ZS ASSOCIATES

SALES & MARKETING INSIGHTS

Averting an Oncology Sales Force Arms Race: Leveraging Customer-Driven Sales Structures

Craig Stinebaugh

After years of escalation, the sales force arms race in general medicines is ending. However, as companies prepare to introduce dozens of new oncology treatments over the next decade, the underlying forces for an arms race in oncology are powerful. Such a result would dull the luster of the tremendous medical and market potential for new oncology products. We believe companies that develop customer-centric sales approaches will be able to make the most efficient use of their sales forces while delivering better relationships with providers and, consequently, stronger sales performance.

Table of Contents

Introduction

After years of escalation, the sales force arms race in pharmaceuticals is coming to an end. Uniform deployments and reliance on mirrored sales teams were once profitable, but these approaches have become less effective over time. Faced with a change in market conditions, pharmaceutical companies are retooling a general medicines model that has outlived its usefulness.

While the arms race in general medicines is de-escalating, the oncology market is now looking at the prospect of an arms race of its own. Companies are set to launch dozens of new oncology products over the next few years, and product launches generally trigger sales force expansions. Datamonitor, using information gathered from the 50 largest pharmaceutical companies, projects the annual sales growth rate for oncology products will be more than five times the average growth rate for all drug classes from 2009 to 2014.[1] The underlying forces for an arms race in oncology are powerful, and such a result would dull the luster of the tremendous medical and market potential for new oncology products.

Oncologists will have access to many new innovative medicines and treatments in numerous tumor areas, including some that had few options previously. Given the complexity of these products, and because they generate tremendous amounts of data from trials and experimentation, oncologists will need significant additional support from pharmaceutical companies in using these new treatments.

If history is a guide, companies will be inclined to leverage a sales force expansion strategy to support their expanding oncology portfolios.

But there is risk in this approach. The number of representatives could quickly outstrip the time available for oncologists to see them. The result could be a classic prisoners' dilemma in which all companies flood the market with sales resources, fearing competitors will gain an advantage by doing the same. Despite the potential of an oncology arms race, many in the industry do not recognize the danger of this happening.

We certainly understand the need to add sales teams to promote new products. However, the traditional approach will not be an efficient—

[1] Source: "Top 20 Cancer Therapies," Datamonitor (PDF).

nor effective—way to maximize returns in this commercially attractive market. Instead, companies should build sales structures that direct resources according to local market conditions. This solution calls upon pharmaceutical companies to evaluate the needs of each market individually and implement multiple sales structures nationwide.

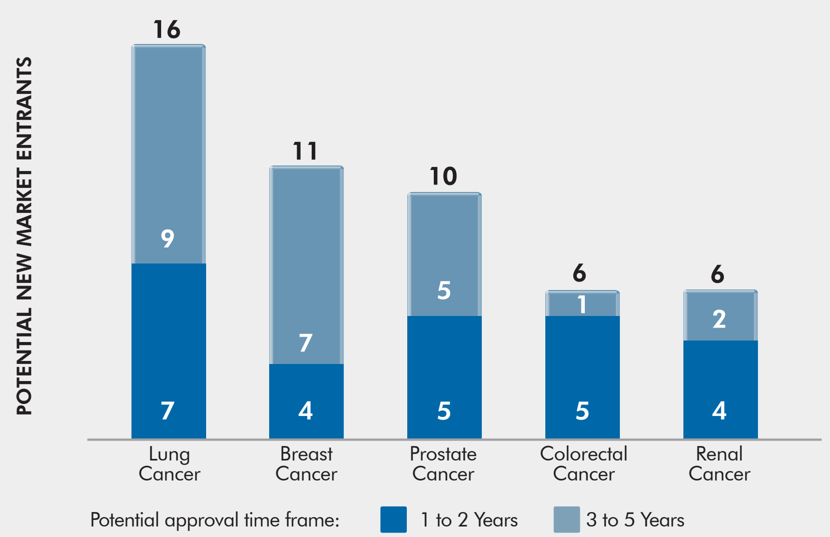
This paper will show in depth why the competitive environment gives pharmaceutical companies incentive to saturate the market with sales teams, why this strategy is self-defeating and how companies can develop sales structures that will deliver better long-term performance in oncology.

