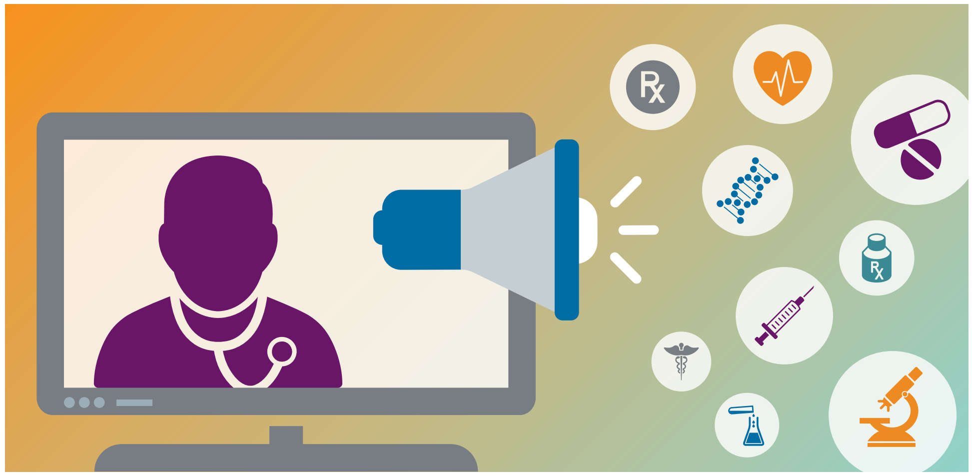
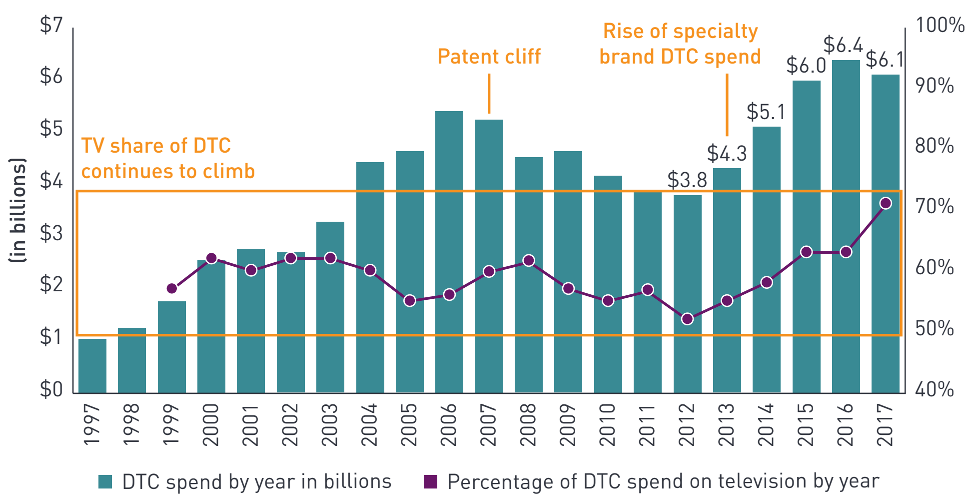
The Changing Landscape of DTC Spending in Pharma

By Sharon Suchotliff and Hensley Evans



Many of us have read about the reported decline in DTC spend over the last two years: DTC investment declined 4.7% between 2016 and 2017, the first decline since 2011. Yet despite the overall decline, TV's share of DTC spending continues to climb, accounting for more than 70% of DTC investment in 2017 and reaching an all-time high of $4.3 billion.* More than anything else, these shifts in DTC signal that direct-to-consumer spending is headed into a state of flux, with continued change and volatility expected in the coming years.

DTC SPENDING OVER THE YEARS



*Sources: Nielsen, Kantar, IMS Health, Market Measures Interactive, Datamonitor, The Routledge Handbook of Health Communication, Ad Age and STAT News

Figure 1: While DTC spend is on the decline overall, investment in TV advertising is on the rise.

