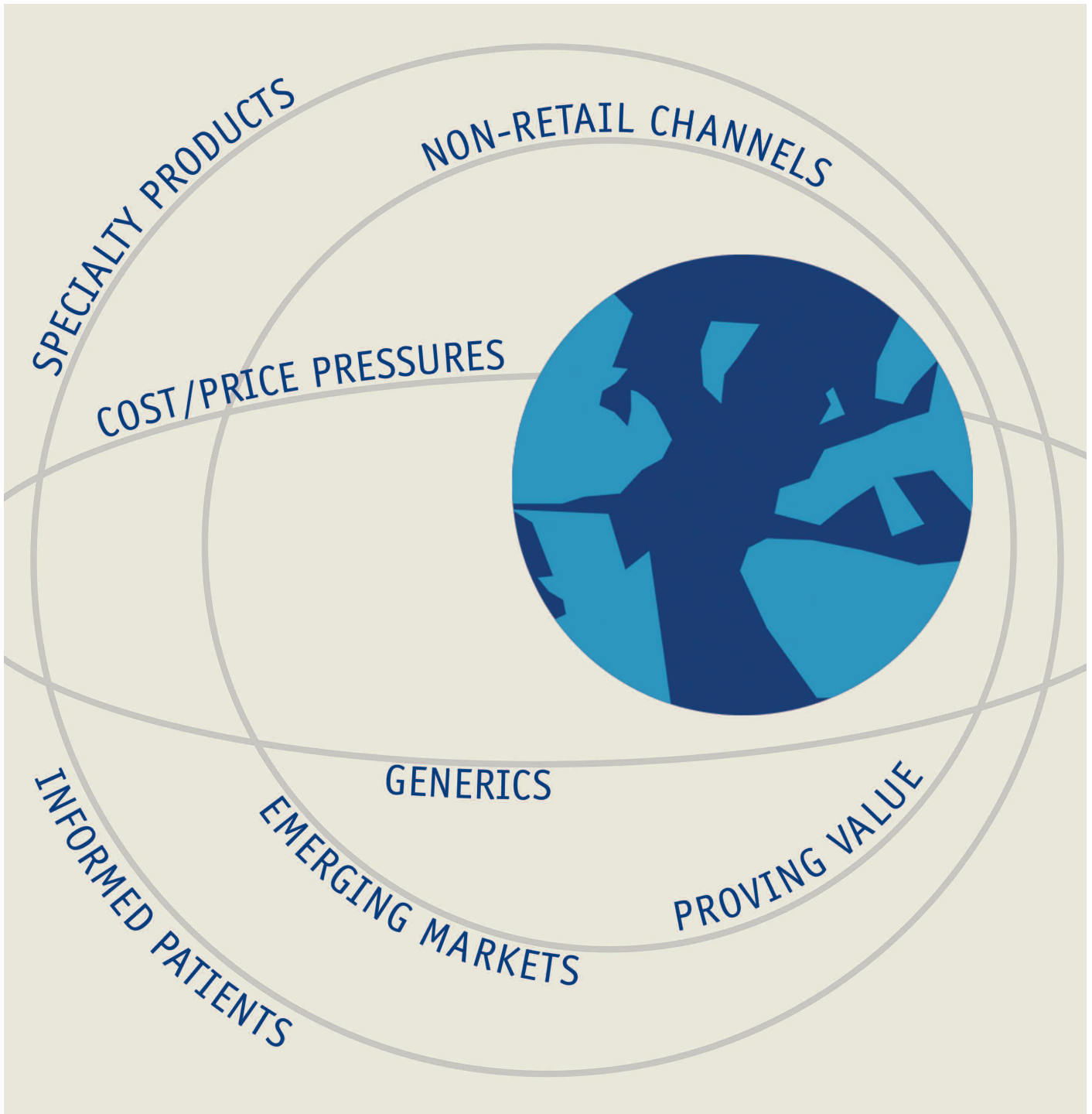


PharmaComplexity: the need for new models and metrics





Introduction

Never has healthcare been nearer to the top of the world’s agenda as it is today.

Established markets struggle to find the path to value-driven healthcare, to make budgets stretch through a variety of cost control measures. Emerging markets are gathering pace on the outside, growing at exceptional rates and re-engineering their healthcare systems to spread the benefits of newfound economic prosperity.

In seeking to navigate this environment, pharmaceutical companies face fresh challenges every year – including the changing nature of product portfolios in the wake of scientific advances, a new raft of hurdles to reach the market and the pressures of an ever more engaged patient.

Never has healthcare been so complex. Healthcare markets have always been sprawling networks impacted by interconnected, interwoven trends and drivers of change but today’s sheer complexity is unprecedented. Companies working in this arena – often themselves enormous organisations with thousands of employees across the world – are experiencing problems predicting even near-future market dynamics.

Managers, however, are rising to the challenge, constantly adjusting or developing entirely new models to make sense of the healthcare space and find the path to success.

Never have companies been more in need of new metrics to support these fledgling models to be sure they are making the right decisions.

The first step in making sense of this complexity is to extract the crucial, underlying trends that drive healthcare markets and, thus, the reactions of healthcare companies. From the tangle of trends, sub-trends, drivers and dynamics we have drawn out seven key threads – the critical elements that impact every healthcare market and healthcare company in the world.



