Brand Medicine: The Role of Branding in the Pharmaceutical Industry

By Tom Blackett and Rebecca Robins

Introduction

It seems extraordinary that one of the world's largest consumer good markets - pharmaceuticals - should for so long have flourished with little help from brands. In most other industries, manufacturers, suppliers of services and retailers use branding techniques to help secure competitive advantage. Indeed, increasingly these days, it is the brand which provides the sole means of differentiation, as 'Fortune' magazine famously has said:

"In the 21st century, branding ultimately will be the only unique differentiator between companies. Brand equity is now a key asset".

What 'Fortune' is asserting is that sooner or later, given the increasing ubiquity of capital, technology and skilled workforces, most companies in most industries will be competing on a 'level playing field'. In these circumstances the reputation encapsulated in their brands will become the chief determinant of customer choice.

It has often been said that brands are the true expression of democracy because they thrive in situations where choice is unrestricted and 'perfect competition' exists. This is not so in the pharmaceutical industry, where the relationship between the consumer and the manufacturer is heavily mediated. Regulatory bodies sanction and control the availability of medicines; governments and insurance companies determine what the consumer must pay; and the drug manufacturers themselves are severely constrained in what they can say directly to consumers about their products and their properties. As Rob Benson, who writes in his chapter 'DTC Branding – Europe and Asia' says of the industry: "(it) is still heavily dependent world-wide on government health expenditure for reimbursement sourced revenue and product licence approvals, all controlled by powerful regulatory forces resistant to anything that they perceive might upset the public balance sheet". In most mature economies therefore the pharmaceutical industry has been sucked into the maw of public policy, and its wellbeing is subject to the reforming whim of political parties to a very much greater extent than it is to the requirements of the consumer.

These conditions are inimical to brands. Brands thrive where the relationship between buyer and seller is direct and open, where choice is transparent and availability unrestricted. Few of these requirements exist within the prescription pharmaceuticals market. Yet the industry is huge and has great value; it has learned to cope with the extraordinary degree of regulation placed upon it and would seemingly have no need for brands. Why is this?

Quite simply because the industry is one where the power of invention has been paramount in creating its wealth. The pharmaceuticals industry is a science-based industry and its huge success has been due largely to its ability to invent great new products for the benefit of mankind. My friend and former colleague John Murphy, who founded Interbrand in 1974, often used to chide drugs companies by saying that the Coca-Cola Corporation, without a patent to its name but with one of the world's oldest and most valuable trademarks, is a hugely successful business - while the pharmaceuticals industry, flush with patents but bereft largely of meaningful brands, expends huge amounts of cash and energy in the development of intellectual property of a comparatively evanescent quality.

In June 2000 Interbrand published its list of the world's 75 most valuable brands (this may be found in Appendix One). Not one pharmaceutical brand or company name featured in this list. The majority of the brands featured have been in existence at least since the Second World War, although it was notable that compared to the same league table published in 1999, several 'new economy' brands, like Yahoo, Amazon.com and AOL had come into the reckoning. Perhaps this is not surprising – but for the pharmaceutical industry it should be a matter of some concern.

Most analyses of the source of company value nowadays point to intangible rather than tangible assets as the chief wealth creators within a business. Investors place a high premium on knowledge-based companies and on companies that own distinct and defensible assets such as brands. Thus proprietary skills and reputation will be the basis on which successful companies compete in the future. How true will this be of the pharmaceutical industry? If ever there was an industry where the biggest and most successful companies depended upon proprietary skills and the mantle of patents to create value, then this was it. The present round of mergers and acquisitions taking place within the industry testify to the very high value placed on innovation, and the sheer cost of achieving this. There is a never-ending need for new and more effective products; patent law exists to protect the interests of innovative companies and virtually guarantees that, if the product works and the marketing is good, then the company will more than recoup its investment and make a handsome profit. But the rights conferred in a patent rarely last more than twenty years, and as it can take up to ten years to get a new product to the marketplace the patent owner has only a limited period of exclusivity. The rights conferred in a trade mark, however, can last indefinitely, subject to the regular renewal of the registration and other rules of maintenance which are far from onerous.

While it is almost certain though that patents will remain the chief source of corporate ‘economic value added’ for many leading pharmaceutical companies, there are a series of important and irreversible developments taking place which militate in favour of brands.

