Primary care

Drug companies need to adopt a more collaborative and outcome-focused business model to ensure sustainable long-term revenue.

People matter, results count.

By 2013, primary care is expected to contribute less than half of revenue growth in the global pharmaceutical drug market.

On average, the primary care drug portfolio accounts for over 60% of the annual revenues of leading pharmaceutical companies[1]. However, trends over the past decade indicate a substantial slowdown in the annual growth rate of this market, with global revenues declining steadily during the past decade.

By 2013, primary care is expected to contribute less than half of revenue growth in the global pharmaceutical drug market. (Specialty market sales, by contrast, are expected to grow at twice the rate of primary care products for the next five years and gain a share of 25% in the global pharmaceutical market[2].)

Leading companies are worried about the effect of slow growth in the primary care market on their overall growth, as well as about the threat to the revenues. They have started adopting various measures to combat the slowdown, including expansion into new geographies and patient groups, reformulated products, and even organisational restructuring.

These strategies have to some extent mitigated the effects of slowing growth, but this article will argue that, if they are to ensure sustainable long-term revenue growth from this portfolio, companies will need to transform their business models.

Causes of slowdown

There are three main causes for the slowdown in the primary care market.

1. Most of the successful blockbuster drugs that have fuelled revenue growth in leading companies are now in their maturity or declining (patent expiry) phase, and revenues from them are stagnating. Additionally, a large number of generic companies are now challenging the patents of protected brands via Paragraph IV of the U.S.'s "Hatch-Waxman" Act. The challenge from generics is particularly worrying for companies with large stakes in the market.

2. New launches of primary care drugs have dwindled over the past few years on account of increased developmental, safety and regulatory hurdles. The few launches that have occurred in recent years have not been as successful as their predecessors.

3. Rising health care expenses worldwide have led governments and payers to adopt various pricing and reimbursement tools to contain treatment costs. Generic substitution, reference pricing and prescriptions that come with reimbursement restrictions have all affected primary care revenues.

Current responses

Faced with this slowdown in the primary care market, companies have adopted a range of strategies to address revenue growth. Figure 1 summarises these strategies under four main headings: life cycle management strategies, expansion/diversification strategies, organisational restructuring strategies and strategies targeting patients. We will review each of these in turn below.

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[1] Capgemini analysis of the primary care portfolios of the leading seven primary care drug companies

[2] IMS Health, "Changing the Channel: Developments in US Specialty Pharmaceutical Distribution", September 2009.

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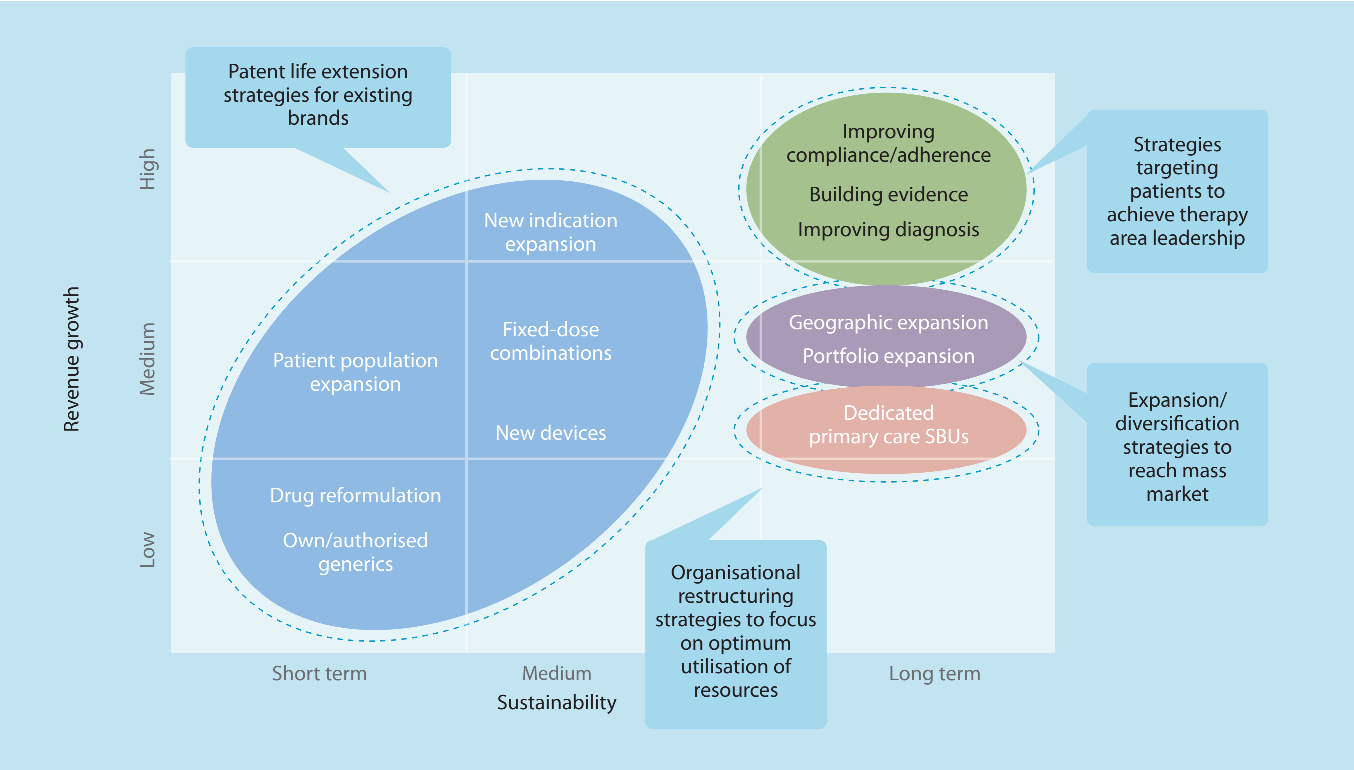
Figure 1. Four groups of revenue growth strategies in the primary care drug market



