



The Impact of Covid-19 on Manufacturers' Commercial Model

INITIAL INSIGHTS

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Introduction

For some time now, changes in the structure and dynamics of the healthcare market have been eroding the effectiveness of the commercial model on which most manufacturers rely. Consolidation has created fewer, larger customers with greater leverage. The physicians who once drove purchasing decisions are increasingly employed in large, consolidated, integrated delivery networks, and are only one among many voices in product decisions. And even before the pandemic, organizations that were increasingly sensitive to costs had begun to restrict access by representatives to physicians. Fundamental changes to the commercial approach have been in the wind for a while but concerns about ceding customer facetime to the competition put a damper on change.

The Covid-19 pandemic has changed all that. As the volume of Covid patients soared, providers closed offices, cancelled elective procedures, redeployed staff, and shut out manufacturer's representatives. While many manufacturers have adapted their engagement efforts to virtual means, that's not the only challenge. The loss of high-margin procedures left many organizations in financial distress, raising cost concerns even higher than they were pre-pandemic. Product adoption decisions have, we believe, become more centralized and subject to more strategic and economic criteria. And like so many other changes caused by the pandemic, these changes are not likely to be reversed. Which makes the conventional commercial model that much more out of step with decision-making reality on the ground, accelerating the need for change.

Given our experience as a leading advisor to management in customized approaches to product and service commercialization, Numerof undertook research to develop data on the changes we saw happening in the field. While all stakeholders look forward to a return to normalcy, we expect that the "new normal" will be different in many ways from what's assumed in many manufacturers' approach to their commercial operations. As the pandemic begins to subside, manufacturers need to plan now to bring their commercial operations in line with the requirements of today's marketplace.

Methodology

In conducting this research, Numerof wanted to explore the changes manufacturers have seen in the market and the extent to which the pandemic has accelerated ongoing efforts to reconceptualize their commercial models. In Phase I, we conducted a qualitative survey of 60 commercial executives and decision-makers across 36 small, midsize, and large pharmaceutical and medical device organizations to gather insights and perspectives.

Topics explored during confidential interviews included the extent to which companies are making changes to their commercial models in response to market shifts, such as:

- Rethinking their approach to targeting and segmentation, including the use of data and analytics to identify high-value customers
- Reducing the number of field-based representatives calling on individual physicians and/or rethinking territory and/or account approach
- Changing expectations for call reach and frequency
- Utilizing digital technologies to engage customers (e.g. online education programs, chat rooms, etc.)
- Establishing mechanisms that ensure cross-functional engagement across sales, market access, medical, marketing, and others
- Creating internal sales teams that engage with physicians via telephone or video conference
- Developing strategy for calling on system-level executives
- Creating strategic account manager-type roles that are trained to leverage cross-functional resources, manage complex accounts, and field questions from clinicians and administrators regarding the economic and clinical benefits of the products they represent
- Expecting strategic account teams to represent the entire portfolio rather than a single product or therapeutic area

Insights from this initial survey will be used to develop a quantitative survey for Phase II of our research.

This report summarizes initial insights captured from Phase I. While we spoke with some executives who bring global perspective, findings focus on the U.S. landscape and reflect the breadth and depth of data collected for this geography.

Key Themes and Insights

Covid-19 has served as a catalyst to make changes that some manufacturers have been looking to make for years.

When the pandemic struck, manufacturers shifted to crisis management mode to ensure patients had consistent supply and access to their products. Initial responses also centered on the safety and wellbeing of their own employees.

- As delivery organizations restricted access to non-essential personnel, manufacturers rapidly transitioned their field-facing employees to a virtual environment
- While most functions like market access were already accustomed to virtual interactions, the commercial salesforce had largely relied on a “feet on the street” approach

90% of interviewees indicated that prior to Covid-19 they had recognized the need to evolve their commercial model to reflect shifting market dynamics; however, they were hesitant to make changes and risk near-term sales disruptions for potential and hard-to-quantify long-term benefits. One interviewee indicated that prior to the pandemic, changes to the commercial model were thought to be “10 years or more” away.

- Many interviewees noted that the pandemic provided the catalyst to make needed changes and have accelerated efforts to make lasting modifications to their models

“The ability to get in front of healthcare providers was already restricted due to consolidation, hospital policy, and regulatory restrictions, and Covid-19 accelerated that.”

“Now Covid-19 is forcing a change and providing an opportunity to reset the way of doing things.”

“The landscape has changed forever. This is a generational event that will impact how we move forward as an industry.”

More than 60% of companies surveyed are taking steps to evolve their models.

As part of the survey, Numerof wanted to categorize where organizations are in changing their commercial model.

