Take It Higher

Increasingly, pharma companies are expanding from brand vs. brand to battle at the franchise, portfolio, and corporate levels

Have you ever wondered why Procter & Gamble sells nine different brands of laundry detergent? It's because P&G, which helped establish the commercial power of individual brands, recognizes the advantage of competing with multiple brands in a single consumer category. The company's goal is not to have the single best-selling brand; they want to maximize their total sales by owning the product category.

Similarly, Marriott gains competitive advantage by offering a portfolio of 13 different types of lodgings. The Walt Disney Company has leveraged its name to sell not only movies, but also amusement parks, hotels, television shows, consumer products, toys, and Broadway shows. While each of these companies offers a strong brand, they gain significant advantages by competing at multiple levels beyond their individual brand.

Like those companies, pharmaceutical companies are increasingly using multi-level competition (MLC), the process of commercializing similar or related products across the brand, franchise, portfolio, and/or corporate levels to gain market advantages. The objective of MLC is to force your competitors to compete on the level or levels where your company has the advantage.

Pharma Turns to MLC

Progressive pharmaceutical companies are increasingly using multi-level competition to drive business beyond the brand level. This includes taking measures at the franchise, portfolio, and corporate levels.

Franchise Level (single therapeutic area or disease state) As the world's leading producer of insulin by volume, Novo Nordisk's diabetes franchise covers the full range of insulin analogues, oral anti-diabetic drugs, and the new GLP-1 compound Victoza. Novo complements its franchise with an industry-leading line of delivery pens and devices as well as diabetes education and support programs. By 2014, Novo is projected to have a 27 percent share of the anti-diabetic global market, the second highest share dominance of any major chronic care market.

Abbott recently started competing at the franchise level in the cholesterol market. Abbott has focused on creating the world's most extensive cholesterol franchise using various combinations of fibrate, niacin, and statin products. According to John Thomas, Abbott vice president, "With TriCor, Niaspan, Simcor, ABT-335, and our combination with Crestor, Abbott's growing cholesterol franchise has the potential to include at least five unique therapies by 2010."

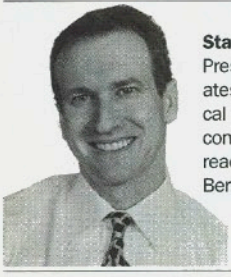
Portfolio Level (multiple disease states) Roche completed the acquisition of Genentech to enhance the industry's strongest oncology portfolio, which now includes five innovative cancer products (Avastin, Herceptin, Xeloda, MabThera and Tarceva), adjuvant agents, various tumor markers, and a range of molecular oncology tests. According to market research firm EvaluatePharma, by 2014 Roche will have the most dominant single portfolio in the pharmaceutical industry: Sales of its oncology products are projected to reach $28.3 billion, representing a massive 38 percent of the $75 billion cancer market. Moreover, Roche's pipeline of 88 oncology-related products is nearly double the number of its competitors.

Already among the top three vaccine manufacturers, GlaxoSmithKline is seeking to leapfrog its competitors by developing the world's broadest vaccine portfolio. The company currently markets 30 vaccines, and has 25 more in clinical development. In 2008, GSK distributed 1.1 billion doses of vaccines—that's 3 million doses per day around the world.

Corporate Level (multiple disease/health segments) Unlike more mature industries, none of the major pharmaceutical companies has truly applied MLC at the corporate level. Johnson & Johnson is perhaps best positioned to do so because of its strong corporate brand name and product diversity. J&J is the most diversified healthcare company in the world, with more than 250 companies organized into three major business segments: pharmaceuticals, medical devices and diagnostics, and consumer products. And there are signs that J&J may be coordinating some activities across segments to gain competitive advantage. For instance, the company is evaluating a diabetes offering that could integrate pharmaceutical agents, blood glucose monitors, insulin delivery devices, wound-healing products, and other J&J products and services.

Advantages of MLC

Product Co-Positioning and Segmentation Procter & Gamble identified nine different laundry detergent segments, each with unique needs, and has distinctly positioned each brand (Bold, Cheer, Dash, Dreft, Era, Gain, Ivory Snow, Oxydol, and Tide) to meet the needs of these segments. For example, with a tag-line of "gentle as a mother's touch," Dreft detergent is "specially formulated for baby clothing and other items." Similarly, Abbott will be positioning its five dyslipidemia agents for specific patient segments with different combinations of LDL, HDL, and triglyceride abnormalities.