Natural Forces and the Traditional Model

The Upcoming Surge in Oncology Products

As noted above, the next decade may kick off a golden era in oncology treatments. For example, in the next five years companies could launch several dozen unique molecules to treat several solid tumors alone (see Figure 1). While this will provide more treatment options, it will also create more competition among pharmaceutical companies for patients and for time with physicians, nurses and other stakeholders. This represents a dynamic that most companies have not yet encountered, as access restrictions in oncology today are uncommon.

Figure 1. Some solid tumor areas will see many new entrants, considerably raising the level of competition.



Note: The same molecule may be in pipeline for more than one cancer indication; pipeline covers Phase I through III, preregistered and registered products.

Source: Adis R+D Insight, © Wolter Kluwer Health, 2009. All rights reserved.

The economics of oncology promotion is likely to encourage escalation as well. Since the average revenue per patient (or physician) is high and promotional costs are low given the limited prescriber base, there is considerable incentive to saturate the market with sales representatives.

This is not to say that the oncology market will not require additional field resources. To the contrary, since the products are complex and generate new clinical data, physicians and office staff need pharmaceutical companies' support to manage this complexity. For instance, oncology treatments often involve combinations of products with complex dosing regimens, and clinicians need to understand how new products will fit best into established protocols.

Payment dynamics also play a role in increased resources devoted to new products. Since some products are covered through a patient's medical benefit and others through his or her pharmacy benefit, doctors and staff require help to evaluate the financial implications for both the patient and the medical practice. In addition, products administered in an office often move through specialized distribution channels that require additional paperwork and procedures. All of these factors—scientific, promotional, logistical and administrative—will inevitably increase the number of oncology sales representatives overall.

The Current Oncology Sales Force Model

Current oncology sales forces tend to be national, uniform teams organized around products, with each team typically handling only one or two products or indications. One of the most common reasons for this structure is that it limits the maximum number of products, customer types, stakeholders and activities a salesperson oversees so as not to impair his or her effectiveness. In addition, companies want to limit the number of products salespeople offer to ensure they receive their undivided attention.

And when launching new oncology products, which will happen frequently over the next decade, the safest course of action is to create separate teams to provide dedicated, specialized efforts to individual products and indications. Efficiency is not the primary consideration; as noted above, high margins and favorable promotion economics in oncology make it easy to devote dedicated sales resources to a new product.

So if margins are high and costs low, why should sales executives restrain themselves from adding large numbers of oncology salespeople?

There are several reasons why pharmaceutical companies should show restraint; perhaps the most compelling is an anticipated imbalance in the projected growth of the oncology market. According to a report by the Association of American Medical Colleges, the number of oncologists is expected to increase 20% between March 2007 and 2020, with capacity for oncologist patient visits rising only 14%. Meanwhile, demand for physician services (and, in turn, oncology products) is expected to increase 48%, pressing oncologists for time to handle growing patient volume.[2]

Since the growth of oncology products and sales forces is likely to dramatically outstrip growth in the number of oncologists, it is unlikely the market can absorb droves of new oncology sales teams. Time with oncologists will become a scarce commodity, making it essential for pharmaceutical companies to have the right sales models and apportion resources accordingly.

Approaches common today are unlikely to be suitable. Take the example of a company selling three oncology products that organizes its sales force with a uniform deployment nationwide. Each representative handles one or two products, and calls on all types of customers—clinics, institutions and large group practices—in his or her geographic territory (see Figure 2). For most pharmaceutical companies, this model is typical and represents an extension of the uniform deployment model seen in general medicines.

Following that model, when the company launches two new oncology products, it would add at least one national sales team to support them.

[2] Source: "Forecasting the Supply of and Demand for Oncologists: A Report to the American Society of Clinical Oncology (ASCO)," AAMC Center for Workforce Studies, March 2007

Figure 2. Using a national uniform deployment model, a company adding new products to its portfolio would add product-focused teams to promote them; multiple variations of product coverage are possible. Some companies might have as many as four teams covering this type of portfolio.

As the portfolio of oncology products expands, a similar proliferation of sales teams would lead to more points of contact than necessary—three, in this example—for physicians who have a broad patient base. Because representatives are responsible for one or two products only, the company is managing salesperson bandwidth too conservatively.

Of course, oncology sales forces feature additional roles beyond product specialists, such as reimbursement specialists and nurse liaisons. Nevertheless, it is safe to say oncology efforts today center around products.

