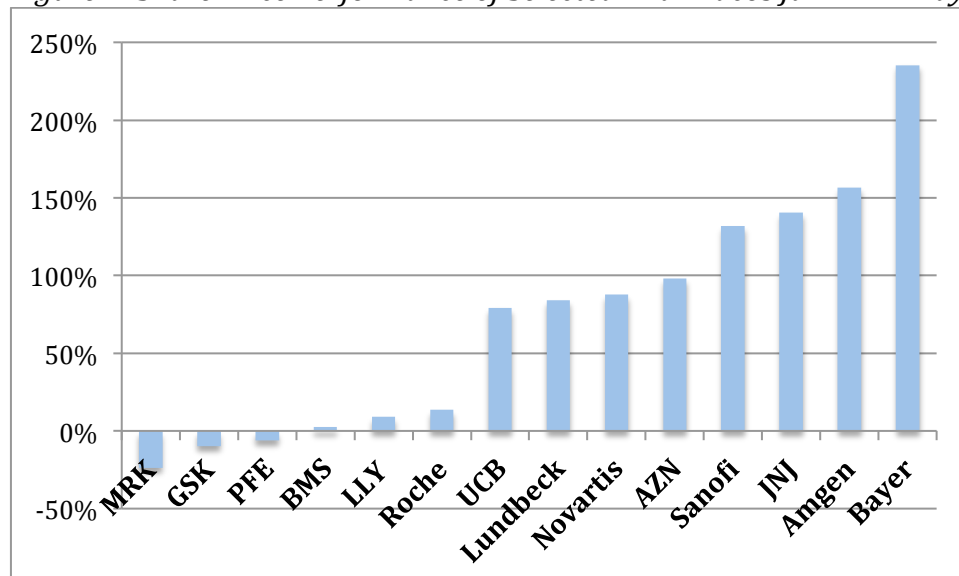


## Re-examining the Social Contract with Pharma – are sales and marketing expenses fair game for societal review?

It is now several years since big pharma was in the doghouse for withholding data from clinical trials, for overly aggressive marketing tactics (particularly on US television) and generally behaving in ways that would make today's CEOs blush with embarrassment. At that time society, including its formal components such as regulatory and reimbursement agencies, as well as the capital markets, struck back. They made demands for greater transparency (remember [clinicaltrials.gov](http://clinicaltrials.gov)?), significant fines and lower PE valuations.

The concept of a social contract between society and industry has been well rehearsed by civil society for many years and was certainly dusted off for the purpose of setting some sensible boundaries within which the pharmaceutical industry should behave. The social contract between the pharmaceutical industry and society is straightforward. Society expects pharma to pursue R&D that yields novel medicines treating unmet medical need and to provide them at affordable prices. In exchange society grants an exclusive period of marketing and some freedom to create demand. Today's question is whether that implicit social contract is still fit for purpose.

*Figure 1: Share Price Performance of Selected Pharmacos Jan 2000-May 2015*



What has been forgotten by many observers of the industry, amidst all the angst over low R&D productivity and poor stock market returns, has been the significant multiple of expenditure on R&D that the industry devotes to its sales and marketing activities. This amnesia is especially strange since it is generally acknowledged that much of the expenditure on sales and marketing is wasted. The pharmaceutical industry has actively adopted new technologies in pursuit of improved efficiencies within R&D yet consistently fails to gain efficiency in promotion through failing to adopt such a basic concept as zero budgeting. (check out paper on [Strategic Drift](#))

While some freedom to create demand for pharmaceutical products, which includes educational and market access activities, is generally acknowledged as a

necessary driver of promotional expense, what seems to go unchallenged is the amount spent on such commercial activities relative to R&D expense. Typically a large pharmaceutical company is spending 25-30% of its sales on sales and marketing, perhaps 1.5-2 times the amount spent on R&D. If this was a necessary minimum spend to get the message across it would be understandable. However, the competitive element seems to have made the industry reluctant to apply modern methodologies to analyzing sales and marketing data, relying instead on audits and analyses that generally have not met modern standards of peer review.

This represents a puzzle at several levels. Firstly, why haven't senior executives embraced the leading edge ROI measurement and statistical analysis that is now available to commercial organizations? This is especially difficult to understand given the opportunities to reduce costs, reallocate resources more wisely, improve competitive position and boost the bottom line both short and long term. Secondly, why haven't the capital markets probed more actively the techniques which companies use to improve their post-marketing performance? Finally, if companies are spending their commercial budgets less wisely than they could does society and its formal agencies have a role to play in demanding better value for money on behalf of its taxpayers?

"Whose side are you on?" I hear the industry apologists cry? Actually, I can see both sides of the argument since the move towards seeking value for money has been a trend amongst payers for many years and a cap on promotional spend is also an established reality in several European markets. Unfortunately, many of these responses from governments and payers have been somewhat haphazard reactions to budgetary pressures in difficult circumstances, providing little encouragement to the pharmaceutical industry to behave rationally but rather to "make hay while the sun shines". In this sense both sides are to blame for what befalls them.

What we haven't yet seen is a coherent narrative that provides a rationale for all stakeholders to address the issue of sales and marketing spend within the social contract. Let's not forget that such a contract should support both novel R&D and a level of commercial activity that is consistent with the delivery of the full benefits that a new medicine should bring to society. A definition of what that means may be some way off but that is surely no excuse to waste resources in the meantime. The application of modern methodologies to sales and marketing data may provide not only first mover advantage to its adherents, boosting sales, margins and PE multiples, but also equip these companies for a strong defense of its allocation of resources, R&D vs. promotional expense, when the social contract's terms of reference are inevitably up for review.

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