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Combinations of Products Abbott has leveraged its dyslipidemia franchise by combining products into single pills, including the developmental combination of its fibrate TriLiplix with AstraZeneca's statin Crestor. Roche tries to maximize its oncology portfolio by demonstrating the benefits of a combined regimen in clinical trials. For example, in the recent ATLAS trial, Roche's Avastin combined with its cancer pill Tarceva extended the period without disease progression in patients with advanced lung cancer.

Reputation/Brand Armed with multiple cutting-edge, targeted therapies, Roche is able to leverage its growing reputation as the leading innovator in oncology with healthcare providers and other stakeholders.

Shelf Space Abbott will likely use its five cholesterol products to take up space in physicians' supply cabinets. GSK tries to capture the limited available space for vaccines in the pediatrician's office refrigerator, thereby minimizing space for competitors.

Pricing/Contracting GSK encourages vaccine payers to purchase from its extensive portfolio of vaccine products by offering volume incentives. Roche's extensive oncology portfolio provides it with substantial negotiating leverage.

Sales/Stakeholder Relationships Because of its long term focus on the diabetes marketplace, Novo has a tremendous relationships with diabetes prescribers, thought leaders, professional societies, and other key stakeholders.

Cost/Operating Efficiencies Novo's focus on a range of diabetes products, particularly insulin formulations, has created economies of scale, resulting in a lower cost structure and higher profitability. For example, the company has made its pen-filling station more efficient by using similar parts for components of all pens. Roche and GSK gain manufacturing efficiencies by using their plants to produce multiple biologic and vaccine products, respectively. Such efficiencies drive down product costs and provide these companies with a lower competitive-cost basis and higher margins.

Every corporate, portfolio, franchise, and brand plan should address all four levels, identifying relative advantages as well as strategies to leverage those advantages

Business Development/Licensing The competition to license or acquire innovative pharmaceutical compounds is increasingly intense. Companies that focus on specific franchises or portfolios have a competitive advantage in attracting partners due to extensive market experience, long-standing customer relationships, and established capabilities.

Winning with MLC

There are several ways for pharmaceutical companies to successfully implement multi-level competition. These include:

Incorporate MLC into strategy and marketing plans Every corporate, portfolio, franchise, and brand plan should include sections on competing at all four levels. These sections should identify the levels where the company and competitors have relative advantages, and describe how to leverage or offset those advantages. Ultimately, strategists and marketers need to operate on the level or levels that provide the greatest chance for success.

Build, buy, extend, and/or partner for enhanced levels There are different ways to enhance the competitive value of a brand, franchise, portfolio, or company. For example, Abbott initiated its cholesterol franchise with a single fibrate product, purchased Kos Pharmaceuticals to add niacin agents, created a second generation fibrate, and then partnered with AstraZeneca to develop a combination branded statin-fibrate product. To augment its diabetes franchise, Novo Nordisk is developing novel insulin formulations and combinations as well as new GLP-1 class agents, and has formed external research alliances to develop insulin-producing stem cells. To better compete with Novo, Eli Lilly recently announced an alliance with device manufacturer Medtronic to combine their insulin products, insulin pump therapy, and continuous glucose-monitoring capabilities. Likewise, in order to compete with HIV industry leader Gilead Sciences, GSK and Pfizer recently formed a joint venture company to combine their HIV portfolios. GSK's CEO Andrew Witty said, "You blend our portfolio with [Pfizer's] and you cover a range of different targets in a range of different ways, which is a valuable benefit."

Test the franchise management strategy Increasingly, market-leading pharmaceutical companies are conducting not only brand but also franchise, portfolio, and corporate war games. The most progressive of these companies conduct "Competitive Simulations," an improved version of war games specifically designed to role-play, pressure-test, and validate a company's—and its competitors'—strategies and tactics, including multi-level competition, in a simulated market environment.

Companies using MLC approaches generally demonstrate deeper customer knowledge, enhanced stakeholder relationships, improved efficiencies, better ROI, significant competitive advantages, and, ultimately, better sales in their product categories. Importantly, while many pharmaceutical companies have multi-brand franchises or portfolios and designated business leaders, relatively few companies fully leverage powerful multi-level competition strategies, techniques, and tactics to win against companies relying on single brands. PE