CHAPTER 1

Marketing Principles and Process

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LEARNING OBJECTIVES

1. Define marketing and describe how it functions as a process.
2. Define and describe the general principles of marketing, including needs, wants, demand, and value, and apply these principles to the pharmaceutical industry.
3. Identify and describe the traditional marketing mix variables (product, price, place, and promotion) and how they uniquely function in the pharmaceutical industry.
4. Identify and describe how the principles of segmentation, targeting, and positioning uniquely function in the pharmaceutical industry.
5. Identify the determinants of marketing effectiveness and apply them to the evaluation of a pharmaceutical manufacturer.

CASE IN POINT 1-1

Marketing from Different Professionals' Perspectives

As a student, professor, or healthcare software company employee, more often than not at some point an individual attends a national

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association meeting or trade show event. In pharmacy, pharmacists, academics, and industry professionals can attend the national American Pharmacists Association (APhA) meeting held annually around the first of March. At this meeting, practicing pharmacists are updated on the latest medications and practice guidelines while they can also catch up on their continuing education or networking with various colleagues and employers. Academic pharmacists and researchers present their research, learn about others' work, network with colleagues, and, possibly, complete continuing education requirements. Industry professionals use this meeting to, among other things, introduce new product offerings or connect with potential future employees.

This meeting can be examined from three different perspectives. First, from the practicing pharmacist's perspective: BG decides to go the meeting based on a colleague's recommendation about its benefits. Her colleague states that, not only did he connect with his current employer, he was able to attend a special session to receive his immunization certification. Thus, based on this information, BG signs up to attend the meeting. While walking around the meeting's exhibit hall where a large variety of companies, from pharmaceutical manufacturers to chain pharmacies to pharmacy software companies, have set up information booths, BG happens to recognize a former classmate from pharmacy school working the booth for a competing chain pharmacy. After some casual conversation with her old classmate, who is now a district manager, BG explains that she is here to get her medication therapy management (MTM) certification and wants to start providing those services in her current position. Her classmate mentions opportunities at his company, which is actually getting ready to open a new store approximately 10 minutes from BG's home. Her classmate explains that the company is seeking a pharmacist who can bring MTM skills, specifically in the area of diabetes care and monitoring, into their pharmacy and train other pharmacists on the practice. After they exchange business cards and discuss a time for her to interview formally, BG takes a pamphlet that explains the benefits provided by her former classmate's company.

CJ, an academic pharmacist and researcher, attends the meeting to present his recent research project. While CJ stands by his poster, another academic pharmacist stops and asks a few questions about his research. After they discuss CJ's research project, the colleague mentions that she has just finished some preliminary data collection on a very similar topic and is intrigued by the methodology CJ used to test his hypotheses. She then suggests the possibility of combining their preliminary data and putting together a collaborative grant application. They exchange business cards and then set up a lunch meeting for the next day to discuss the potential project in more detail.

DL, a healthcare software industry professional, attends the meeting to demonstrate to pharmacists and pharmacies her company's new workflow management system. Given the large number of pharmacists, especially independent pharmacists and pharmacy owners, and national chain pharmacy representatives in attendance, DL surmises that this might be her best opportunity to gain a customer base. To fully demonstrate the system, DL and her coworkers set up a mini-pharmacy in the exhibit hall, allowing passersby (hopefully future customers) to view firsthand its capabilities.

INTRODUCTION

What does the multiperson example described in Case in Point 1-1 have to do with marketing? Marketing is a part of most every individual and business transaction. Most people link marketing traditionally to the area of consumer goods, where everything from sponsoring a NASCAR driver's car to television commercials to company logo stickers is a piece in the marketing process—all aimed at informing potential customers about a product or service offered by the company. However, as witnessed in the case, marketing can focus on monetary business transactions (such as the software company representative trying to sell the latest software) or nonmonetary transactions (BG marketing herself as a potential employee; CJ focusing on professional development in a collaborative research project).

Thus, what exactly is marketing and how can it be defined? The vital point is that marketing is not just a single TV commercial, email offer, or handshake introduction; it is a process. The singular events and items described in the case are just small pieces of a company's or individual's marketing efforts. Each piece, in addition to strategy, planning, and analysis, plays a role in the overall marketing strategy. According to Philip Kotler, academic and world-renowned marketing expert/author, **marketing** is

> the science and art of exploring, creating, and delivering value to satisfy the needs of a target market at a profit. Marketing identifies unfulfilled needs and desires. It defines, measures, and quantifies the size of the identified market and the profit potential. It pinpoints which segments the company is capable of serving best and it designs and promotes the appropriate products and services. (Kotler, 2012)

More concisely, marketing is the process of creating value for customers through exchange.

In this process, businesses examine their capabilities and the needs, wants, and demands of the marketplace to determine which customers they want to serve and how they want their products to be perceived by those customers. This involves market segmentation, targeting, and product positioning, where segmentation and targeting identify customers the business will try to serve, and product positioning creates the product's or service's desired image in customers' minds. Next, marketers design and implement marketing plans and programs to reach the target market and create the desired position in customers' minds. Marketing programs and the marketers' decisions revolve around the traditional marketing mix variables: product, price, place, and promotion. Marketing professionals manipulate these variables to create advantages for a firm's products and value for customers. Finally, businesses manage their marketing process by monitoring results obtained (e.g., sales or lack thereof) and adapting programs to stay on track as customer and market conditions change. The rest of this chapter develops the primary tenets and components of marketing overviewed here: customer needs, wants, demands, and value; product, price, place, and promotion; and segmentation, targeting, and positioning.