The first group of strategies, lifecycle management, represents companies' traditional focus. A summary of the various strategies that fall under this heading is shown in Figure 2.

Figure 2. Lifecycle management strategies

Strategy		Benefits	Limitations	Examples	Revenue impact[1]
Fixed dose combination (FDC)		▪ Can be a huge success if achieves improved efficacy or compliance or meets unmet needs	▪ Needs to be backed by strong evidence otherwise may result in a failure	▪ Successful – Seretide (GSK) ▪ Failure – Caduet (Pfizer)	
Patient population expansion	Indication expansion	▪ Brings additional market exclusivity as well as patent protection	▪ High level of investment in developing strong evidence	▪ Singulair (Merck) ▪ Lyrica (Pfizer)	
	Paediatric/geriatric population	▪ Increases patient population size	▪ Needs to be backed by strong evidence	▪ Singulair (Merck) ▪ Claritin (Schering Plough)	
	Rx to OTC expansion	▪ Helps to reach mass population post patent expiry by increasing awareness & DTC advertising	▪ Not applicable to all drugs ▪ Requires increased marketing expenditure ▪ May result in removal of reimbursement	▪ Claritin (Schering Plough)	
New devices		▪ Additional brand differentiation ▪ Gain patent protection for the device and help maintain revenues after patent expiry of drug	▪ Not applicable to all therapy areas ▪ Requires investment into device development	▪ Lantus pen devices for diabetes (Sanofi) ▪ Symbicort nebuliser for asthma (Astra)	
Reformulation		▪ Helps in maintaining revenues post patent expiry	▪ Achieving high uptake & desired reimbursement status is difficult		
Authorised generics		▪ Compete with the generic companies ▪ Gain share from the new, cost driven patients	▪ Erosion of higher value branded sales ▪ Limited viability in markets with generic substitution	▪ Zoloft (Pfizer)	

Key: Maximum impact Minimum impact

Source: Generic Series: Optimizing Brand Lifecycle Management – Datamonitor, June 2008
Note: Revenue impact is a function of revenue growth and sustainability

The second group of strategies, expansion/diversification, involves moving into new geographies and portfolios in a bid to grow primary care revenues. Figure 3 lists the objectives of companies adopting this strategy, with examples.

Figure 3. Expansion/diversification strategies

Expansion strategy

Geographic expansion

Objective
- Looking beyond the mature markets of U.S. & EU which are expected to grow only at single digit rates
- Capture share of markets which are large and fast-growing
- Extend profitable life of brands which are no longer protected by patents

Company	Sales force expansion	Brand acquisition	Launch own brands
Pfizer	Brazil, China, India, Russia, Mexico, Turkey	India (Aurobindo pharma, Claris life & Strides)	N/A
GSK	Brazil, China, India, Russia, Mexico	Africa, Middle East, Asia, Latin America (UCB); India (Dr Reddy's); Pakistan, Egypt, Middle East (BMS); South Africa (Aspen)	Brazil; China; India; Turkey; Mexico Russia; Egypt; Pakistan
Novartis	India, China	None	Russia
Sanofi-aventis	China, India, Africa, Middle East	Brazil (Medley) Mexico (Kendrick) Eastern Europe (Zentiva)	Brazil; China; India; Russia
AstraZeneca	China Romania	None	Brazil; China; India; Russia; Mexico; Romania; Turkey

Portfolio expansion

Objective
- Diversify and have the right balance of products to cater to the needs of the markets
- Reach out to the mass market to generate higher revenues through high volumes

Company	Generic	OTC	Therapy focus
Pfizer	Aurobindo Claris Life	Wyeth (consumer)	Wyeth (biologics)
GSK	BMS (generic business)	None	Stiefel (dermatology) Viiv Healthcare (HIV)
Novartis	Sandoz	None	None
Sanofi	Zentiva Medley Kendrick Helvepharm AG	Winthrop Chattem (consumer) Symbion Consumer	Minsheng pharma (vitamins & minerals) Shantha biotech (vaccines) Acambis (vaccines) Fovea (ophthalmology)
AstraZeneca	N/A	N/A	N/A

Source: (a) Company annual reports; (b) Company websites

In the third group of strategies, organisational restructuring, leading pharmaceutical companies have created specific business units to focus on the mature primary care products, as shown in Figure 4.