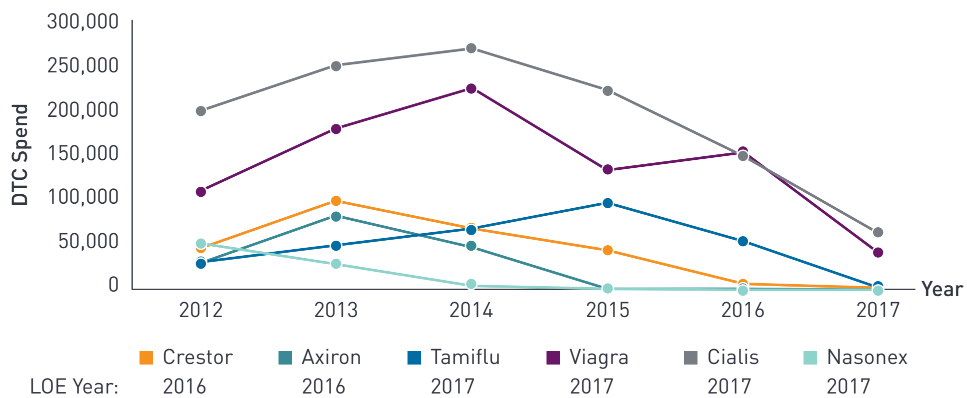
The Shift in DTC

There are three key drivers behind this emerging shift in DTC:

1. **Big spenders exiting DTC:** The industry lost some of its biggest DTC spenders between 2016 and 2017 due to the loss of exclusivity (LOE). These include Viagra, Cialis, Nasonex, Tamiflu, Axiron and Crestor. These brands have all been in the top 20 of DTC investors over the past five years. Together, they accounted for close to $500 million in DTC investment over the past two years, according to Kantar.

   In general, we see brands incrementally increase spending post-launch until about two to three years before LOE, when investment in DTC promotion begins to decrease. Historically, brands will cease DTC promotion or maintain very minimal investment in promotion once a brand loses exclusivity. Several big brands, such as Humira, Victoza, Eliquis, Chantix and Lyrica, are set to lose exclusivity by 2022. In 2017, these brands spent a combined total of more than $1.2 billion in DTC and accounted for approximately half of the investment for the top 10 DTC spenders, according to Kantar. We can expect a significant impact on overall DTC spending as these brands lose exclusivity.

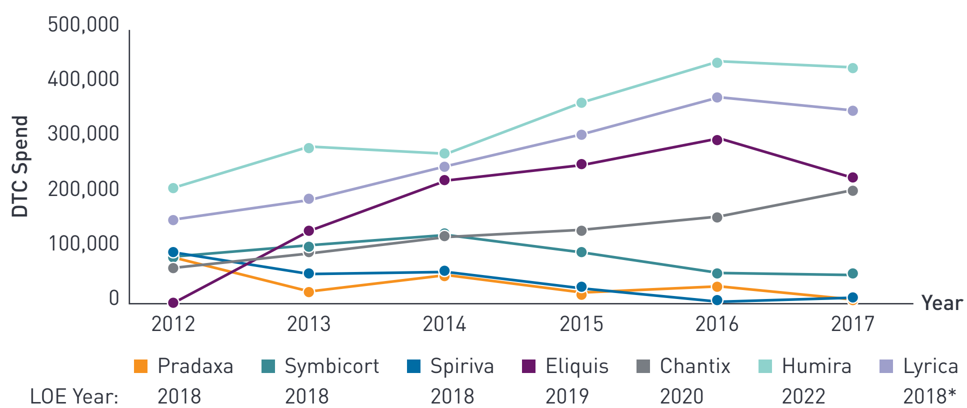
THE IMPACT OF LOE BRANDS



Sources: Kantar Media

Figure 2: Brands typically increase their spending post-launch until approximately two or three years before loss of exclusivity. For these brands, LOE took place in 2016 and 2017.