CUSTOMER NEEDS, WANTS, DEMANDS, AND VALUE

Although many variations of the definition of marketing exist, all include the primary determinant for marketing: Success is achieved by meeting customer needs. Though this might seem too simplistic, truly all the time, effort, and money put into the marketing process—the $3 million 30-second Super Bowl commercial ads, for instance—aim to meet customer needs.

The most basic **needs** are those inherent to human existence. For example, people have physiologic needs for food, water, and sleep in addition to safety, social, and personal needs. As individuals grow in their environment and into their own personality, these needs eventually become **wants**. For example, when a person is hungry for breakfast any food should satisfy that need, but perhaps the individual wants a Chik-fil-A Chicken Biscuit Combo with a large sweet tea because he just saw a commercial for it.

Further, one might ride mountain biking trails as a cross-training exercise of choice and need a new bike. Even though a reasonable and sufficient bike might cost $300–$500, an individual might *want* the Giant Reign X0 All-Mountain bike with an average retail price of $6,100. The next question is whether this person can actually afford to purchase a $6,100 mountain bike. If so, this then creates demand for the product. A want combined with the *ability to pay* creates **demand**.

However, Giant is not the only supplier of high-end mountain bicycles. Trek and Schwinn also provide high-tech and specialist mountain bikes. How does a consumer choose which bike to purchase? When multiple purchase options are available, a multitude of factors play into the consumer's decision, such as price and personal tastes and preferences. Ultimately, though, a consumer most likely chooses the option that provides the most value.

Value is typically viewed as the subjective relationship between the perceived benefits and perceived costs of a product or service. Mathematically, it can be expressed in the following manner:

$$\text{Value} = \text{Perceived benefit(s)} \,/\, \text{Perceived cost(s)}$$

Thus, if both benefits and costs are high or low, the product/service could be deemed to have little value. However, if the benefits greatly exceed the costs, then the product could be seen as having high value. With the mountain bike example, an individual might perceive the benefits (durability, speed, suspension, less maintenance, etc.) of the $6,100 bike to be far greater than the high price and associated maintenance costs. This individual might perceive this bike to be of great value. However, a different person might view the high monetary cost of the bike to be too great as compared to the bike's benefits and perceive the product as having little overall value. Although the value equation is shown as a mathematical expression that implies absolute objectivity, value, as illustrated in the bike discussion, is a highly subjective measure.

CASE IN POINT 1-2

Pharmaceuticals: Needs, Wants, Demand, and Value

CC, a 48-year-old male, visits his primary care physician for his annual checkup. During his visit, the physician informs CC that his total cholesterol has gotten too high and, in addition, his HDL, or "good cholesterol," levels are too low. The physician states that he *needs* to prescribe CC a medication to help get these numbers more in line with national guidelines. CC mentions that he saw an advertisement for a new cholesterol medication he *wants*, which increases the good cholesterol in addition to lowering the bad. The physician then explains to CC the high cost of the new brand-name medication, which CC then refutes because he has "great insurance and it shouldn't be too expensive—don't worry about the cost" (*demand*). After reviewing CC's other labs, the physician decides to prescribe an older, generically available medication because he thinks it provides the most *value* given CC's current labs, family history, and the medication's wealth of clinical effectiveness data and low cost.

In the quest to meet customer needs, wants, and demand while providing maximum value, companies employ a wide array of activities to make their marketing more effective. Through their own interactions with their customer base as well as the feedback through now mostly online media, companies can gauge the pulse of their customers on a day-to-day, real-time basis. Truly successful marketing organizations use this market intelligence and their own operational efficiency to adapt to any situation while continually focusing their energy and strategy on meeting customer needs.

MARKETING MIX: THE TRADITIONAL FOUR Ps

To develop effective marketing, companies must know, understand, and manipulate to the best of their abilities the marketing mix, a set of company-controlled variables, tools, and actions used to meet customer needs and wants while also trying to influence demand in favor of the company's goods and/or services.

Traditionally, a company examines four primary groups of variables to achieve its marketing and strategic goals: *product, price, place,* and *promotion.*

Product

Perhaps the most basic of the marketing mix variables, the **product** variable is typically associated with a tangible good provided or available for sale, such as a chicken sandwich or Apple's latest iPhone. As a company evolves, it must continually assess customer needs so as to know whether it is providing the right product or product features. In assessing which customers it wants to serve, a company gains direction in terms of the products or services it will offer. The company must determine whether meeting its targeted customers' needs requires a single product or multiple products and whether the targeted customers reside in a single market or in multiple markets (e.g., married males older than 25 years in metro Atlanta, Georgia, versus married individuals in the southeastern United States).

In the pharmaceutical industry, the primary product is the medication. Thus, from a pharmaceutical manufacturer's perspective, it should be straightforward to discover and manufacture a product that can improve health outcomes and quality of life. However, what if another company discovers a product that works twice as well with half the negative side effects? What would the first company do? In balancing the need for financial survival with improving health and quality of life, pharmaceutical manufacturers ask the strategic question of whether they should sell what they invent or invent what they can sell. One way to handle this issue is to have an efficient internal structure that includes marketing input

CASE IN POINT 1-3

Successful Product Offerings in Today's Marketplace

An amazing part of today's marketplace is the number of companies, especially dot-coms, that achieve great success and sales based on only a few product offerings. For example, Apple at its core offers only four products: the iPhone, iPad, iPod, and Mac computer. The proprietary Apple operating system is included in each. Apple sold its four products and managed its business so that it had more cash on hand, $76.2 billion, than did the United States Treasury based on its June 2011 quarterly earnings report (Griggs, 2011).

