Case Commentary

Innovative marketing strategies after patent expiry

Pierre Chandon writes:

In 2003, what can we learn from what happened to Clamoxyl in France in 1996? The Clamoxyl story shows that pharmaceutical brands can have considerable equity and can thus put up a successful defence against generics. This is a lesson that many pharmaceutical companies should ponder, given how little respect they generally have for their brands. For example, we too often see newly merged corporations happily forfeiting esteemed old brands in favour of new acronyms with zero awareness and weak image. A market-savvy company would not give up that easily on these fantastic brands and on the value that they have, inside and outside the company. Similarly, too few pharmaceutical companies know how to leverage the power of their brands through careful brand extensions or coherent brand architecture (the relationship between the corporate brand and all the product brands). Finally, pharmaceutical companies are still learning how to brand the total customer experience, that is, not just the product, but the name, the packaging, the delivery system, and the pre- and post-consumption information search.

Another lesson from the Clamoxyl story is the importance of replacing a narrow problem definition (price competition from generics) in favour of a real understanding of the goals and constraints of the key stakeholder (in this case, the French social security system's goal of reducing the growth in antibiotic reimbursements). This lesson still holds today, although the specific strategy implemented in 1996 is no longer valid. Consider Augmentin, whose patent expired in France in 2002. The new law introduced in 1999 shifted a significant amount of power from the doctor to the pharmacists, who are now allowed to change a prescription to any cheaper generic. Most generics offer higher unit margins and therefore Augmentin would not gain if they were to reduce the price. Doctors would be more likely to prescribe it but pharmacists would continue to sell generics instead (and would be irritated at the lower margins for Augmentin). GSK therefore decided to license Augmentin to three generic makers six months before the end of the patent protection period. In exchange for royalties, these generics producers obtained manufacturing know-how and, most importantly, a head start deterring entry of other generic makers and hence reducing price competition.

Anthony J. Knight writes:

This case hinges on three main points: strong global branding and positioning, prescribing inertia and the establishment of a mutually beneficial relationship with a government reimbursement authority.

The branding used for Clamoxyl/Amoxil set new standards in clarity and consistency of promotional material, brand image and positioning. This placed the product in a class of its own with performance and reliability to match; it was an icon of its age. There was a strong emphasis on palatability for children reinforced by the give-away sweets of the same flavour. The message was clear — prescribe this product and the patient would take it and get better; the security of knowing that the patient was unlikely to get worse or to have significant side-effects and lead to out of hours calls. Thousands of doctors did just that and the product lived up to its promise, which, coupled with a general ignorance of cost and an unchallenged view of the freedom to prescribe, created a strong post-patent loss position. Thus two of the main planks for post patent loss survival were in place. Only one, strong branding, survives as an option in today's markets. The opportunity to negotiate a win-win position with a reimbursement authority remains an opportunistic strategy that is dependent on local circumstances and unlikely to be a universal option.

The gain for GSK was estimated at €17m, however this was based upon their view of the decline in market share resulting from doing nothing. Without that estimated further decline, the project did not break even. The commitment to continue promotion would not be without cost, both real and opportunity. The latter should be valued in terms of peak sales value time gained for a patent protected molecule that could have benefited from that resource. It is doubtful that there was any financial advantage in this strategy over taking a royalty from out licensing and cash cowing the residual high price sales while withdrawing promotion.

There is little doubt that strong branding, line extensions, process patents, innovative delivery technologies and licensing deals all serve to slow down the rate of decline of patent profits, but the reality today is that payers take active steps, through policies and penalties, to drive down prescribing costs for post-patent molecules that have constituted a drain on health budgets. Post-patent profit protection strategies need to be in place long before patent expiration, the inhaler market provides a good model for observing this. Active promotion should be reserved for cases where the product offer is not reproducible, or tactically in response to a local opportunity.

Return on marketing investment must drive resource allocation decisions in today's pharmaceutical environment. Generics, whatever the strategy, do not provide the yields required when competing for investment revenue or capital in a mainstream pharmaceutical company. They do, however, make sense to highly focussed, low overhead, branded generic specialist company from whom royalties can flow for many years.