THE INVESTMENT OF FUTURE LOE BRANDS

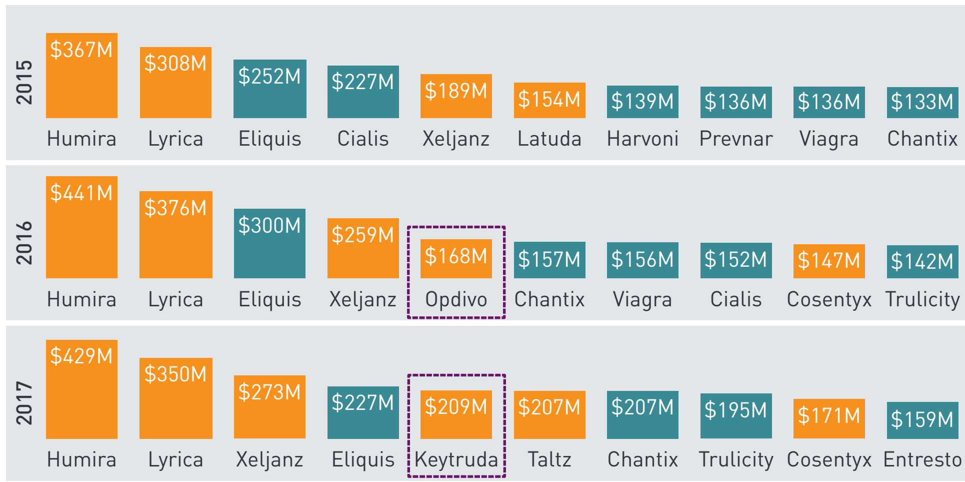


Sources: Kantar Media
*Lyrica does not include CR formulation

Figure 3: Several big brands spent more than $1 billion in DTC in 2017. For these brands, loss of exclusivity is between 2018 and 2022.

2. **The continued rise of specialty brands:** Despite the overall decline in DTC spending, we're seeing the continued growth of TV investment, which is largely driven by specialty brands. For these brands, including Humira, Consentyx and Xeljanz, investment in TV makes sense despite a relatively small patient population since the value of a single patient can rise into six figures. Kantar data shows that specialty brands now account for six of the top 10 DTC spenders, and beginning in 2016, oncology brands have joined biologics as some of DTC's biggest investors.

TOP 10 DTC INVESTORS BY YEAR



Source: Kantar Strategy Data (Q1 2012-Q4 2017)

Figure 4: Biologics now joined by new DTC spenders in oncology, Opdivo 2016, Keytruda 2017.

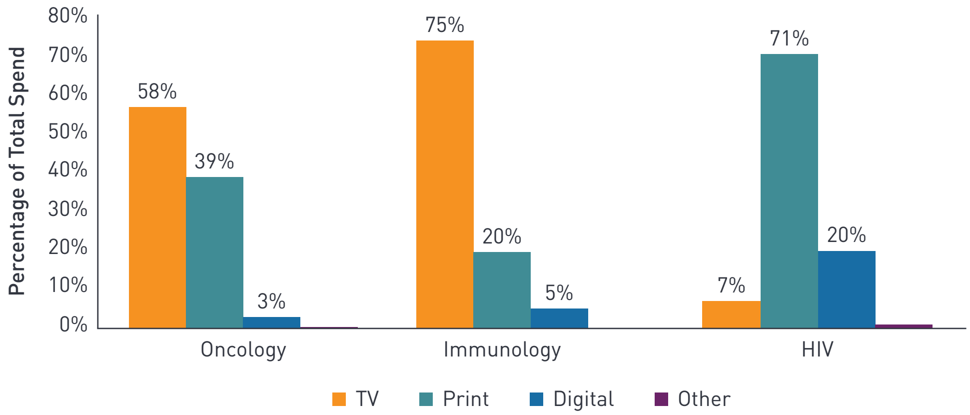
Brands with younger targets invest more heavily in digital. While brands in oncology have allocated an average of 3% of their media budget to digital, brands in HIV have dedicated 20% of their DTC budgets to digital advertising, according to Kantar.

Opdivo was the first oncology brand to join the top 10 in 2016, followed by Keytruda in 2017, and we see signs of competition heating up. Just this year, we saw new entrants in metastatic breast cancer, Verzenio and Ibrance, support their launches with TV campaigns. Ibrance received approval in 2016 for metastatic breast cancer and launched TV ads the following year, and we saw Verzenio quickly follow its launch in 2017 with a TV campaign earlier this year. While Verzenio and Ibrance are currently not in the top 10 DTC spenders, according to Kantar, we can expect spending for these brands to continue to climb. (Ibrance is currently No. 13 in terms of top 20 DTC spenders.)

Other categories to watch include HIV and neurology. HIV saw its first TV advertisement by Triumeq in 2017. As competition continues to increase and new pre-exposure prophylaxis treatments enter the market, we can expect others to test the waters in TV, particularly as additional targeted opportunities emerge in online video, and over-the-top and connected TV advertising. With upcoming approvals in migraine, Parkinson's and Alzheimer's over the next few years, we can expect brands in these categories to explore various DTC opportunities.