CASE IN POINT 1-4

Service as a Product: The Community Pharmacy

Some might wonder where in the traditional four Ps services fit. Services are also considered a product. Think about your most recent trip to the local community pharmacy. While picking up your monthly maintenance medication, you ask the pharmacist a question about some recent sinus issues you have experienced and whether there is an option available over-the-counter (OTC) to treat your symptoms. Not only does the pharmacist recommend a specific OTC product, she also explains its possible side effects and how it could interact with certain other medications if taken improperly. You do not specifically pay for the advice and counseling provided by the pharmacist. This value-added *service* is an intangible dimension of the product you did purchase.

in the company's research and development. As Kotler puts it, "Selling starts only when you have a product. Marketing starts before there is a product. Marketing is the homework the company does to figure out what people need and what the company should make" (Kotler, 2012).

Price

The recent economic issues in the United States have placed a great significance on one variable of the marketing mix, **price**. Now more than ever, consumers are price-conscious in most all their purchases. For companies trying to market their goods or services, understanding customers' needs and wants as they relate to the price variable is essential to survival. A great product priced too high will struggle, while a product priced too low might be devalued in the marketplace and hamper the company's profit and/or growth potential. Thus, it is important for companies to find the right price point that meets both customer and company needs.

A product's or service's price is not just a number; it defines other aspects of the product, service, or company. A premium or high price relative to a competitor's conveys the image of a premium product or service, especially in terms of quality. A much lower price compared to a competitor's conveys the opposite image and message. In pharmaceuticals, this dynamic plays a role in the consumer

CASE IN POINT 1-5

Pricing Variations in the Pharmaceutical Industry

Pricing in the pharmaceutical industry takes on many different forms depending on who pays. Because of manufacturers' large customer bases (e.g., wholesalers, retail pharmacies, pharmacy benefits managers [PBMs]), the key economic variables are **buying power** and **market share**. Those customers with the largest buying power and/or most potential to shift market share to a specific company's products receive the best pricing or actual acquisition cost, which is the bottom-line price after rebates or discounts are paid for the medication.

For example, manufacturers typically have a different pricing structure for various retail chain pharmacy customers. Large chain pharmacy customers, with their own warehouses and large numbers of physical stores, buy directly from the manufacturer and constitute a large portion of the manufacturer's business. Thus, the actual acquisition cost paid by large chain pharmacies is typically lower than the price paid by regional chain pharmacies, which typically do not have their own warehouses and work primarily through wholesalers.

In August 2000, the U.S. Department of Health and Human Services held a presidentially requested conference on pharmaceutical industry pricing, utilization, and costs. During the conference, participants debated the current and future pricing issues facing the pharmaceutical industry. Panelists from a wide variety of backgrounds, including industry and various areas of academia, pointed out concerns. Manufacturers charge different prices depending on the buyer. Also, the pharmaceutical market is inefficient by nature because decision makers, particularly physicians, do not know the ultimate price of a medication, let alone the hidden and "confidential" actual acquisition prices, discounts, and rebates provided by manufacturers (Kemp, n.d.). One panelist, Dr. Stephen Schondelmeyer, PharmD, PhD, of the University of Minnesota College of Pharmacy, advocated increased government regulation of pricing in the pharmaceutical industry to ensure transparency (Kemp, n.d.).

perception that generic medications are not as good as brand-name medications, even though scientific evidence suggests otherwise with certain medications.

In the pharmaceutical space overall, price has many different meanings, depending on the customer. Pharmaceutical manufacturers set a price on a medication for various suppliers, including wholesalers, retail pharmacies, and mail-order pharmacies. There are also the different prices for the end user, or patient, in the form of a flat copayment, coinsurance, or a non-insurance-based cash price. The price variable in the pharmaceutical industry has many forms and, depending on who pays, the number has many different possibilities.

Place

From a marketing perspective, **place** refers to any activity designed to create value and utility by making the product(s) available. Another term related to the place variable is *supply chain*. In any manufacturing industry, whether pharmaceuticals or pet food, products must be made, packaged, and then through some mechanism delivered to the point of sale. A company could make the best product, but if it cannot get that product into the hands of the customers, then the company's potential success is in jeopardy.

In the pharmaceutical industry, the supply chain traditionally is a path from the pharmaceutical manufacturer, who produces, sells, and ships products to a wholesaler, who stores the extreme volume of products and ships products sold to community and hospital pharmacies (**Figure 1-1**).

Over the years, competition has bred consolidation within the wholesale industry and left three primary wholesalers: AmerisourceBergen, Cardinal Health, and