TRENDS

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Emerging markets emerge

A seismic shift is taking place in the economic markets of the world; a geographical swing away from the powers of old – the US, Japan and Top 5 Europe – to the new, emerging markets of China, India, Brazil, Russia and others.

In 2005, for the first time in history, emerging economies accounted for more than half of global GDP growth and more than half of absolute growth – an important signpost to the direction of the healthcare business over the next 10–20 years.

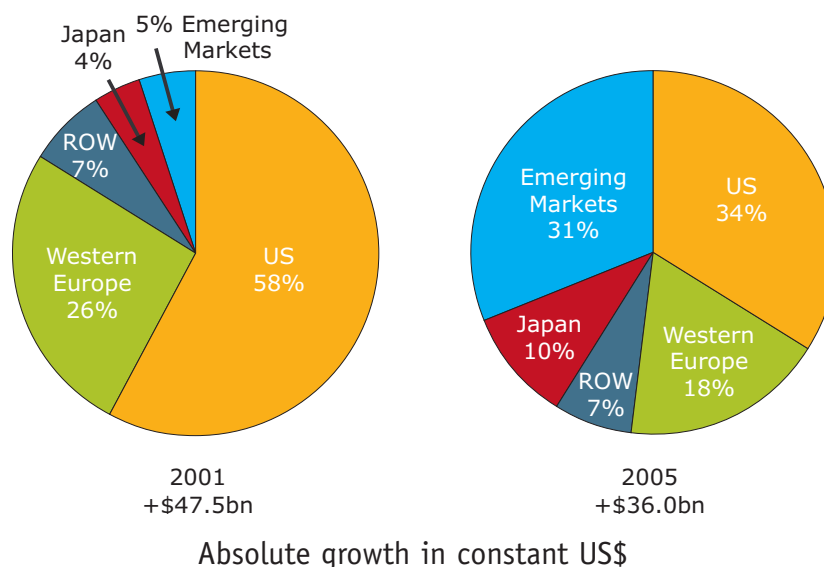
The dominance of the US and larger markets continues – the top ten accounted for 81% of the total world market in 2005. However, as overall growth continues to slow – down to 7% in 2005, its lowest rate for ten years – emerging markets are taking up the slack, accounting for one-third of that growth compared to

Managers are asking not just how they can enter and flourish within emerging markets but how they can do so whilst maintaining their strength elsewhere.

only 5% five years ago. Within that segment, six markets accounted for nearly two-thirds of the growth – Turkey, Russia, China, Brazil, Mexico and India – and seven of the leading ten countries in the emerging market group are growing in double-digit figures. The biggest potential rewards are those seen in China, predicted to have the largest economy by 2040. Already a \$12bn pharmaceutical market today, it is set to be the seventh largest by 2010.

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EMERGING MARKETS GREW OVER SIX-FOLD FROM 2001 TO 2005



Source: IMS MIDAS, MAT Dec 2005



Emerging markets emerge *continued*

The incentives for any company to enter or expand in these emerging markets are evident, but success will depend on the skilful and simultaneous application of successful practices from core markets while adapting to the particular healthcare characteristics of each local situation.

First, reliable market measures – critical to developing geographical expansion plans – are only just starting to emerge. These measures paint a very varied picture. While many emerging markets have some similarities – especially the dominance of generics and cash-strapped public healthcare systems – all are at different stages of evolution. As the embryonic metrics evolve, analogues and expertise on the ground will continue to be the key to informed decision-making.

Emerging markets are dynamic and liable to rapid change. South Korea, for example, experienced the separation of prescribing and dispensing in the space of two years causing a radical shift in the market and increasing the number of prescriptions written. Companies had to rapidly and fundamentally redesign their business models as doctors lost revenue from dispensing and responded differently to detailing.

Similarly, China is a market that abounds with challenges – from its sheer size and looming demographic changes, to the large disparity between its 650 major cities. Here a local understanding of critical issues, such as the shift from the major (Tier 1) cities to the prospering mid-size and smaller (Tier 2 and 3) cities, is necessary to optimise opportunities for growth.

With emerging markets taking more of the global share each year, no multinational pharmaceutical company can ignore them. Managers are asking not just how they can enter and flourish within these markets but how they can do so whilst maintaining their strength elsewhere.

The incentives for any company to enter or expand in these emerging markets are evident, but success will depend on the skilful and simultaneous application of successful practices from core markets while adapting to each local situation.

To answer these crucial questions around investment and resource allocation, companies need reliable information and market measures from experts on the ground; people who understand the country, the government and the systems. Such expertise will facilitate forecasting and improve tracking of the market evolution and impact of policy change, allowing optimisation of resources. For companies used to working with reliable market measures in developed markets, the nascent metrics and reliance on local expertise and consulting skills will underpin entirely new ways of understanding markets and their dynamics.

There is risk, of course, but no company can overlook such a rich source of potential future growth. Those that do not move rapidly to design appropriate operations in these economies of the future will find themselves competing in an ever shrinking part of the market.

Increased pressure on costs and pricing

There has been much debate on the impact of cost-containment and market access restrictions over the past two decades, but only in the past two or three years have measures introduced by governments and payers really hit hard.