3. **Shifts in consumer behavior and marketing channel mix:** Brands with younger targets invest more heavily in digital. While brands in oncology have allocated an average of 3% of their media budget to digital, brands in HIV have dedicated 20% of their DTC budgets to digital advertising, according to Kantar.

THERAPY AREA SPEND BY CHANNEL



Source: Kantar Strategy Data (January 2015–December 2017)

Figure 5: Brands with younger targets, like HIV, are dedicating more of their DTC budgets to digital advertising.

The growth in cord cutters—those who cancel cable television subscriptions in favor of an internet-based or wireless service—will drive pharma's digital investment in online video, further blurring the line between channels.

ZS's recent interviews with media agencies revealed that between 20% and 80% of pharma's digital advertising budget is currently allocated to programmatic digital advertising. Programmatic advertising offers many advantages to direct placement by targeting specific profiles based on characteristics of potential patients for the brand. However, it's more difficult to track and report on placements and account for spending in programmatic advertising. This is due to the prevalent methodologies of tracking digital placement that deploy profile-based bots to crawl the web several times each day to try and identify where programmatic ads are placed. Such systems are reliant on the number of sites crawled, the number of times per day the web is crawled, and the sophistication of the profile definition. In our estimation, there are placements across the digital web (including mobile and social) that are missed by the bots, which is presenting an artificially low picture of pharma's total spend in digital. It's possible that digital spending is underrepresented in overall DTC estimates.

Additionally, the changing nature of TV and how we watch is creating a shift in marketing dollars. Among all age groups except 65-plus, traditional TV viewing is declining. Many are opting for on-demand services on multiple devices and over-the-top streaming options such as Roku and Apple TV. According to Nielsen, 2016 marked the first time that streaming TV was in 50% of U.S. TV households. The growth in cord cutters—those who cancel cable television subscriptions in favor of an internet-based or wireless service—will drive pharma's digital investment in online video, further blurring the line between channels.

We can expect the future of advertising placement to emphasize target and screen size over specific channels (digital, TV, print) as media continue to converge and the focus continues to shift to patient and consumer behavior. Addressable TV—the ability for an advertiser to deliver a TV ad to a specific, defined segment or individual based on first-, second- or third-party data—is emerging as an opportunity for pharma to connect with targeted audiences based on behavior and demographics. Some early adopters in pharma are experimenting with the technology, although concerns about privacy and affiliation with programming have hindered the growth of addressable TV placement use by pharma. According to eMarketer, addressable TV is continuing to grow slowly as a percentage of overall TV ad spending.

Point-of-care is also growing as a channel. Although the industry suffered a setback with the Outcome Health issues regarding both impact measurement and placements, point-of-care spending continues to be a stable part of DTC campaigns. As networks grow to include more physicians' practices and digital platforms become more prominent in the office, brands will increase their investment.

Implications for Marketers

It's clear that pharma marketers have entered a transition phase when it comes to DTC spending, and forward-looking brands will need to consider new strategies to be successful. We recommend two actions for brands that are considering investing in DTC:

+ **Know your audience.** The new era of DTC brings expanded channel and targeting opportunities, and an increased need to understand patients' behavior and preferences at each stage of their journey. Brands need to fully understand which channels patients trust for health information and the right times to engage. This means going beyond the emotional or experiential journey and understanding how engagement, sources of information and channels play a role.

  Marketers need to consider brand goals along with patient needs and goals at each step of the journey. Moreover, they need to know the appropriate channels through which to communicate and connect based on consumer behavior and preferences. We typically recommend developing an engagement journey, which brings together all three elements and, using data and insights, helps to prioritize messages and channels.

  The engagement journey brings together the emotional insights and experiences of patients along the treatment journey and layers in sources of information, communications preferences and behaviors, providing marketers a clear view of potential influential channels to leverage for communications around different parts of the journey and different pain points. This can be especially important when considering the annual tactical plan and key decisions about the roles and uses of marketing channels.

  Another powerful tool in a marketer's toolbox is programmatic advertising, but the content has to match the context. Sending the wrong message at the wrong time could be alienating. Brands need to understand the nuances of the journey and where engagement can play a motivating role to activate patients.

Consumers are engaging across multiple screens simultaneously, and reporting needs to accurately portray the full impact of marketing on real-world behavior.