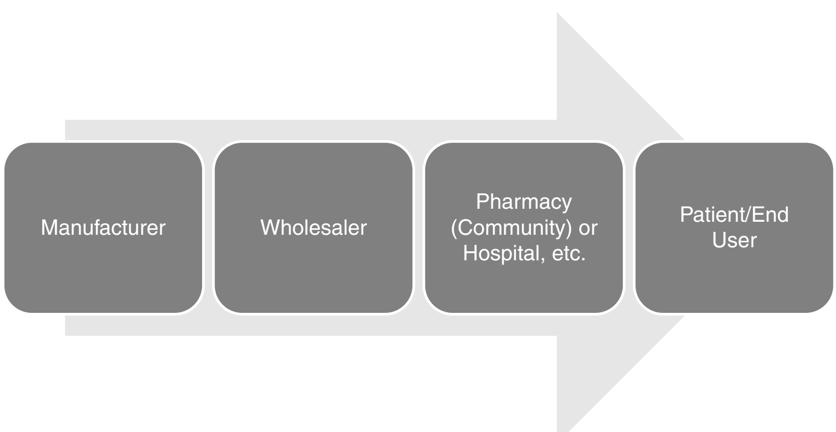

FIGURE 1-1 General Pharmacy Supply Chain

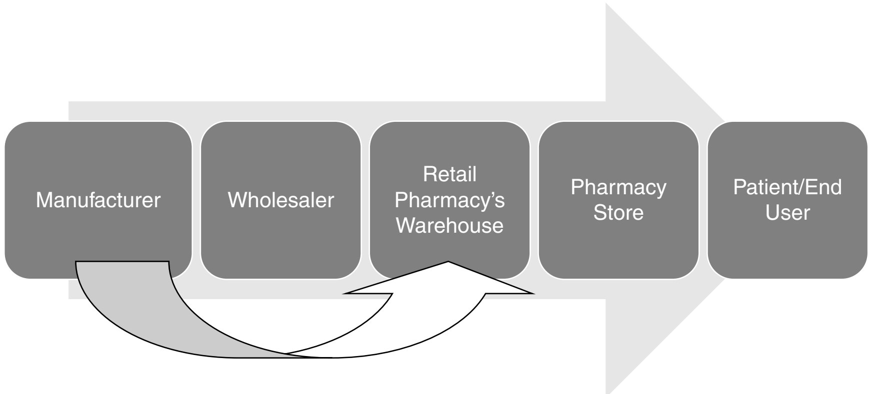

FIGURE 1-2 Large Retail Pharmacy Supply Chain Model

McKesson. Furthermore, many chain pharmacies, such as Walgreens, CVS, and Rite Aid, and grocery chain pharmacies, such as in Wal-Mart and Publix, now use their own warehouses and supply chains to store and deliver medication, making necessary purchases from a wholesaler only on an as-needed or secondary basis (**Figure 1-2**).

CASE IN POINT 1-6

Role of the Wholesaler for Small, Independent Pharmacies

In communities across the United States, small, independent pharmacist-owned pharmacies have been a hallmark of the profession. Many of the perceptions of the pharmacy profession, including, for example, trustworthiness and exceptional customer service, are rooted in independent pharmacy practice. For these small, and many times rural, pharmacies to serve their customers, they must have the inventory necessary to bring customers into their stores. Unlike many of the current large chain pharmacies that can buy in bulk directly from pharmaceutical manufacturers and then store and distribute through their own warehouses, the independent pharmacy relies exclusively on the wholesaler for its supply chain. Not only does the wholesaler deliver inventory, it typically provides other value-added services, such as computer and inventory management systems and increased buying power that enables the independent pharmacy to purchase medications at the best possible price.

Promotion

More often than not, the final P, **promotion**, is the marketing mix variable most commonly recognized by the consumer, given its visual nature, such as in television advertising. Promotion, however, is not just a 30-second television commercial or a massive billboard in Times Square in New York City. It functions as a company's communication arm, transmitting to consumers the other Ps—product, price, and place—in a manner that achieves the best possible consumer attitudes and purchase interest in the company's product.

In today's world of digital and mobile technology, promotion takes many new forms while still including traditional media. Companies use a variety of outlets to promote their products and/or services. The most common promotional methods used include the following:

- *Advertising*. Advertising consists of the promotion of a given product, service, or message through mass media channels, such as newspapers, billboards, magazines, radio, and television, and is used to both inform a given target market and persuade them in a manner leading to increased use or sale of the company's products or services. Within the pharmaceutical industry, advertising is most commonly associated with the direct-to-consumer (DTC) television advertising commercials for popular, high-selling products. For example, phrases and slogans such as the "Purple Pill" or "Viva Viagra" are now embedded in the minds of consumers as a result of the increasing use over the past 15 years of television as a prescription advertising media. In fact, the average television viewer sees as much as 30 hours of prescription advertising a year (Brownfield, 2004). Manufacturers have also begun to target healthcare providers, such as physicians and pharmacists, through the use of "product theaters" at various organizational meetings (e.g., American Pharmacists Association [APhA]) and educational conferences.
- *Sales promotions*. Sales promotions are found everywhere in society, such as 50% off, 0% financing, and the ever popular "buy one, get one . . ., " or BOGO. Whereas mass media advertising is used to make the consumer aware of a product, its price, and place and entice consumers to purchase the product or service, sales promotions are used to entice consumers to buy the product or service at that specific moment in time, or while the sales promotion is going on. For example, every year in the weeks leading up to the National Football League's Super Bowl Sunday, retailers such as

Best Buy run sales promotions on their large, high-definition televisions, trying to entice purchasers to buy one just in time to watch the big game. For pharmaceutical companies, sales promotions have recently taken the form of coupons available in print and online media that reduce consumers' out-of-pocket cost or copay. Pharmaceutical manufacturers increasingly use promotions to penetrate crowded markets and maintain existing products sales. Large chain pharmacies also use this strategy to promote their specific generic program or, in some areas, offer gift cards for transferred prescriptions.