Anthony J. Knight
was formerly Customer Marketing Director at Parke-Davis and is the founding partner of the Portland Partnership, a pharmaceutical strategy consultancy. He can be contacted at tony@knightworld.com; URL: www.knightworld.com

Tony Booley writes:

Pharmaceutical companies often do not consider the range of strategies open to them when faced with a patent expiry. The likely degree of competition from generics will be influenced by external factors such as the competitive situation with regard to parallel imports; which influences the relative attractiveness of a market for a generic competitor. The competitive landscape at patent expiry is very country specific due to the differing regulatory and market landscapes. For example, the retention of brand equity may be influenced by factors such as computerised substitution, which is sometimes mandatory.

Companies also need to be proactive with older brands that may have been hit by generics, as brand revitalisation may be possible later in the life cycle. Getting price increases when employing a milking strategy depends very much on the pricing framework in individual countries. One method that has been employed is to 'foster' products to another company that may be in a better position to gain price increases. In countries such as the UK, it is now very difficult to get price increases due to the constraints of the UK Pharmaceutical Price Regulation Scheme (PPRS) system. It is not always easy to persuade doctors and patients to upgrade to the new patent-protected drug. We therefore need to consider replacement strategies such as those employed by Astra Zeneca with Losec or Schering Plough with Neo-Clarityn. In addition to fragmenting the business by dosage form, consideration needs to be given to outflanking the generics by taking the brand over the counter (OTC). Some innovations such as extended use or changed formulations can be brought to market relatively quickly if developed by an organisation committed to giving the project sufficient priority. A case can be made for a partnership or out-licensing to a speciality pharmaceutical company.

Concerning an 'invest in generics strategy', branded pharmaceutical companies have recognised that producing and marketing generics requires different skills and a different businesses model. Therefore the possibility exists that the product could be licensed out to a generics company in exchange for royalties. Perhaps pharmaceutical companies should recognise that managing a brand post-expiry is a specialist area? There are also speciality pharmaceutical companies that will manage brands post patent expiry.

Another strategy is to license the brand to another company to manage post-patent situation. This requires skilful valuation of future cash flows. It may be better to have the future value of the brand revenue stream now to invest in brand building in other more profitable areas. The marketing risk can also be passed onto another company. Companies with a branded pharmaceutical portfolio need to constantly evaluate marketing risk across the portfolio and actively manage this risk.

When considering a price reduction strategy, we need to look at an approach that reduces the price selectively through different deal structures. Examples would be hospital contracts or brand 'equalisation' deals with larger retail pharmacy chains, where a company's branded prescription line is sold at brand price and also dispensed for generic prescriptions, but reimbursed at an agreed generic price. The pharmacy benefits through lower administration costs and not having to stock both the branded and generic product. The pharmaceutical company benefits by effectively and selectively shutting out the generic equivalent of its product.

It is not surprising that Clamoxyl was still the best selling antibiotic in 1996. France has until recently at least, had greater difficulty in containing healthcare costs due to the local market structure. The existence of primary care gatekeepers in the UK renders the NHS more suitable to cost containment. Compared with other countries, France had remained a more largely branded market. Overall in 1996, generics only accounted for 2–3 per cent of total prescriptions by value compared with approximately 40 per cent by value in Germany and 25 per cent in UK.

Did SB consider investing in brands other than Augmentin? Augmentin was considered principally to retain business in the same market. Extra investment in other SB brands may have given a greater return? Given that SB's business model was oriented towards the discovery of innovative drugs and not price competition, why did SB in 1996 or earlier not consider divesting the brand to another company? The net present value (NPV) of this strategy may have been superior given the strong brand equity and historical sales situation, which would have driven the forecasts.

No mention is made of manufacturing considerations. As Clamoxyl needed to increasingly compete on price, what consideration was given to shifting manufacturing to India or China in order to preserve margins? Also were there any formulation changes possible that would reduce the cost of goods? The campaign appealing to French doctors' 'freedom of prescription' obviously had the right emotional impact at the time. The SB marketing strategy demonstrates how rational and emotional marketing practices can work well together.

Pharmaceutical companies generally do not put up much of a fight post patent expiry. This is because their business models are focused elsewhere. However, the emergence of speciality pharmaceutical companies, whose business model allows them to focus on and manage brands post patent expiry opens up a host of new strategic options for managing this phase of the product life cycle.

Tony Booley

is a board director of Alliance Pharmaceuticals and has 23 years' experience in the pharmaceutical and healthcare industry including posts at the multinationals Leo Pharma, Glaxo Wellcome and Getinge Industrier. He can be contacted at tonybooley@alliancepharma.co.uk; URL: www.alliancepharma.co.uk