CLIMATE CHANGE

Paying lip service to modern sales and marketing isn't enough, new techniques must be taken seriously and applied.

With the advent of Key Account Management and now digital channels of marketing, it is more important than ever for promotional resources to be analysed and quantified as appropriate.

Even if the assumption were true, that traditional levels of promotional spending were justified by subsequent sales and profits growth that can no longer be an acceptable justification for a promotional budget tweaked from previous years.

Every Commercial Director must start with a zero budget and justify each and every spending item in terms of its impact on sales and its contribution to profit. To do that requires a full understanding of how promotional components interact with every other component. Can you write on a single sheet of paper how your marketing strategy works and then test that strategy?

TESTING SALES AND MARKETING STRATEGIES

Modern methods of data analysis, developed at Cranfield and Aston Universities, have been peer-reviewed and tested in the field, time and again. At least five of the Top 10 pharma companies have used this analysis somewhere within their organisation, as have many medium-sized companies.

These methods are based in theory, but have enormous practical applications and can use a company's own data, from its CRM system for example, to boost sales and decrease promotional spending, much of which is wasted.

Methods based on regression analysis are unhelpful, as they make too many unsupported assumptions about the relationships between input variables and sales output. Given that only five of the Top 10 pharma companies have outperformed the S&P 500 since Jan 2000 there is a good case to argue that continuing underperformers will face calls for a break up sale – like GSK – to a third party or drastic reorganisation, such as has occurred with Sanofi. Sometimes all three outcomes seem to be on the cards at the same time, damaging employee morale within and shareholder support from without.

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WORDS BY *Stewart Adkins*

DON'T FORGET THE PROMOTIONAL SPEND

Remember, the doom-mongers' concerns about reduced returns on R&D use traditional promotional spending levels within the numerator of their ROI calculation. Typically, they will be assuming 25-30% of sales is spent on promotional activities.

A reduction of that spend by five percentage points could almost double returns on R&D. Indeed, Deloitte's latest research calculates that the top pharma companies have an aggregate return on R&D of just 4.2%. Such a reduction in spending, with no loss of sales momentum, is entirely feasible with modern methods of data analysis and subsequent implementation of conclusions.

The big puzzle today is why so many commercial organisations have sales effectiveness teams and so few have adopted modern statistical tools. The solution to this conundrum may lie in the power of the affiliate, seeing the strength of their commercial organisation as a proxy for their own power and influence.

The application of modern data analysis to CRM and other promotional data could free the country manager from having to make enforced and sometimes arbitrary budgetary cuts. It could also provide the decision-making tools to make rational resource allocations that boost sales and reduce waste.

If used regularly as part of a promotional resource audit – perhaps every promotional cycle – not only should sales and margins rise, but the reduction in strategic drift should make the boom and bust of commercial organisations a less frequent occurrence.

REALITY CHECK

For several reasons the pharmaceutical industry is under pressure to deliver better sales and profits growth, and better shareholder returns.

The commercial model that evolved during the supremacy of primary care products, and which served the industry well enough for 20 years, has been slashed and remodelled, supposedly to fit a focus on secondary care.

Despite some reduction in promotional resource overall what remains is a legacy mindset that still considers 25-30% of sales being spent on sales and marketing as appropriate. This is not surprising if budgets are simply tinkered versions of the previous year.

Return to zero budgeting and a thorough analysis of each and every component of promotional spend would be an excellent start. Removal of waste and a focus on activities that actually work would be even better. This would drive sales growth, improve margins and show reasonable returns even on today's crop of new product offerings.

Such rigorous analysis using modern statistical methodologies might be anathema to affiliate managers, yet the results would become quickly apparent in better commercial key performance indicators. When aggregated they would show up as above expected growth.

Surely an approach that can relieve some of the pressure on beleaguered industry managers, but also begin to reverse the share price underperformance that causes so much soul-searching, must be worth considering.

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