- *Personal selling*. Personal selling involves a one-on-one interaction between an individual salesperson and a prospective client. Generally speaking, a company's sales force is meant for personal selling. For years, companies have employed sales personnel to spread the word about their products or services and gain as many new customers as possible while developing solid relationships with the customers they serve. In the traditional consumer market, for example, Mary Kay Cosmetics uses independent sales consultants nationwide to sell its products personally through in-home parties and personal relationships with customers because its products are

CASE IN POINT 1-7

New Pharmaceutical Sales Promotion

In 2009, the Food and Drug Administration (FDA) approved Livalo (pitavastatin), a new Hmg-CoA reductase inhibitor, more commonly known as a statin, manufactured by the Kowa Company. This medication, which has been marketed in Japan and other Asian countries since 2003, was the seventh statin to be approved in the United States (DeNoon, 2009). To penetrate the already crowded market, which also includes generic versions of the brand-name medications, the Livalo campaign used multiple sales promotions to persuade consumers as well as physicians to purchase the new statin. Included in these sales promotions was, among others, a 30-day free trial offer for the medication (**Figure 1-3**; see also http://voucher.livalorx.com/coupon.cfm).

Begin LIVALO® (pitavastatin) with a FREE 30-TABLET TRIAL.

Give this card to your pharmacist, along with a valid prescription from your physician.

Ask your healthcare provider about LIVALO. This voucher for 30 FREE tablets is being provided to you by your prescriber and Kowa Pharmaceuticals America, Inc. and Lilly USA, LLC. This voucher should be taken, along with your new prescription, to your local pharmacy, where you will receive this product without charge.

Livalo® (pitavastatin) tablets
1-mg, 2-mg, 4-mg
www.LivaloRx.com

To the Pharmacist:

- By accepting this offer, you certify that you understand and agree to comply with the offer terms set forth herein.
- Product dispensed as sample pursuant to the terms of this voucher shall not be submitted to any third-party payer, public or private (eg, Medicaid, Medicare, private insurance or any governmental program, any other federal or state program such as Champus, the VA, TRICARE, or a state pharmaceutical assistance program) for reimbursement.
- Submit claim online to RxSolutions. Processor requires Valid Prescriber ID #, Patient Name, DOB and PCN# for claim adjudication.
- This card must be accompanied by a new prescription.
- Valid for 30 free tablets of LIVALO® (pitavastatin) — **All Strengths Covered**.
- One voucher per patient per 12-month period.
- Refills will not be authorized with this card.
- Please remove this identification number from the patient profile after the claim.
- For assistance in filing this claim, contact the help desk at 1-800-510-4836.
- This offer may be terminated at any time.

RxBIN#	GROUP#	PCN#	IDENTIFICATION#	EXPIRATION DATE
610494	LIVALOWB	3333	LVWB9346612	11/19/2012

Void where prohibited by law. Product dispensed as sample pursuant to the terms of this voucher shall not be submitted to any third-party payer, public or private (eg, Medicaid, Medicare, private insurance, any governmental program, any other federal or state program such as Champus, the VA, TRICARE or a state pharmaceutical assistance program) for reimbursement. Offer cannot be combined with any other free trial, coupon, rebate or similar offer. By accepting this voucher, the pharmacist certifies that (1) LIVALO has been dispensed to an eligible patient pursuant to a valid prescription for LIVALO; (2) no claim has been submitted for reimbursement to the patient or any third-party payer; and (3) participation in this program complies with all applicable laws and contractual or other obligations as a pharmacy provider. It is illegal for any person to sell, purchase, or trade; or to offer to sell, purchase, or trade or to counterfeit this voucher. Kowa Pharmaceuticals America, Inc. and Lilly USA, LLC reserve the right to rescind, revoke or amend this program/offer without notice at any time. LIVALO® is a registered trademark of the Kowa group of companies. This voucher has no cash value. Available only in US and PR for residents of the US and PR. No purchase required. Use of this voucher does not create any obligation or involve any past or future purchase requirement. LIV-MT-0302 PS77071 © Kowa Pharmaceuticals America, Inc. and Lilly USA, LLC (2012). All rights reserved.

This offer may be terminated, rescinded, revoked or amended by Kowa Pharmaceuticals America, Inc. and Lilly USA, LLC at any time without notice.

Kowa Lilly

FIGURE 1-3 Livalo (Pitavastatin) 30-Day Free Trial Offer not available in a retail setting. Pharmaceutical manufacturers, specifically branded-product manufacturers, also use this tactic to reach their primary customer through physician detailing. At the height of the blockbuster drug era, pharmaceutical companies employed more than 100,000 salespeople all with one goal in mind: build a sustainable relationship with prescribing physicians to increase the use of each company's specific products.

- *Direct marketing*. Whereas advertising is designed to reach a large market of customers through various media channels, direct marketing is much more focused and targeted promotion. Traditionally, direct marketing is associated with mail, catalog, or telephone marketing. Customer databases are created based on consumer/buyer demographics, and then direct marketing approaches focus on the *individual*. However, in the current market, direct marketing has greatly expanded its reach as a result of the Internet and mobile technology. These always-expanding channels enable message customization and personalized marketing messages to be directed at a specific person, place, and time. The pharmaceutical industry has begun to harness the power of the Internet with customized messaging and promotional offers based on an individual's Web-based behavior.
- *Public relations (PR)*. As its name implies, PR involves relating with the public, or those considered to be company stakeholders. PR efforts, including communications such as press releases, sponsorships, and corporate literature, are used to generate positive attitudes and feelings, or goodwill, toward the company and its products and services. In addition, any negative press or public information can be addressed quickly and nullified by a responsive PR department or director. In the pharmaceutical industry, public relations can take many forms. With a press release about a newly approved indication for a drug or an informational flyer on the upcoming release of a new drug, pharmaceutical manufacturers use a wealth of PR promotions to inform key stakeholders about their products. The primary form is disease awareness campaigns. These campaigns aim to raise awareness and educate stakeholders, including potential consumers, of a particular disease or condition. For example, Boehringer Ingelheim's "Drive 4 COPD" campaign uses NASCAR driver Danica Patrick to raise awareness about chronic obstructive pulmonary disease (COPD). The company provides general information and a screening survey on its website (www.drive4copd.com) in addition to sponsoring various events and discussions.