Similarly, the pharmaceuticals budget also remains an easy target for cost-cutting payers – in spite of accounting for less than 15% of overall healthcare spending.

Setting the price of innovative medicines has never been a simple matter – but in an ever more complex and cost-constrained environment, it is becoming increasingly difficult.

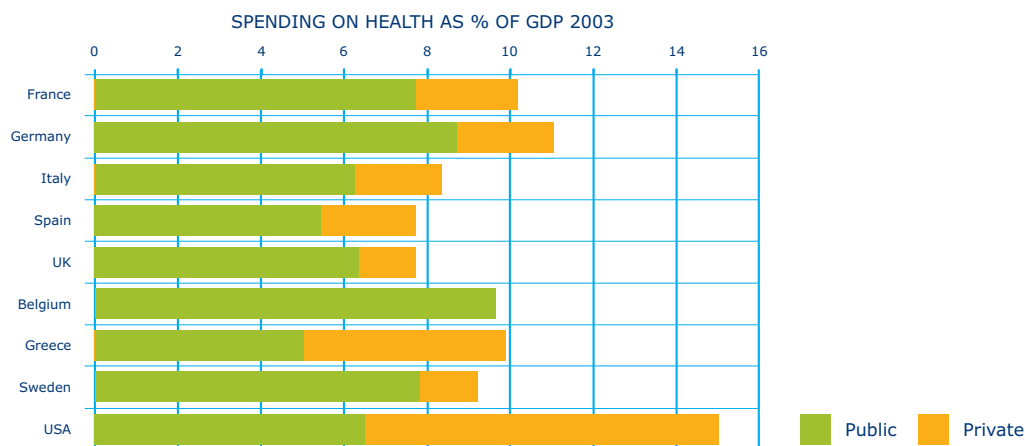
Innovative companies are starting to rethink their pricing strategies – questioning the mantra of premium pricing and really considering how to maximise the area under the curve. With market access, speed of access and drug uptake increasingly driving new product sales, a premium price that delays product launch can become a costly bottleneck. Clearly, a balance must be struck between a product's price and potential market access issues.

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Smart companies are also seeking more sophisticated product positioning to improve market access, starting much earlier in the lifecycle with the right studies, indication, patient cohort and target outcomes. In many markets, reference pricing by payers presents a hurdle to pricing strategies. Companies launching a product in Germany, for example, run the risk of having their exciting and innovative product being grouped into a class where its price is controlled by that of other members of the category.

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LEVELS OF HEALTHCARE EXPENDITURE ARE INTENSIFYING EFFORTS TO CURB DRUG COST GROWTH



Source: OECD



Increased pressure on costs and pricing *continued*

Even when a product is truly ground-breaking, in a class of its own, there are no guarantees of market access and fast uptake. Herceptin is just one example of a genuine breakthrough in its area that encountered considerable problems in accessing the market, both in the UK and New Zealand.

In the end, it is a balance between price and market access issues, trading off one against the other, finding the right mix for each product, with the focus firmly on optimising revenue. Good management of these trade-offs and tailoring of strategies for individual products and individual markets are essential.

Market access also links clearly to the increasing need to prove a product's value to payers through evidence-based health economic evaluation and real world outcomes.

Many companies bring a product to market with something to offer patients and priced at a reasonable level, yet fail to demonstrate sufficient value to clear the many hurdles to market entry.

There must also be a focus on post- as well as pre-launch pricing, with better models for discounting. In highly competitive markets, or those with compulsory discounts on hospital-dispensed products, companies must be wary of tactical pricing practices which can result in discounted products 'bleeding' into retail pharmacies or even international markets as parallel trade.

Although prices are converging in the major European markets, there are still significant incentives for cross-border trade. The greatest success in constraining parallel trade – borne out by Bayer's Adalat case – has come from better control of the supply chain, rather than changes to pricing strategies.

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Companies need to accept that a revenue-optimising pricing strategy is based on a rigorous body of compelling evidence about the value of a product – evidence that needs to be adapted to the various individual requirements of different markets while not providing disparities which undermine the outcome.



An ever more generic world

In the complex and uncertain healthcare space, there is one trend that surmounts all others – the desire of payers to get as much bang for their healthcare buck as they can. In addition to putting pressure on pricing, and evaluating access via health technology assessments, payers are increasingly advocating the use of generics.

The generics sector of the market is expanding rapidly – growth rates have remained double-digit in the top eight markets and outperformed total market growth for the last four years. Generics volume has increased by 46% in seven key markets over the past five years, with generic medicines becoming the first-line option in a growing number of therapy areas. Over 70% of new patients in the UK, for instance, are prescribed generic simvastatin to control their cholesterol levels.

Some large therapy areas are already moving to become predominately generics classes – in volume terms the oral anti-diabetics are 64% generic; oncology 59%; platelet aggregation inhibitors 58%. Many others are creeping in the same direction – calcium antagonists are 47% generic; anti-ulcerants 38%; and cholesterol reducers 25%.

In many countries, generics are already the largest sector of the pharmaceutical market by volume. With the generics segment accounting for US\$50bn of the US\$110bn unprotected market (7 key markets, MAT June 2006) there is only one question in the minds of pharmaceutical managers – should we be in the generics game?