Figure 4. Organisational restructuring strategies

Company	Strategic Business Unit	Objective	Focus of SBU
Pfizer	Primary Care Business Unit	To focus on development and commercial operations of its primary care portfolio	▪ Bringing greater value to customers through local and tailored strategies ▪ Using consumer insights as the foundation for brand strategies, including pipeline products and marketed assets ▪ Delivering comprehensive healthcare solutions that go beyond medicines, and include knowledge and services that are valuable to physicians, payers, patients and caregivers
	Established Products Business Unit	To enhance sales of medicines that have lost patent or are losing exclusivity	▪ Increasing access to affordable medicines ▪ Stabilising the shrinking business of established brands due to loss of exclusivity and countering intense generics competition ▪ Transforming the business by adopting portfolio expansion, reformulation and product enhancement strategies ▪ Before loss of exclusivity, launching products in high growth markets and to manage product lifecycle
GSK	Classic Brands Business	To reinforce GSK's core brands	▪ Acquired mature products business of BMS in Pakistan, Middle East and North Africa ▪ Broadening its branded portfolio business in emerging markets
Novartis	Mature Products Global Business Unit	To support branded older products in various therapeutic areas	▪ Increasing pharmaceutical sales for mature products (launched > 10 years) facing competition from generics
AstraZeneca	Established products in Emerging Markets	To drive growth for core brands in emerging markets	▪ Launching selected in-licensed local branded generics ▪ Transfer of production facility of mature pharmaceuticals to Asia

Source: (a) Established products fact sheet, Pfizer Website accessed 09 April 2010; (b) Middle East North Africa Business Briefing presentation, Fouad Benghalem, SVP-MENA, GSK; (c) Company websites

The fourth group, strategies targeting patients, aims at improving adherence and compliance and ensuring greater patient involvement. Examples include Pfizer's GETQUIT® plan for smoking cessation with Chantix, and Novartis's BP Success Zone for controlling hypertension.

Companies have also engaged with pharmacists in this fourth area. An example is GSK's collaboration in the "Diabetes Ten City Challenge" programme, sponsored by the American Pharmacists Association (APhA) Foundation. This programme provides customised education and counselling for diabetes at the point of dispensing, in addition to waiving co-pays. Companies have also got into risk-sharing agreements with payers, such as MSD's deal with CIGNA to offer discounts and rebates on diabetes drugs to reward improved patient adherence.

Rethinking the business model

While efforts like those described above will create value in the short term, companies will need to do more if they are to drive sustainable revenue growth in the long run. All the leading companies in the past have adopted a business model where blockbusters accounted for a major portion of their revenues. However, primary care companies cannot expect high returns from this model in a future where primary care drugs are likely to become increasingly commoditised with competition from me-too competitor drugs and generic drugs. The fact that governments and payers increasingly want to pay for outcomes rather than products or services compounds the problem.

To guarantee sustainable long term revenue in the future, companies will need to move towards a collaborative model that supports healthcare delivery and health management from diagnosis to long-term care. The focal point of this new model will be comprehensive solutions that will help generate evidence-based and demonstrable health and economic outcomes. The model will enable companies to provide a suite of complementary offerings around the drug to differentiate their products from competition.

To achieve these comprehensive solutions, companies will need to join forces with a wide range of organisations, both inside and outside the healthcare space. They may for example collaborate:

- With academic institutions to "in-license" innovation
- With diagnostic and medical device companies to bundle companion diagnostic kits and drug delivery devices with their core product
- With providers and wellness companies to provide patient screening and disease education programmes, nutritional advice, fitness regimens and other such comprehensive patient-centred and physician management programmes
- With technology companies to offer adherence programmes and technologies to monitor patients on a real-time basis outside clinical settings

More importantly still, companies will need to build key customer relationships with the stakeholders who influence and measure health outcomes, such as regulatory bodies, healthcare professionals, care providers, payers and patients. They will need to create the infrastructure to ensure they can access the outcomes data generated, create feedback loops and close the currently existing gap between treatment and outcomes.

Conclusion

Already there are signs that forward-looking companies are moving towards the collaborative model recommended above. We have already mentioned GSK's involvement in the Diabetes Ten City Challenge and MSD's adherence-based deal with CIGNA. Another example is provided by AstraZeneca and Janssen-Cilag which have collaborated with Bolton Primary Care Trust on the creation of practice-based registers to ensure that patients with severe mental illness receive regular checkups in accordance with national guidelines[3].

We believe that by focusing on a model that revolves around generating positive health and economic outcomes, companies will be able to convince governments and payers to pay premium prices for their products and services. This transition will not be easy and will require major changes in how companies operate. Given that time is running out for the blockbuster model, companies need to act fast.

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[3] *"Doubled-up, joined-up working", Pharma Field, December 2007*

About Capgemini

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