CASE IN POINT 1-8

Pharmaceutical Manufacturer Promotional Budgets

Over the years, pharmaceutical manufacturers have spent billions of dollars promoting their products to physicians and consumers. Based on the most recent accessible data from IMS Health, a healthcare information and analytics company, total promotional spending by pharmaceutical manufacturers, including physician detailing, medication samples, meetings and events, journal advertisements, and direct-to-consumer (DTC) advertisements, peaked in 2007 at approximately $27 billion and decreased to approximately $24 billion in 2010 (DTC Perspectives, 2011a). DTC advertising has followed a similar trend, with spending peaking in 2006 around $5.2 billion and steadily declining to around $4.4 billion in 2011 (DTC Perspectives, 2011b). However, pharmaceutical manufacturers' commitment to online advertising has been growing and is expected to continue double-digit growth to slightly less than $2 billion annually by 2015 (Iskowitz, 2011). Although these totals have greatly increased since the early 1990s, the amount spent has held relatively steady at approximately 10–12% of sales (Congressional Budget Office, 2009).

While the four traditional marketing mix variables—product, price, place, and promotion—can be examined from the company's, or seller's, point of view, they can also be examined from the end user's or customer's perspective. Regardless of whether it is a tangible product or intangible service, the customer seeks an answer or solution to a problem. For example, a customer who goes to the pharmacy to pick up blood pressure medication is there to retrieve a medication as well as improve his or her health and reduce risk of future cardiovascular problems. The customer might only slightly consider the pricing strategy of the company, but greatly considers eventual out-of-pocket costs and how to find the greatest value. For place, whereas the company concentrates on how best to set up its supply chain and distribution channels, the customer is primarily concerned with access to the product or service and the convenience of that access. Last, as a company considers a multitude of factors in deciding how to promote its products and services, a customer focuses on the clarity, quality, and integrity of the communication. Given that the traditional marketing mix variables can be examined from both the seller's and customer's perspectives, the company that best balances these perspectives provides itself a distinct advantage in the marketplace.

SEGMENTATION, TARGETING, AND POSITIONING

How does a company decide which customers it should target? Wouldn't a company want everyone to purchase its product or service? Are the needs of a 32-year-old mother of three different from those of a 70-year-old retired grandfather? How should the young mother view the company and its product or service? The next set of marketing variables answers these questions: segmentation, targeting, and positioning. Marketing professionals continuously monitor and analyze these variables to be sure companies are serving the needs of the target customers.

Segmentation is breaking down a mass market that includes all individuals into a variety of segments, or fragments, of the population who have similar characteristics. Typically, in a defined market segment, the customer group has a relatively homogenous profile of personal characteristics, common needs and wants, and, theoretically, similar responses to specific marketing messages.

A specific customer group could be segmented using numerous characteristics. The two most common characteristics are the following (Kotler & Keller, 2011):

- *Demographic*. These segments are based on personal characteristics such as age, gender, race, religion, occupation, and income level. Although all companies, including pharmaceutical manufacturers, pay attention to demographic variables, the key is not to use these variables as the sole basis for analysis. For example, a pharmaceutical product class such as oral contraceptives is primarily designed for women of childbearing age, but the products have alternative approved uses, such as acne treatment, and marketers would be unwise not to consider these possibilities and only market the product based on its primary indication.

- *Geographic*. Given the geographic variability in the United States, companies can easily segment and then analyze a market based on its geographic location. For example, customers located in urban versus suburban versus rural settings have unique needs, as do those living in "Ski Town, USA" (Steamboat Springs, Colorado) compared to customers living in Miami, Florida. The various needs and wants of customers in China, the fastest growing and now third largest pharmaceutical market worldwide, are greatly different from those of customers in the United States, where growth has slowed down and begun to plateau (Gatyas, 2010).

Numerous other ways to segment a market exist, including basing segmentation on customer lifestyle, motives, personality, price sensitivity, and level of brand loyalty.

Once marketers have sufficiently segmented the market into groups most likely to respond positively to the company's marketing messages and eventually purchase its product or service, they must then decide which of those groups they want to focus on or target. **Targeting** is picking which segment of the population to market the company's products or services to. The decision revolves around the company, its specific products or services, and the company's ultimate strategic goal. Does the company want to focus its efforts on the most potentially profitable, largest, or most easily reachable segment? For example, physicians who prescribe medications can be segmented by specialty. A pharmaceutical manufacturer might then identify a segment of cardiologists in the major metropolitan areas of the southeastern United States to target its communications to. Further, the manufacturer might specifically focus on cardiologists in that segment who are classified by marketing research as "early adopters," or those who traditionally respond to marketing messages and are early prescribers of new medications.