Companies are under pressure, challenged by the need to maintain healthy growth with their existing portfolio and relying less on launching new products. Yet all brands are vulnerable as they edge towards loss of patent protection, not just on the basis of imminent patent expiry but also according to their position within the class. Many of the great blockbusters of the past decade are maturing, bringing their own impact on the pharma industry and feeding the growth of the generics industry.

Even biotech products are not immune from the potential loss of protection despite the complex science

Pharmaceutical managers need to get to grips with the underlying trends that are driving the different segments of the market and the way these interact with each other.

and sophisticated manufacturing processes. Biosimilars – generic biotech products – became a reality with Omnitrope’s launch in Australia. Omnitrope also opened the biosimilar doors in Europe following its launch in the region, and in the US with its recent FDA approval.

Portions of the entire pharmaceutical market are changing, driven by new business needs and new metrics to help deliver them. Patents are no longer the only way to protect a product and the market is increasingly being mapped as a continuum that includes innovative, generic and even OTC products. New metrics are segmenting the generics market into branded, company-branded and unbranded generics to make sense of the complexity and create continuity and consistency across countries. This new approach provides a much clearer picture of the market, allowing portfolio and market strategy decisions to be based on more accurate, yet flexibly-defined information.

The generics market, largely ignored by Big Pharma in the past, is of increasing interest. Pfizer is now talking about its generics business at investor meetings – a business that received a significant boost after its merger with Pharmacia and which ranks among the largest generics enterprises. Other top-tier pharmaceutical companies are re-evaluating their portfolio mix, asking whether there is a place for generics. Hybrid models have been adopted by Novartis and sanofi-aventis with

Continued on the next page.

An ever more generic world *continued*

new metrics providing insights on the contribution by generic products to the portfolio of each of these companies.

For companies considering the generics option there is a need to recognise the very different nature of the business model for generics versus branded products, and the much lower profitability level typically associated with generics. Any pharmaceutical manager reviewing their business model and the potential role of generics must therefore think not only in terms of “sales” but also in terms of “profitability”.

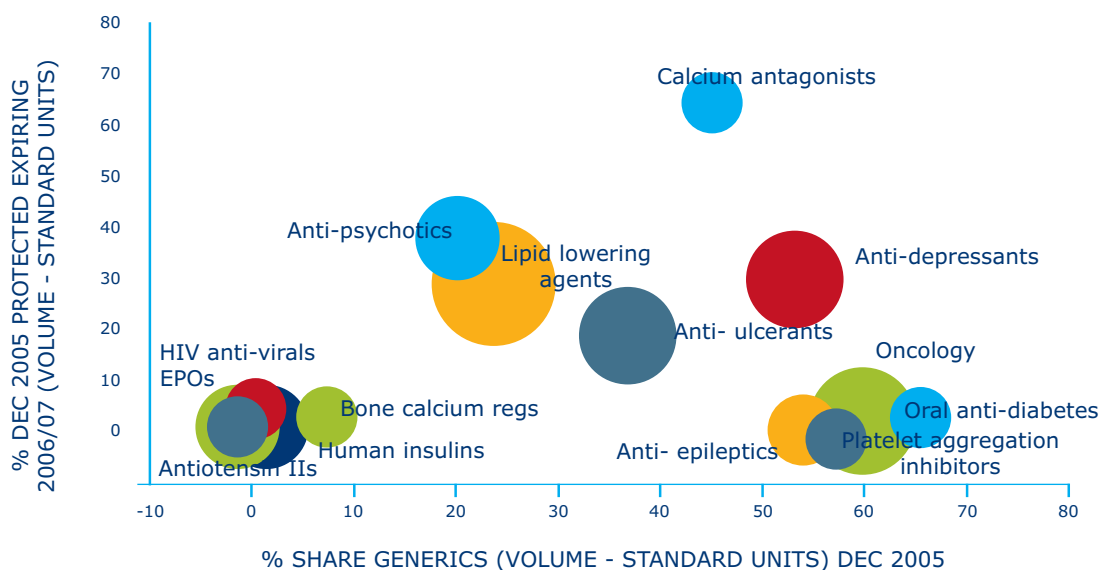
The new view of the pharma market without the traditional silos has also been grasped by generics companies. They are already dipping a finger into the innovative pool by holding R&D Days for investors, and this repositioning will continue.

Competition remains intense in the generics market, particularly in the US with a raft of companies

competing on price. In Europe the market is less intense and less focused on price, but the challenge still exists to sustain profitability with so many companies in the generics space. The emerging markets – particularly India with its array of generics companies – will also play an increasingly important role, placing pressure on the market through increased competition.

The problem for many companies struggling with the decision of whether or where to play in the generics world is the poor understanding of the sector and the confusing array of products within it – authorized generics, copy products, branded generics, off-patent brands... the list goes on. Pharmaceutical managers need consistent, benchmarked market measures. They need to get to grips with the underlying trends that are driving the different segments of the market and the way these interact with each other. As interest in this sector intensifies, such metrics are emerging, providing a better and more rounded picture of this complex, dynamic and fast-moving part of the market.