- *Leaders* had a framework to make meaningful, long-term change to their commercial approach prior to the pandemic. In many of these companies, leadership had already begun to implement significant changes within their commercial organization, e.g. changed the structure and market approach of their field force; restructured one or more functions (i.e. marketing, sales, market access, and operations); modified their approach to segmentation and targeting; or relied more heavily on virtual engagement with customers.
- *Followers* recognize the benefits of modifying their commercial model for the long term but were not actively thinking about making changes prior to Covid-19. These organizations plan to institutionalize some of the changes they've made in response to the pandemic.
- *Fence-sitters* are those organizations that made tactical accommodations for Covid-19; however, they want to wait and see how the market reacts before investing in long-term changes.
- *Resistors* expect the market to return to pre-Covid conditions (i.e. the traditional face-to-face model). This group believes the shifts they and industry peers made are temporary, in response to the environment, and purely a function of Covid-19.

17% of the companies surveyed are *leading* efforts to change their commercial model and ensure it is able to quickly adapt to evolving market needs. As one of the *Leaders* stated,

"The engagement model must change; the current model has way too many people. It is ingrained that sales teams should have a certain share of voice since it is the biggest line item expense in the commercial budget."

Followers, making up 50% of companies interviewed, recognize the need to make changes to their market approach.

"We've reached a point where we see a picture of the future and need to modify the organization."

The reticence of *Fence-sitters* (22% of companies interviewed) to make changes to their models is reflected by the following statement,

"It's not too early to commit to virtual detailing for the rest of the year but it is too early to commit to the long-term without knowing how the market will react."

An executive from one of the 11% of organizations surveyed categorized as *Resistors* indicated that the reason to hold onto the current model was,

“Leadership is extremely traditional and not likely to shift too far away from the way things have been done in the past.”

It is worth noting that each grouping appears independent of size, therapeutic area, and stage of product development.

Figure 1: Organization progress toward model evolution



Manufacturers will need to create a *hybrid* sales model as virtual detailing is here to stay.

When the market had to quickly transition to a virtual environment, all manufacturers indicated that they put in place capabilities to engage with clinicians remotely.

Some business leaders indicated that as a result of Covid-19, they now envision a future sales model with in-person interactions reserved for select, high-value customers. These interviewees indicated that telephonic and online activities would be used for engaging with lower-value customers.

Experience with virtual detailing has demonstrated to manufacturers that it is a viable approach for engaging with customers. Going forward, 93% of interviewees expect *virtual detailing* to become a more prominent part of the sales model than it was prior to Covid-19. One interviewee expects that virtual detailing will be used for as much as 30-50% of all customer interactions, regardless of customer value.

Concern regarding ongoing access to clinicians and the opportunity to better service rural areas were the most frequently cited reasons for using virtual detailing. A regional president of a large manufacturer explained,

“The access we had to doctors before will not return. If we were able to connect with 100% of our customers before, it will now be 80% with lower frequency.”

- In addition to providing an alternate way to meet customers, a vice president of sales in a mid-sized company indicated that virtual detailing presents several other benefits –

“...it allows expansion into territories difficult to access in person. It is also low cost and enables more calls with fewer reps.”

Interviewees identified *specific* situations when in-person meetings will be critical, including initial meetings with C-suite or high-value customers, introduction of a new product or an indication expansion, or a customer's personal preference. At other times (e.g. routine office visits, addressing reimbursement questions, sample delivery), remote interactions will suffice.

“Nothing replaces personal persuasion. But personal persuasion along with digital engagement and resources is the future.”

New skills and capabilities will be required.

Going forward, interviewees identified that representatives will need to be skilled in addressing clinical and scientific questions beyond the product detail as well as represent multiple products. In addition, they recognized that technology can be used to enhance their engagement with clinicians.

Nearly all interviewees identified that training was needed to help representatives gain comfort in engaging with customers remotely. In addition, many indicated that the types of questions clinicians were most interested in were details about science and clinical data supporting a product. Some acknowledged that going forward, sales reps should possess skills and qualifications similar to those of a medical science liaison (MSL).

- With fewer opportunities to meet with customers, many interviewees acknowledged that representatives must use the time well. Representatives will need the ability to take a portfolio approach to selling while also demonstrating how their product addresses customer problems.

“Representatives will not only need to possess knowledge of the science and sales skills, they will also need strong business acumen, including an understanding of how a product impacts that customer's bottom line.”

“It's less about frequency; deeper conversations across a broader range of business topics will be the norm.”

"People can do more than sell one product at a time. It's better if you have a person that can answer 80% of the questions. You don't need an army of people."

Prior to Covid-19 most manufacturers indicated that they were engaged in some digital marketing, albeit many of these individuals acknowledged that the investment was minimal. Concern was that clinicians would not engage with companies in a digital landscape; the pandemic has shown the opposite to be true. Going forward, enhancing digital capabilities is a prime area being considered for additional investment.

- For example, one large manufacturer is building the infrastructure to measure customers' receptiveness to a digital interface, i.e. tracking customer satisfaction and net promoter scores.
- Another company is exploring virtual reality as a platform for remote training.

"The pandemic has accelerated in a couple weeks what had been taking years, especially as it relates to technology."

The role of Medical will likely expand.