The product-driven approach to building a sales force has its benefits, but reduces efficiency because there are more points of contact for overlapping customers. Given the number of new products coming to the market, a company will send more representatives into offices than physicians will care to see.

And often, when one pharmaceutical company starts overstaffing its oncology franchise, a competitor may feel compelled to do the same—and an arms race will ensue, to nobody's benefit. Physicians will become fatigued and reduce access, while pharmaceutical companies will see efficiency and return on investment decline, not to mention sales force morale.

But we do not see an arms race as inevitable. If they are able to adapt to the new marketplace, pharmaceutical companies can avoid a state of affairs that could slow momentum in their oncology franchises.

Building a New Sales Force Model for Oncology

There is no single best path forward for all players, since there is a long list of considerations in designing sales force structure and individual company circumstances vary. However, through some general guidelines and basic illustrations, we will show in broad strokes that companies have alternatives to uniform sales force deployment.

Oncology sales forces historically have done a good job delivering value, evidenced by the amount of time oncologists have granted to representatives. As new treatment options crowd the market, companies have to stay focused on value creation and customer support to preserve access—oncologists will have no tolerance for unnecessary (and inefficient) sales force activity.

Companies have to be prepared to employ multiple sales models. Depending upon local market conditions, companies must be prepared to be different in different places. So instead of national, uniform sales structures, a better approach for the future oncology market is to examine sales forces in the context of local market differences and needs. Each local market—and in oncology, local market dynamics can be quite varied—requires a sales force model and strategy centered around its needs, which will lead to customer-driven selling strategies.

Generally, pharmaceutical companies have two challenges in designing the proper sales force structure: the first is defining the customer coverage plan based on customer needs, and the second is grouping customer coverage plan elements into sales roles to define the sales force structure. Both challenges merit examination.

Defining the Customer Coverage Plan

Being customer-focused starts with defining the types of target customers for each product, based on these targets' involvement in patient care or influence on treatment. In oncology, typical provider categories include physician clinics or group practices, academic institutions and community hospitals. Each type of customer is composed of various stakeholders who need field support in areas such as clinical education, reimbursement assistance and product administration. Specifics depend on the types of tumors involved.

Customer coverage requirements for each product and the portfolio become clear when companies combine all of the above elements into a grid for a local market. The field force structure is defined by looking across the portfolio and grouping customer coverage requirements into field roles.

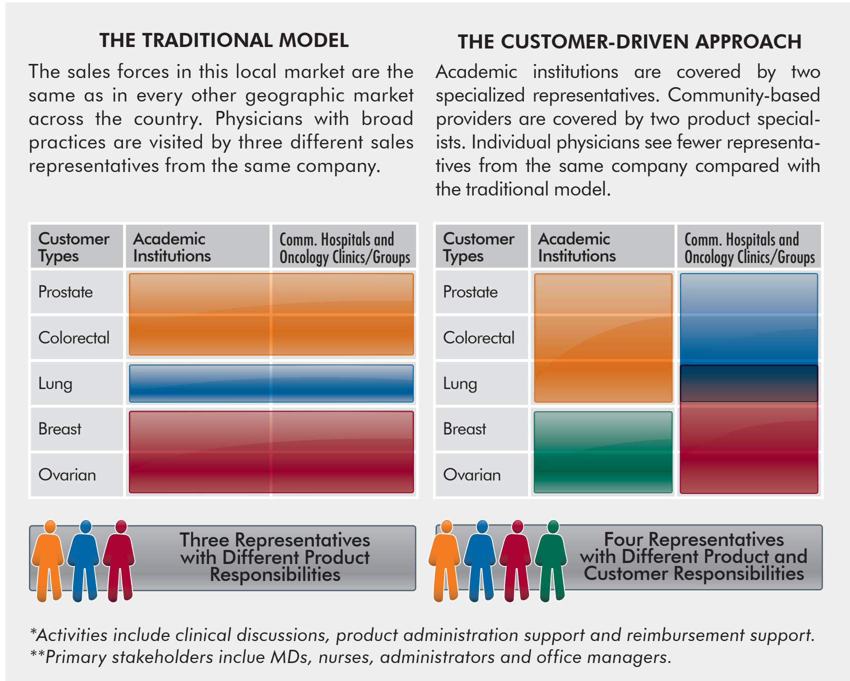
Defining Structures Based on Local Market Needs

The examples below highlight three types of market situations that can be found in the United States. These examples illustrate how different geographic markets require alternate sales models and that companies introducing new oncology products must prepare to be different things in different places to different types of customers—simultaneously.