STRATEGIC CLASSES ALREADY HAVE SIGNIFICANT VOLUME EXPOSURE TO GENERICS WITH MORE IN 2006 AND 2007



Source: IMS MIDAS New Market Segmentation (7 key markets; Rx only)

The rise of the speciality product

A dynamic shift is occurring in the make-up of pharmaceutical portfolios: R&D pipelines are increasingly generating products where treatment is initiated by specialists in clinics and hospitals, rather than by primary care physicians. The impact is seen most starkly in their increasing contribution to market growth and the concomitant changes forced onto distribution systems.

An analysis of the nature of products reaching the later stages of development sees specialty pharmaceuticals dominating the near future. The past ten years have shown a 50:50 split between primary care and specialist-initiated products – this is expected to shift to three quarters specialty and one quarter primary care going forward.

These specialty pharmaceuticals are not the niche products of the recent past – the number of specialty blockbusters has risen from 10 to 46 between 2000 and year to June 2006 – and the implications of this countervailing shift for pharmaceutical managers are many and varied. Clearly, however, a portfolio dominated by specialty products will require a markedly different approach to a primary care-focused portfolio.

Primary care blockbusters still account for the majority of market volume, but growth in the market is driven by specialty. In the year to June 2006, specialty products contributed 61% of absolute market growth. Nowhere is this performance more striking than in oncology, a therapeutic area that is currently enjoying spectacular growth – reaching nearly 22% in the year to June 2006 – as well as delivering the promise of improved outcomes for millions of patients.

While numerous factors have contributed to this shift, many point to the maturity of biotech or the declining validity of the me-too primary care strategy in the face of increasing pressure to demonstrate clear patient

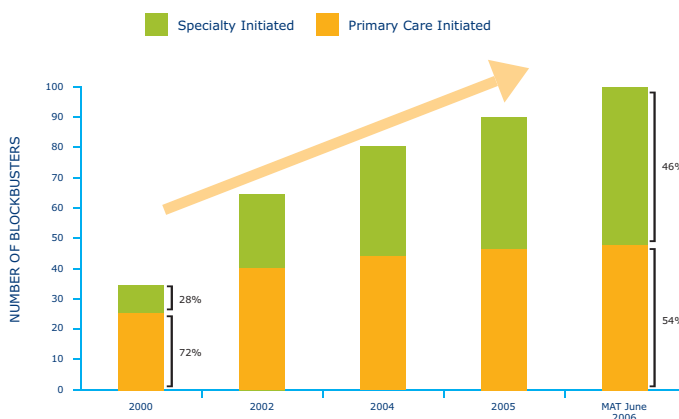
The shift is real, but are companies ready for the repercussions? Are they modifying their business practices fast enough to keep up with the changing portfolio?

benefit and economic value. The knock-on effects are several.

Many specialty products require challenging, specialised distribution and dispensing channels, including cold storage or even home-based counselling to help patients understand and adhere to their treatment. Some companies are already seeking innovative, sometimes proprietary approaches but others lag.

Continued on the next page.

THE TREND TOWARDS SPECIALTY-INITIATED PRODUCTS IS GROWING



Source: IMS Health Consulting; IMS MIDAS, MAT June 2006



The rise of the speciality product *continued*

The greater risk of side-effects from specialty products requires more sophisticated monitoring processes and efforts to ensure that prescribing is as appropriate as possible. At a time when patient safety features prominently on the healthcare agenda, the shift to specialty products will require an entirely new approach to risk. Specialty products with fewer patients will need to demonstrate health-outcomes benefits to offset their potentially higher ratio of side-effects per patient than a typical primary care initiated product.

The shift is real, but are companies ready for the repercussions? Are they modifying their business practices fast enough to keep up with the changing portfolio? Large pharmaceutical companies have often been characterised as slow-moving behemoths, preferring to stick to tried and tested methods. The speed with which new models can be developed and implemented is therefore a key question.

Specialty products mean a focus on new and fewer physicians and patients. This requires a complete redesign of the sales and marketing model that places greater emphasis on direct engagement with select providers and patients rather than, for example, a reliance on direct-to-consumer advertising.

Companies are already developing new models to manage these dynamics, including the use of clinically-trained reps and key opinion leaders to reach and influence these prescribers. While these techniques are not new per se for Big Pharma, their use to date has been limited to a small number of products – they will now need to be applied more broadly.

Slower-moving companies that have not addressed the sales and marketing issues, including their relationships and position with payers, risk finding doors that are shut once they set their direction.

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The growth of non-retail distribution

Nowhere in the current healthcare environment is the increased complexity more evident than in the channels that move products from manufacturer to patient. The ground under the feet of wholesalers and chain pharmacies turns out to be shifting sands as we see a proliferation in the ways of dispensing and distributing pharmaceutical products.

Driving an upsurge in ‘non-retail’ channels, such as home healthcare, mail order and internet pharmacies as well as increased prescribing in hospitals and clinics, is patient demand for convenience and lower cost. Cutting out the middleman and delivering direct-to-patient achieves this, and new enterprises are springing up to meet demand, as well as hospitals offering more in- and out-patient dispensing.