Based on their segmentation and targeting data and analysis, companies then decide where they want to position their product. Essentially, a company must decide what it wants the customer to think of its product or service or what position the product occupies with respect to the competition. For example, in its very popular and successful "Mac vs. PC" advertising campaign, Apple famously positioned itself as the much more user-friendly and problem-free computing solution compared to a personal computer running Microsoft Windows. In the pharmaceutical industry, **product positioning** is also very important in marketing over-the-counter (OTC) medications. For OTC medications, consumers can

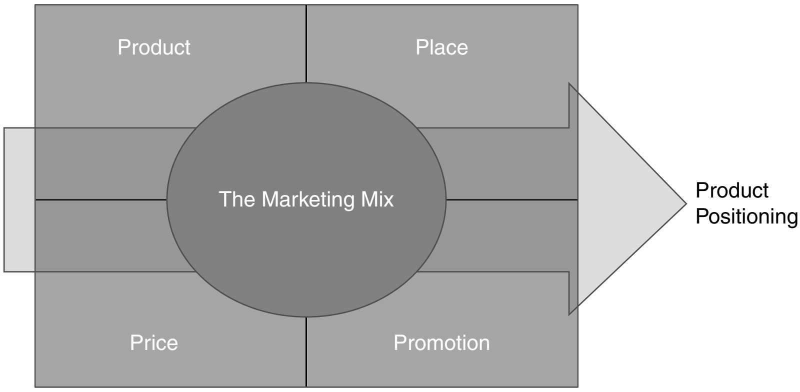

FIGURE 1-4 Product Positioning

easily recognize competing products. Thus, marketers for Claritin (loratadine) work strategically to place it in consumers' minds as the most effective, nonsedating antihistamine (**Figure 1-4**).

THE MARKETING PLAN

All of the strategies, including the four Ps and segmentation, targeting, and positioning, come together in the **marketing plan**. The marketing plan is the single document that holds all the research, strategy, and forecasts for a company and its products/services. The document itself could focus specifically on one product or service or be the company's overall marketing strategy document. For example, with only four product offerings, Apple could put together marketing plans for each individual product (iPod, iPad, iPhone, and Mac computers) or combine plans into one overall marketing planning document.

Pharmaceutical manufacturing companies typically employ product managers to be responsible for the details of a particular medication. The product manager and his or her team usually assemble marketing plans for the specific products they oversee. Although reprinting a real company's pharmaceutical marketing plan would be the best way to demonstrate marketing plans, the information contained in such a document is highly confidential. Instead, **Table 1-1** provides a comprehensive template based on firsthand experience with pharmaceutical manufacturer marketing plans and their development.

Table 1-1 The Marketing Plan

Phase	Areas of Review	Description
Executive Summary	Overview of the marketing plan	Highlights key areas, decisions, and expected outcomes.
Situation Analysis	External environment	What regulatory, political, economic, or social issues can affect the product? Will the product be marketed globally? Is new technology being implemented? How rapidly is the technology changing?
	Internal environment	What are the mission, corporate vision, and strategic intent associated with this product? How does this product fit with other products/brands within the corporation? What are corporate plans, long-term goals, and objectives (profits, return on investment, share price)? How will the product be managed within the organization (e.g., organizational chart)?
	Product and category review	What is the product category, its background, development, technology, stage in adoption and diffusion, and product life cycle, and where are these variables heading? What are the nature and characteristics of consumer demand for the product? What are the sales trends associated with the product category (e.g., total sales, regional sales, year-over-year growth, seasonality, and competitive market share)? What are current pricing trends, and how will these affect brand development and profit potential?
	Competitive analysis	What is the overall view of and degree of competition in the product category? Describe the major competition, its strengths, and weaknesses from a marketing perspective, such as the product itself (benefits), its pricing, and distribution. Where is the competition positioned in the minds of purchasers? What are the trends in advertising (e.g., media spending, sales promotions, targets)? Are there new developments expected from the competition, such as product improvements, changes in distribution, pricing, or advertising?
	Consumer analysis	Who are the customers or buyers? What influences purchase decisions? What are the demographic, epidemiological, or psychological characteristics that affect purchase decisions? Is there loyalty for existing brands?

Phase	Areas of Review	Description
	Brand review	For existing products, what are the current positioning, sales trends, and pricing history? Where is the product in the product life cycle? Are there new areas of business that have been identified?
Problems and Opportunities	Strengths, weaknesses, opportunities, and threats (SWOT)	Evaluation of the internal strengths and weaknesses of the corporation, brand team, or product. Similar evaluation of the external opportunities and threats posed by competition. Assessment of the problems and opportunities created by this analysis. What does this SWOT analysis mean to the company, the product, and even the competition? What are the competitive advantages and disadvantages?
Strategic Planning	Marketing objectives and strategies	Define high-level marketing objectives such as sales, market share, or formulary status. What strategies will be employed to achieve the marketing objectives of the firm?
	Targeting and segmenting	Who are the customers? What are the characteristics of the market segments? Do customers have similar needs? Are they accessible?
	Identification of competitive advantage	Based on the SWOT analysis, what competitive advantages exist?
	Positioning	Define the desired position for the product in customers' minds.
Marketing Mix Objectives, Strategies, and Tactics	Product	How will the product be managed? How will product data and information from production, research, and development shape marketing mix decisions?
	Place	What are the objectives with regard to market penetration, where the product will be sold, value-added services associated with the product? How will the product be distributed?
	Price	What are the pricing objectives, strategy, and tactics?
	Promotion	What forms of promotion will be employed? Personal selling? Advertising? DTC advertising? Will sales promotions be used? What role will packaging have on promotional issues?

(*continues*)

Table 1-1 The Marketing Plan (*continued*)

Phase	Areas of Review	Description
Control, Evaluation, and Feedback	Forecasting and benchmarking	What are the expectations for the product? Are there competitors or other products that can be used to set success metrics?
	Budgeting	Assessment of marketing budgets and achievement of goals and objectives.
	Scheduling and timing	Setting time frames for evaluation of success.
	Evaluation and feedback	What results are being achieved? How does success or failure affect current plans, strategies, tactics? What needs to change or remain the same?