Example 1: A market dominated by influential academic institutions

This kind of market is not uncommon in urban areas, particularly in the Northeast, where a high concentration of NCI/NCCN institutions drives treatment practices. The presence of these types of leading institutions is likely to influence the shape of the ideal sales force structure in those areas (see Figure 3).

Figure 3. In a geographic market with several academic institutions that dominate the local treatment landscape and serve as referral centers from community hospitals and oncology clinics, a traditional model may not adequately meet pharmaceutical companies' needs.



Example 2: A market driven by community-based clinics

In markets in which community-based clinics predominate, companies should consider product-based specialists who cover all customer types, because treatment approaches are similar across sites of care. The number of specialists and their product assignments will differ from market to market, depending on the relative patient potential and overlap at the customer level in the local area. Deployment is not uniform across markets. A company can assign products and customers so that no more than two different representatives will visit a single customer, thus managing the number of points of contact for the physician, which is more efficient for both the company and customer compared with the traditional uniform approach.

Example 3: A rural geographic market or one in which providers have imposed significant access restrictions

In these markets, companies can deploy a single representative to cover the entire portfolio. Given the dispersion of customers, efficiency is the driving factor in rural markets. Where there is restricted physician access, customers simply may demand a single point of contact for sales force interactions. These special conditions warrant a customized approach.

Adding It Up

While there are many differences across local markets, not all differences warrant a unique sales force structure. It is more reasonable to say that a small, manageable number of different structures nationwide will suffice. The larger point is that companies should resist the tendency to deploy nationally in a uniform fashion.

We think companies can preserve their emphasis on products as in the current model, but that all representatives should not have the same product focus. By tailoring the approach to local market conditions and, in some situations, having representatives carry more products than previously, pharmaceutical companies can tap additional salesperson bandwidth without risk. Ultimately, companies should limit the number of points of contact with customers, striking a balance between a customer-driven and a product-driven approach. This will ensure ongoing sales representative access and create value for all.

Conclusion

While it is impossible to tell how many new oncology products will roll out over the next 10 years, it is clear there will be more treatment options available than ever before. Companies will have to expand their sales forces to provide customers with the additional support that new products require.

This inevitable expansion of sales forces raises the specter of an oncology arms race like the one in general medicines with the same, unsustainable results. But it does not have to happen this way: A thoughtful, customer-driven approach to sales force design will help avoid a counterproductive sales force arms race while delivering the best possible results to pharmaceutical companies and their customers.

It is an exciting time for the pharmaceutical industry in oncology. The emerging treatment options promise improved outcomes and hope for patients. Several products will have blockbuster potential without the scale of promotional investment necessary in general medicines, but will need the proper sales force design to deliver optimal results. We believe approaches that are more customer-centric than previously will also be more efficient—allocating only as much sales resources as necessary to a given territory or customer and tailoring roles to local market needs—while delivering better relationships with providers and, consequently, better sales for forward-thinking companies.

About the Author

Craig Stinebaugh is Managing Principal for ZS Associates' Princeton, N.J., office. He has experience across a wide range of sales and marketing issues with pharmaceutical and biotechnology companies. Craig has a B.S. in accounting from Indiana University and an M.B.A. with honors from Northwestern University's Kellogg Graduate School of Management.

About ZS Associates

ZS Associates is a global management consulting firm specializing in sales and marketing consulting, capability building and outsourcing. The firm has more than 1,300 professionals in 19 offices around the world, and has assisted more than 700 clients in 70 countries. ZS consultants combine deep expertise in sales and marketing with rigorous, fact-based analysis to help business leaders develop and implement effective sales and marketing strategies that measurably improve performance.

As the largest global consulting firm focused on sales and marketing, ZS Associates has experience across a broad range of industries, including medical products and services, pharmaceuticals, biotechnology, high tech, telecommunications, transportation, consumer products and financial services.

For more information on ZS Associates, call +1 847.492.3602 or visit www.zsassociates.com.

ZS

ZS Associates
www.zsassociates.com
inquiry@zsassociates.com
+1 847.492.3602