Mail order is one channel that is booming. Its success in the US – where 15% of prescription sales are filled via this route – is starting to replicate across Europe. Mail order offers a range of benefits to all parties: patients enjoy cost savings and, particularly important for the chronically ill and immobile, the convenience of home delivery; payers benefit from a package price; and manufacturers have the potential to add value to their product and retain control of distribution.

Additional factors that are influencing the shift towards non-retail channels include the requirements of the new

Mail order offers a range of benefits... and manufacturers have the potential to add value to their product and retain control of distribution.

breed of specialty products and the desire to build direct relationships with patients.

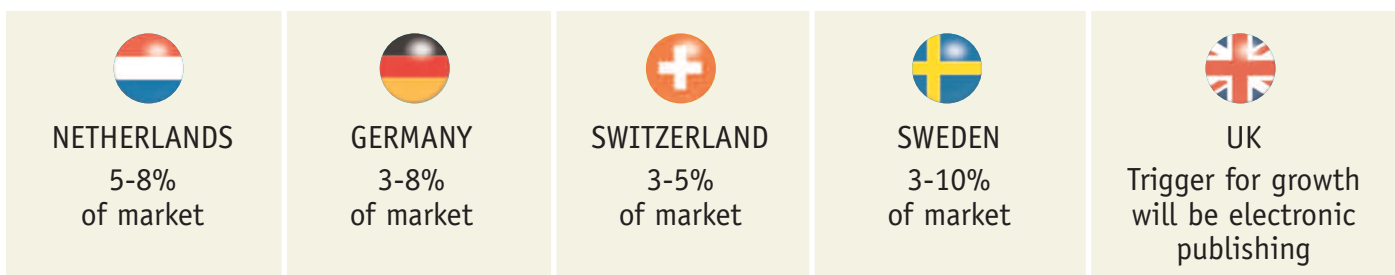
The profile of specialist products (eg, storage requirements, specialist administration, iv delivery, etc) has increasingly driven new distribution and dispensing routes that are independent of wholesaler channels.

Home healthcare has received particular attention in Europe in recent months following the announcement that the anti-tumor necrosis factor therapies Enbrel and Humira would be distributed exclusively through home healthcare providers in the UK and the Netherlands. This direct channel completely bypasses the traditional wholesalers and middlemen in one of the fastest-growing therapy classes in healthcare.

However, in specialist markets like anti-TNF, distribution pathways are highly variable by country.

Continued on the next page.

PROJECTED OUTLOOK FOR MAIL ORDER IN EUROPE



Source: IMS Health



The growth of non-retail distribution *continued*

The UK and Netherlands scenario is by no means universal across Europe –in Spain, for example, all anti-TNF products are distributed through hospitals. This only underscores the crucial importance of constantly tracking non-retail channels across all markets.

Another key driver of the shift towards non-retail channels is the desire of manufacturers to form closer relationships with patients. Such relationships can be mutually beneficial as information is exchanged both ways, compliance is reinforced and collected data can be analysed to constantly improve delivery of care.

In this fast-moving environment where no two markets have the same channel mix or growth trends, companies must consider not only their business challenges but also patient needs when selecting the best distribution channel for their individual products.

Despite the benefits and many possibilities offered by home healthcare – including exclusive contracts with providers and specialty pharmacies – the relationship with prescribing doctors is still a crucial one. Marketing departments need to be mindful of the fact that it is doctors who arrange for patients to receive home healthcare and therefore need the information to make the right decision.

These trends also open interesting options for emerging markets where it might be possible to bypass wholesalers from the very beginning and go directly to a non-retail direct-to-patient model.

Driven as it is by many factors and with such geographical variability, the visible shift away from traditional channels towards non-retail distribution only adds to the increasing complexity of the overall pharmaceutical market. As companies run to keep pace with these distribution changes – and take advantage of the unprecedented opportunities they offer – accurate

and reliable tracking of each emerging and burgeoning channel will become increasingly important for the development of new and successful distribution models.

In this fast-moving environment where no two markets have the same channel mix or growth trends, companies must consider not only their business challenges but also patient needs when selecting the best distribution channel for their individual products.

The informed and empowered patient

Patient power is coming of age. From its first tottering but powerful steps in the US – a movement led by AIDS activists forcing clinical trials to open and HMOs to change their policies on out-of-network consultations – through its adolescence with the advent and adoption of the internet, patient empowerment has matured. As the baby boomer generation consumes more and more healthcare, its members are once again eager to challenge authority and stand up for themselves.

Outside the US, patients are on the move and their activism is forcing payers to reconsider decisions, even on matters of coverage and reimbursement. Sheer patient power from organised advocacy groups has forced a reversal of policy in the UK that restricted access to certain drugs, while patient activism in Canada saw combination therapy for AIDS patients funded, contrary to earlier decisions.

Patients are also becoming consumers as their enforced contribution to the financial burden of healthcare continues to grow. Pharmaceutical products, particularly in the US, are increasingly viewed as ‘purchasable commodities’ by patients. Their purchase choices will strongly affect the market as they decide whether to choose a branded, generic or OTC product, where to buy it, and even whether to buy anything at all.

Patient power is evident on the ground in doctors’ surgeries. Despite the absence of direct-to-consumer advertising in Europe, over half of physicians surveyed in Germany and France report that patients often or frequently ask them about brand name prescription drugs.