MARKETING EFFECTIVENESS

One way to assess whether a company successfully practices marketing is to assess its overall level of marketing effectiveness. Marketing effectiveness is a measure of how well a firm understands and practices marketing and is assessed on a continuum, from no marketing effectiveness to superior marketing effectiveness. Marketing effectiveness is based on five dimensions, including a firm's degree of holding to a customer-oriented philosophy, strategic marketing orientation, ability to gather relevant and timely market intelligence, level of integration of the marketing organization, and operational efficiency (Kotler, 1977).

Customer and Strategic Orientation

Successful marketing in any industry, including the pharmaceutical industry, is based on being able to meet customer needs. Marketing, and the effectiveness of the marketing campaign/program, is highly dependent on knowing, analyzing, and meeting customer needs as opposed to a singular focus on the product or general sales. The key evaluative criteria look at the company from its mission statement all the way to its day-to-day customer interactions. Is the mission statement customer centered? Does the company respond quickly to customer issues or distress?

From a strategic point of view, the marketing professionals in a company must function with the long-term strategy and success in mind. This typically takes the form of formal marketing planning and a culture of strategic, long-term thinking. Further, does the company have a strategic contingency plan in case the product or service is not adopted in the marketplace?

CASE IN POINT 1-9

Product Failure: Pfizer's Exubera

In 2006, Pfizer introduced a product it thought would transform the diabetes market and better the health of patients. The new product, an inhalable insulin called Exubera, enabled patients to get insulin without having to inject themselves. However, the product, originally invented by Nektar Therapeutics, was large, inconvenient, and hard to dose and, thus, never gained any momentum in the marketplace. In October 2007, after only achieving $12 million in sales during the previous 9 months, Pfizer voluntarily removed Exubera from the market. Pfizer had invested $2.8 billion into marketing Exubera (Weintraub, 2007).

Market Intelligence

To serve customer needs, a company and its marketing professionals should have as much objective information regarding its status in the marketplace as possible. In addition to having the necessary information for planning and resource allocation from their own internal data and sources, key decision makers should also have at their disposal up-to-date information about the external market. Information regarding customer perceptions, buying habits, and attitudes is vital, but one of the most important pieces of market intelligence is data and analyses of the competitive environment (i.e., the competition). Within the extremely competitive marketplace of the pharmaceutical industry, and specifically the generic pharmaceutical industry, where price, consistency of supply, and the ability to offer a "full line" of products are the primary components affecting purchasing decisions, gathering competitive market intelligence is a daily task.

Organizational Integration and Operational Efficiency

The last two marketing effectiveness constructs go hand in hand in execution and level of importance. Based on the competitive intelligence the company gains, a company must react in an integrated and efficient manner to maintain its level of customer service and, if necessary, adjust its strategy. Integration focuses on how well marketing and other departments in an organization communicate and work together. For example, if broken machinery in the production assembly line is going to delay product delivery for a week, the organization must be integrated well enough so that manufacturing notifies all departments involved to ensure customers are notified and forecasts and strategy are adjusted on the fly.

Operational efficiency speaks to how effective the organization is at its business. How well are the decisions made at the higher levels of marketing filtered throughout the organization? How responsive is the marketing department to problems and issues? Most important, how responsive is the organization, and marketing in particular, to customer requests for any type of information or product?

Evaluating an organization's marketing effectiveness gives insight into a company's day-to-day operations and how well the company functions. If a company is found to have a good to superior level of marketing effectiveness, from a sales perspective this should logically translate into a highly successful organization. However, a company could be run in a nearly perfect manner and be vastly superior to its competitors with its level of marketing but achieve little sales success. Numerous internal and external factors affect how well a company performs in the marketplace, and although a high overall level of marketing effectiveness is a positive for a company, it does not guarantee sales success.

SUMMARY

This chapter shows that marketing is not just a single advertisement or public relations campaign; it is a continual process of creating value for customers and meeting their needs. Through managing and manipulating the four primary marketing mix variables (product, price, place, and promotion), identifying appropriate customers (segmentation and targeting), and placing the desired product or service image in the minds of those customers (positioning), pharmaceutical marketing professionals put their companies in a position to succeed.

DISCUSSION QUESTIONS

1. Who are the different customers of pharmaceutical manufacturers? How are needs, wants, demand, and value different for each?
2. How do pharmaceutical products differ from other consumer goods in terms of product benefits and product selection?

3. Does a lower price always attract customers to a pharmaceutical product? What other factors might a consumer weigh when deciding whether to purchase (and eventually take) an OTC medication? Prescription medication? Community pharmacy buying medications from a pharmaceutical manufacturer?
4. Explain why having prescription pharmaceutical products available in both traditional, community-based pharmacies and mail-order outlets can be a good strategy from a target marketing perspective.
5. In regard to the use of direct-to-consumer (DTC) prescription advertising, assume it is widely accepted that patients (consumers) simply do not have sufficient knowledge to understand DTC ads. Should this assumption be enough to discourage pharmaceutical companies from using this form of advertising? Why or why not?
6. With physicians as the customer base of choice, how might pharmaceutical manufacturers segment physicians into groups?
7. Based on the information presented, does a high level of marketing effectiveness equal sales success? Explain.
8. If pharmaceutical pricing was transparent for all customers at all times (in particular the price actually paid for the product by the pharmacy), how might the market, specifically consumers, respond?
9. Given the various promotional strategies discussed, how might a pharmaceutical manufacturer choose to market a new brand product within a market of few competitors? Numerous competitors?
10. In the generic pharmaceutical marketplace, where products are viewed as commodities (interchangeable), how might a generic company choose to promote its products?

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