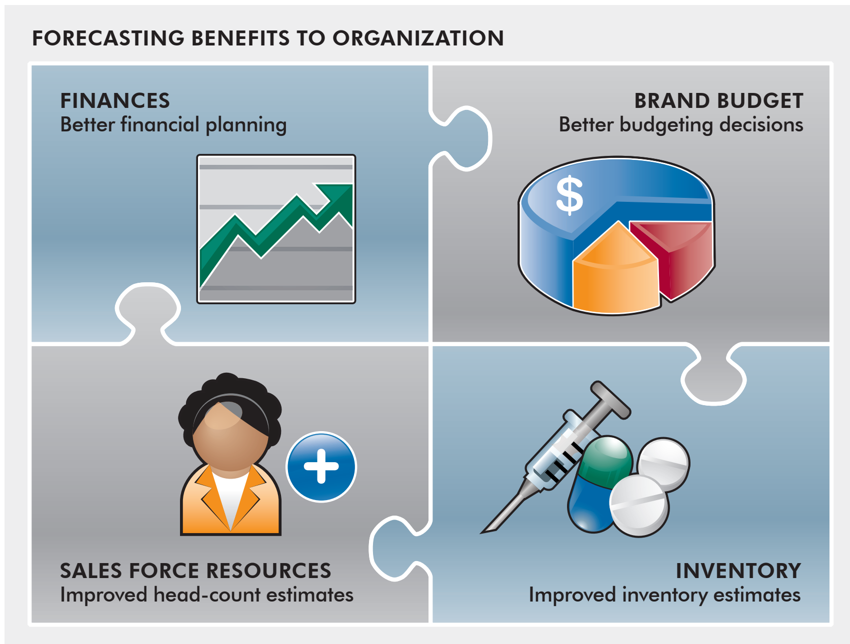
The benefits of this approach became clear when submitting their forecast for the annual brand planning process. The brand team found their forecast to be more robust because it rested on a more complete and well-founded set of assumptions, covering all aspects of the market that would affect the brand's commercial performance.

The forecast was also extremely flexible. The team could directly link varying assumptions for promotion and access to forecast results, and as assumptions fluctuated during the brand planning process, the team was able to quickly measure the effect of recalculated assumptions on the brand's forecast. Furthermore, when management pressured the brand team to forecast higher sales, the team was able to show higher sales would require spending resources that the company did not have or rebating levels that would not be profitable.

Finally, the forecast became more commercially relevant. Because it was associated with assumptions on promotion and access, the forecast was easier to integrate with the rest of the brand's commercial plan.

A year after releasing the new forecast, management recognized that the forecasting team had taken a more appropriate approach, given changing market dynamics. Over the course of the year, their assumptions about MettaBetta changed, but because the forecast incorporated commercial drivers, not only were actual sales tracking more closely to estimates, but Monumenta had a better idea of how its promotional and access efforts were paying off and could allocate resources to the areas where they would be most effective. Marketing was better positioned to adapt its brand strategy; finance had reasonable estimates to calculate future spending (see Figure 3).

Figure 3. An integrated forecast can have positive repercussions across the entire pharmaceutical organization.



Most important, because the forecast showed the amount of marketing muscle needed to achieve the desired level of commercial performance, MettaBetta's market share rebounded and reached levels company executives had hoped for at launch. As with all forecasts, MettaBetta's was not perfect, but the team was well prepared when market conditions changed.

Conclusion

Monumenta BioSciences' story reflects the situation at several of our pharmaceutical clients. If a forecast doesn't consider all the facets of the brand—from clinical attributes to the market environment and company resourcing—it is nearly impossible to understand how the brand will perform in the marketplace.

Of course, market reality will diverge from forecasts, but those inclusive of commercial elements diverge because the starting assumptions change, not because of flaws in the model. As a result, the degree a forecast will veer from reality often depends upon how much consideration forecasters give to drivers other than clinical ones. Are the resources required to market a brand adequate? Without considering these (and other) effects, forecasts are likely to be misleading.

As we have also seen, however, Monumenta BioSciences was able to better model market dynamics through an integrated approach—marrying the basic elements of clinical benefits with the resourcing and payer dynamics that are critical in today's world. The result was a more integrated view of the market that more broadly captured clinical as well as commercial drivers.

Companies that rely solely upon the clinical attributes of their brands in forecasting may lack the flexibility in their decision making that a fully integrated forecast can deliver. It may not be pharmaceutical companies' first inclination to include promotional drivers in forecasting, but once companies have seen the results, the utility of integrated forecasting quickly becomes apparent.

About the Authors

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