Interviewees indicated that while it was difficult for representatives to connect with physicians, customers would seek them out when they wanted specific scientific or clinical information about a product. This was especially common for complex products like oncology. As a result, medical teams were in high demand.

Historically, scheduling face-to-face meetings with MSLs was difficult given the size of these teams and the large geographies they covered. However, many indicated that since travel was banned, it was easier to schedule customer requests for scientific/clinical information with MSLs and clinicians responded favorably.

As one interviewee identified,

"Though MSLs have been a smaller group historically, share of voice may shift to MSLs and away from the traditional rep."

Targeting and segmentation cannot be a one-size-fits-all approach.

In the early days of the pandemic, interviewees identified that access to clinicians was severely restricted. As states, hospitals, and practices have

been opening, access remains limited. In addition, some interviewees recognize that product decisions are shifting from individual clinicians to committees. In light of these changes, some interviewees recognized that previous targeting and segmentation efforts no longer apply. Multiple interviewees commented that decisions regarding who is the right target and how to approach them need to be more nuanced. Some interviewees have begun to rethink their approach to targeting and segmentation and are finding that size of salesforce and frequency of engagement are not commensurate with financial performance.

When the pandemic started in the U.S., one small specialty company accelerated changes to its model. It reduced its sales headcount by approximately 20% and further reduced the number of customers it calls on. Results are yet to be determined, but the interviewee was confident that they would generate a positive return for the company.

Similarly, one interviewee from a large manufacturer indicated that, prior to Covid-19, the company refined its targeting, segmentation, and account management approach and began focusing on the 20% of accounts that represented the highest value to the company.

- When the company made this change, it increased the number of visits to these accounts and reduced/eliminated visits to the other 80%. As a result, total customer contacts were reduced by 30-40% and the company was able to reduce headcount by 25%.
- Despite a smaller salesforce, revenue was not negatively impacted by Covid-19.

In each of the above cases, interviewees identified that factors considered in the changes they made included therapeutic area and level of diagnostic complexity as well as determining which accounts would provide the greatest value to the company.

Similar changes are expected with internal sales forces. As one interviewee indicated,

“Our internal sales force will need to think more strategically in terms of targeting and take into consideration customer communication preferences.”

The need for a compelling economic and clinical value story will intensify.

As mentioned earlier, when hospitals shut down, most clinicians and economic decision makers would seek out representatives when they had

specific questions regarding a product or if there was a new product or indication. In those instances, customers would welcome and make themselves available for product discussions. However, customers were less receptive to messages regarding products with which they felt familiar, unless there was new information.

In addition, although interviewees with responsibility for economic decision makers indicated that customer engagement had changed minimally during the pandemic, they mentioned that hospital revenue pressures were putting more emphasis on discussions around price and value. Without evidence to show a product's value relative to the competition, price became the primary focus of discussion.

A market access leader of a mid-sized manufacturer indicated,

"Covid-19 enhances and accelerates the same movement we saw before; demand from customers to show value of a product."

Culture is recognized as a barrier to change.

Particularly in large organizations, culture was cited as a significant roadblock to implementing long-term changes. Perspectives differed as to where the greatest pushback for changes would occur.

Some interviewees believe executive leadership is risk-averse and reticent to make changes. As one interviewee indicated,

"Leadership feels there's security in knowing that the current model still works even if it may not be the most effective."

Others felt resistance would come more from field-facing roles as they prefer face-to-face interactions over virtual engagement. One interviewee summarized it by saying,

"The field would prefer to return to the old way of doing things (face-to-face meetings) and not make any further changes."

Interviewees within a few organizations that have global headquarters outside the U.S. expressed concern that global leadership would not support changes to their commercial model. The most frequently cited reason was the perceived lack of knowledge of the U.S. market and the changes that are occurring in the delivery and payment of patient care.

It is clear from this phase of research that the commercial model is changing. The global pandemic has accelerated the need for as well as the opportunity to make changes. It is Numerof's premise that a highly disciplined approach to sales and market access will be required going forward. In addition, organizations will need to have a strategic marketing focus.

In light of this, manufacturers will need to shift away from a commercial model that worked with the market they used to know and towards a model that can evolve to meet the needs of a market in major transition. This will require new strategies for covering accounts, capturing account learnings, and translating these learnings into action across and within accounts to fine-tune processes and develop more impactful messages, sales tools, and marketing approaches. It will also require strong data to demonstrate differentiated value for specific segments of interest and being able to convey the data in ways that resonate with stakeholders. We expect that in-person meetings will always play a role in the interaction mix but would not be imperative *all* the time. Simply stated, old assumptions about marketing, call reach, frequency, and field force staffing ratios that reflect old commercial paradigms will no longer be valid in a consolidating, more value-conscious market that is being radically reshaped.

To further explore and validate insights gathered from the interviews, an online quantitative survey will be launched in January 2021. Key findings from this phase of the study are expected to be released in mid-2021.

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