There is no doubt that patient power – either in its guise as the informed patient influencing prescribing decisions or as the activist protesting against market restrictions – is a potent force which some pharmaceutical companies are harnessing.

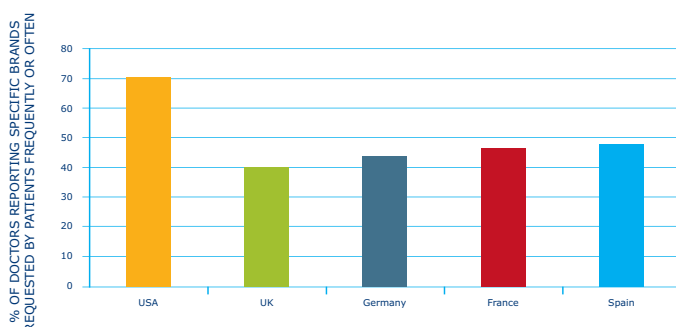
As we have seen so much in the recent past, public relations are going to play a crucial role. The power of PR as a weapon for market access is no more apparent than by its deft use by Pfizer with Viagra. By going straight to the consumer, the company ensured that the little blue pill gained brand value like no other pharmaceutical product. Pfizer has trodden a similar path more recently with its inhaled insulin, Exubera.

On the one hand, patients marching for greater access to new, innovative medicines can only be a good thing. Analyses of patient-level data allow companies to communicate more effectively with patient types, to deliver greater value to responders and to improve compliance and mute safety concerns.

On the other hand, patients – as the ultimate healthcare payer – want good, reliable and low-cost healthcare. Companies seen to be delivering products that offer few additional benefits are unlikely to receive their endorsement.

Clearly, companies need to strike a balance in their relations with the customer-patient to earn the support of loyalists without alienating them.

PATIENTS ARE ASKING DOCTORS ABOUT BRAND NAME DRUGS, EVEN OUTSIDE THE U.S.



Source: IMS/Harris Interactive 2004 Physician Survey

Proving product value

Cost-containment has become a fact of life across the world for most healthcare systems, as populations demand ever rising levels of care. Spending pressures continue to drive payers towards new and more effective ways of rationalising and controlling the flow of medicines, to determine which of the products launched each year brings the greatest potential health value.

Showing real benefit is now a requirement. For pharmaceutical companies, proving the health value of their innovative new medicines is possibly becoming the most challenging task facing them today. Value, however, is in the eye of the beholder and there are many interested parties to convince: payers, patients, prescribers and, increasingly, Health Technology Assessment (HTA) bodies.

The seemingly unstoppable momentum of HTA is reaching a new peak – few major countries remain free of hurdles to market access and the US is now fully in its fold. The implications for a company if its product fails to gain endorsement – or even receives a negative opinion – from an HTA body, are considerable.

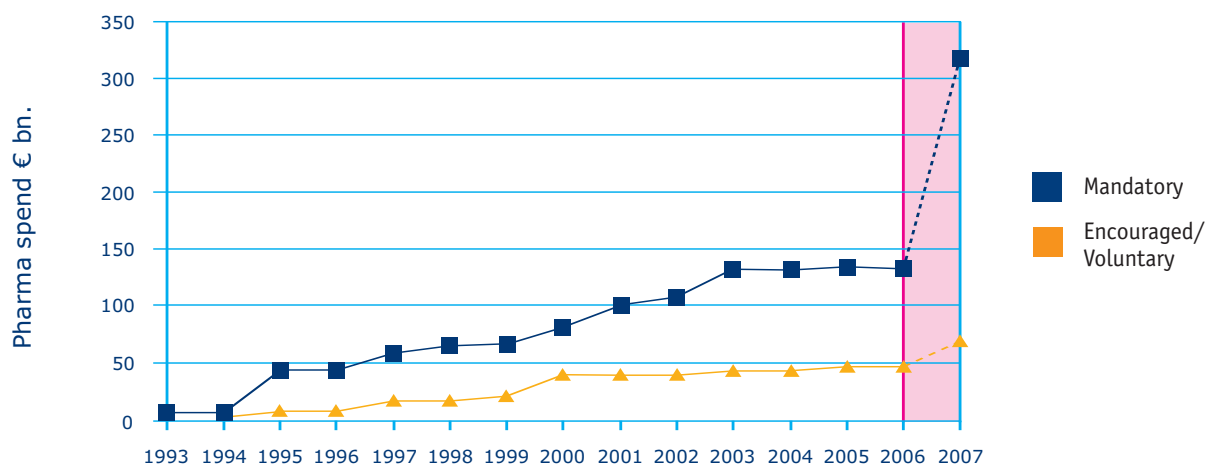
Smart companies are undertaking a fundamental shift in their business organisation to try and meet the needs of HTA bodies, placing health economics and outcomes research (HEOR) at the centre of their decision-making.

With an international consensus for HTA criteria nowhere in sight, companies have the unenviable task of keeping up with the evolving bodies and their varying requirements – around criteria, analytical methodologies, prescribing practices and pharmaceutical costs.