- **Understand the impact of your marketing efforts.** Traditionally, pharma has used digital engagement reports and surveys to measure awareness, trial and usage to assess the impact of marketing. While useful and insightful, these reports should be just the beginning of integrated marketing measurement. Single-channel reports (TV, media, web) that are provided by one agency (media, digital, agency of record) are no longer meeting the needs of integrated marketers.

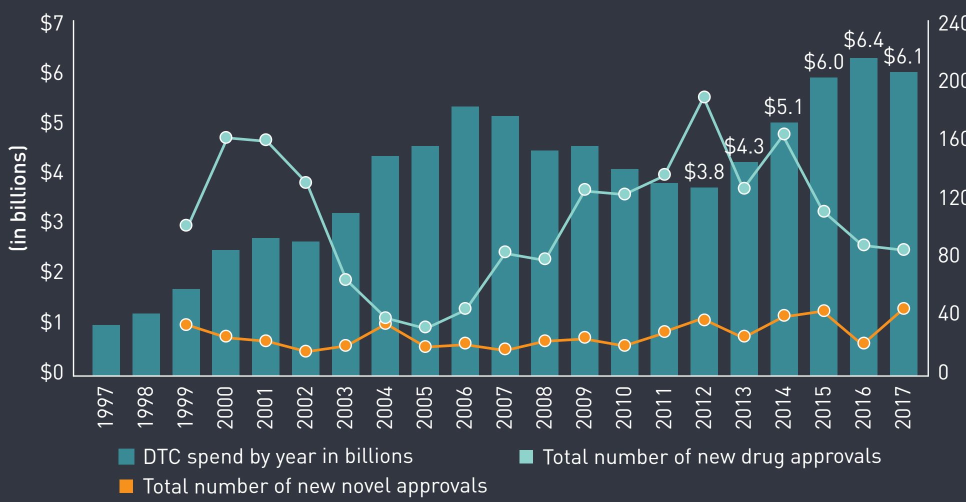
  Consumers are engaging across multiple screens simultaneously, and reporting needs to accurately portray the full impact of marketing on real-world behavior. Traditional analyses such as marketing mix models are important but are retrospective, and it's often time-consuming to collect all of the required data. Using closed-loop measurement systems, which link marketing engagement to real health outcomes, ensures that brands are reaching the right patients at the right time with the right mix of media. For example, closed-loop measurement can help brands measure what portion of those exposed to advertising are diagnosed with a condition or are candidates for treatment. Instead of focusing on clicks and website visits driven by a media partner, metrics like incremental doctor visits and new prescriptions offer a more intelligent way to measure the true impact and effectiveness of marketing.

In today's healthcare landscape, a keen understanding of patient and consumer behavior—combined with a deep assessment of the impact of marketing tactics—can help marketers weather the uncertainty and changing dynamics of DTC.

Further Analysis: Drug Approvals and DTC

As in our previous white paper on DTC, ZS explored any potential impact of the number and type of drug approvals on DTC spend. As found in our previous study, the number and type of drug approvals does not correlate with DTC spend in a given year. In 2016, the FDA approved 97 new drugs, including biologics—10 more than in 2017. In 2017, we saw more than double the number of novel drugs approved than in 2016, yet DTC overall declined. Many of the drugs that received a green light in 2017 were for rare diseases and sub-types of cancer, which often target very small populations, although they can cost hundreds of thousands of dollars.

THE PACE OF DRUG APPROVALS



Sources: Nielsen, Kantar, IMS Health, Market Measures Interactive, Datamonitor, The Routledge Handbook of Health Communication, Ad Age and STAT News

Figure 6: The pace of overall drug approvals has slowed while novel drug approvals started rising as of 2017.

ZS also explored the potential impact of the increased discussions of a DTC ban in the media and the potential impact of world events (such as the Olympics and the U.S. election), and neither seemed to have an impact on overall DTC spend levels when looking at fluctuations on a month by month basis.

ZS at a Glance

- The world's largest firm focused exclusively on helping companies improve overall performance and grow revenue and market share through end-to-end sales and marketing solutions—from customer insights and strategy to analytics, operations and technology
- More than 6,000 professionals in more than 20 offices worldwide
- Partnered with more than 1,200 clients in over 70 countries
- Over 35 years of experience

About the Authors

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