There is also no guarantee that at the end of an HTA review there will be a single ‘winner’. The results are more subtle, with many outcomes possible – HTA

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HEALTH TECHNOLOGY ASSESSMENT (HTA) NOW AFFECTS €140BN OF PHARMACEUTICAL SALES



Source: IMS Health Consulting



Proving product value *continued*

bodies can approve an entire class, as did the Agency for Healthcare Research and Quality (AHRQ) with proton pump inhibitors or, alternatively, advise doctors to use only the innovative products when cheaper ones have proved unsuccessful, as the National Institute for Health and Clinical Excellence (NICE) recommended with Enbrel and Remicade.

Finally, there is always the possibility that they will decide there is no advantage offered by the new drugs, and recommend doctors use the cheapest drug available; a decision reached with zaleplon, zolpidem and zopiclone for insomnia in the UK.

Proving clinical and cost effectiveness, however, is no longer the only essential requirement. After several high-profile safety issues over the past few years, patients are increasingly expressing their concerns over the risk:benefit ratio of their medicines. To win hearts and minds in this debate, companies have to overcome a problem – data collected in the perfect environment of the clinical trial proves much but it does not paint a picture for companies of their product in the far-from-ideal conditions of the real world.

In order to prove the value of a product in the complexity of real-world medicine – particularly in relation to its risk:benefit ratio – companies need to look outside their clinical trials to patient-based information. This is a powerful source that delivers enormous benefits to both companies and payers. New metrics can monitor disease, prescribing and compliance patterns and by matching a patient's condition to their prescription, can be scrutinised for the appropriateness of product choice and reasons for non-compliance.

Through greater understanding and by responding to this information, companies can help to raise standards of appropriate prescribing, thereby ensuring that patients receive the greatest value from their medicines.

There is little doubt that a deep understanding of how a product is used in the real world will become as important as getting it approved, yet companies face a problem – a dearth of commercial databases providing rich patient-level data and experts skilled in applying it. As these data are becoming more available, companies are increasingly able to fully understand and prove their products' value.

Smart companies are undertaking a fundamental shift in their business organisation to try and meet the needs of HTA bodies, placing health economics and outcomes research (HEOR) at the centre of their decision-making on key areas such as go-to-market strategies, go/no-go decisions in R&D and product positioning. Companies rising to the challenge have an HEOR leader who is a respected peer and colleague of the traditional centers of power in a pharmaceutical organisation, including R&D and Marketing leaders, and who also has genuine input into strategy.

A crucial measure of company preparedness in tackling these challenges is money spent on HEOR-specific studies/activities – some companies have looked to double their HEOR investment since 2000. Those that take HEOR seriously are proactively planning HEOR strategies for each key product, rather than just undertaking one-off evaluations in response to specific market need.

In essence, companies that do not take the requirements for proving product value seriously would do well to take heed of developments in lead countries like Australia and the UK – the weathervanes of the future for HTA. Those that do not consider HEOR to be fundamental to their future success and do not have an HEOR leader in the room when decisions are being made will face mounting challenges ahead.

Conclusion

The only constant in healthcare is change. PharmaComplexity has altered the landscape of the market beyond recognition and companies have become accustomed to adapting their business practices in response.

But the trends have become more powerful and interconnected. The number of stakeholders and divergence of their agendas have multiplied; cost containment and pricing pressures are ubiquitous; the number of branded products going off-patent is soaring. At the same time there are new and different growth drivers at play as the emphasis shifts from the US to China and other emerging markets; from primary care products to specialty-initiated and biotech; from big brands and inventive molecules to generics. And the changes are set to continue with accelerating pace.

This environment produces a kaleidoscope of hurdles for pharmaceutical companies. They not only face the traditional challenges of driving growth, but a new set of priorities in making sense of the turmoil: adapting practices from core markets to the local nuances of emerging economies; managing the trade-offs between market share, access and profit across multiple countries; adjusting to a predominantly generic marketplace; optimising new channels of distribution driven by the rise in specialty-initiated products; harnessing the power of patients demanding quality, low-cost healthcare; placing health economics and outcomes research at the heart of their decision making.

As companies strive to respond with innovative new models to the challenges created by such complexity, many are experiencing difficulty in measuring the market, much less mastering it. Even the near term future is difficult to predict. As managers take decisions that will influence their company's profitability for years to come, they must be confident that their judgment is not just intuitive but informed.

Old performance measures are no longer enough – for strategic decisions on where and how to compete or for tactical decisions on marketing messages and sales models. A clearer picture is needed with a deeper understanding of the evolving dynamics and different benchmarks for redefining performance using a new generation of relevant and consistent metrics.

We cannot offer simple answers for mastering this complexity, but we can highlight key areas where action is needed. To provide more depth on these threads and new ways to weave them, we will be publishing a series of White Papers over the next few months, offering color and light as well as points of view on feasible and effective solutions.



ABOUT IMS

Operating in more than 100 countries, IMS Health is the world's leading provider of market intelligence to the pharmaceutical and healthcare industries. With \$1.8 billion in 2005 revenue and more than 50 years of industry experience, IMS offers leading-edge business intelligence products and services that are integral to clients' day-to-day operations, including portfolio optimization capabilities; launch and brand management solutions; sales force effectiveness innovations; managed care and over-the-counter offerings; and consulting and services solutions that improve ROI and the delivery of quality healthcare worldwide. Additional information is available at <http://www.imshealth.com>

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