Governments everywhere are seeking to mitigate the cost of state-subsidised healthcare. This is already huge, and with the forecast increase in the elderly population is likely to grow to an unmanageable size. Transferring the cost of medicine from the public to the private purse will help partially to alleviate this, and encouraging the pharmaceutical manufacturers to make more products available 'over the counter' (OTC) will be an important plank in this strategy. But in order for this to be effective, major changes will be required in consumer behaviour based on wider understanding of the nature of the medicines becoming available.

This will necessitate a revolution in communication, more widespread channels of distribution (including the Internet) and regulatory changes. Many of these things are already happening, such as the dramatic growth in direct-to-consumer (DTC) advertising in the United States, and some are still years away. Nevertheless there is an irresistible force in the market, driven largely by government will, that means that consumers must be encouraged to take much greater responsibility for their wellbeing. For them to do so they will require unfettered access to information, freedom of choice, first class products and good value for money. It is in situations like these that brands thrive - yet the pharmaceutical industry at large has little experience in creating and managing brands.

Interestingly, these circumstances could well bring about a transformation in the way the industry creates value for its shareholders. The pharmaceutical industry is a highly successful and wealthy one; the leading players have for many years been the stars of the world’s stock markets through ever-expanding sales and profits. Sales growth to a large extent has come about through huge economic improvements in the third world, through increasing longevity and the demands of the elderly, and through success in the development of drugs for the treatment of hitherto intractable diseases. These factors will continue to drive the growth of the industry, but there are signs that it is becoming increasingly difficult to sustain the levels of innovation necessary to deliver the successful new products of the future. Without these products profit margins will fall and returns to investors will suffer.

The industry is of course alert to this threat and during the last few years we have seen several major mergers (e.g. GlaxoWellcome and SmithKline Beecham, Astra and Zeneca, Pharmacia and Upjohn) as companies have sought to improve the productivity of research and development, widen product portfolios and optimise sales and marketing costs. Many companies are now actively pursuing the sale of OTC brands as a way of building sales, recognising that in these brands they have potentially a new source of business value. Many companies too are seeking ways to exploit established Rx (prescription product) brand names in the OTC world, with a view to leveraging the reputations of these names with pharmacists and consumers. Others are seeking to introduce entirely new brands to the wider OTC market and are faced with the formidable task of building consumer awareness and confidence. Whatever the strategy, brands have a central role to play in the future of the industry.

And all this is happening at a time of growing awareness of and interest in ‘wellbeing’. Functional Foods (or nutraceuticals as they are sometimes called) and alternative (natural) medicines have become immensely popular with consumers who attach a high importance to maintaining healthy lifestyles. A few years ago interest in such products, would have been regarded as faddish. Nowadays their use is considered perfectly normal – and indeed a very sensible alternative to a visit to the doctor’s surgery. Both functional foods and alternative medicines are unrestricted in their availaility, and the power of choice lies entirely with the consumer. ‘Conventional’ medicine still dominates in the West, but such is the interest in natural remedies that it is not inconceivable that in many therapeutic areas they may come to dominate.

This book endeavours to comment on all these major trends and provide some advice on how brands and the branding process can be made integral to future business strategy. We examine the chief drivers of change, in particular the internet and the growth of direct-to-consumer advertising; government policy; the ageing population; the Rx to OTC ‘switch’; and trends in communication and brand building, together with the complex regulatory frameworks that circumscribe these.

But throughout we have tried to focus on the value-adding contribution that strong brands can make to corporate performance. The pharmaceuticals industry possesses some strong, well-established brands, a large number of which enjoy little or no patent protection. Brands such as Ventolin, Claritin and Canesten continue to be valuable to their owners because during their years of exclusivity they created a momentum in demand. This momentum helped cushion them against the effects of generic competition. Each brand has now become so well known that it stands for a set of distinctive characteristics and benefits, the net impact of which is the belief on the part of prescribers, pharmacists and consumers that the brand is superior to imitations. In a competitive situation this belief may not be strong enough to justify paying more, but given parity – or near-parity – in price then the tried and trusted brand will usually enjoy an advantage. A strong brand, therefore, has the ability to command reliable cash flows.

A patent also has an ability to secure strong cash flows which, over its useful life, will be superior to that of the brand. But once the patent lapses, so its economic value to its owner evaporates. It seems to us therefore that the role of the brand manager is to ensure that the strong reputation a successful patented drug achieves during its period of exclusivity should, through appropriate marketing and development, be absorbed by the brand name. Then when the time comes, decisions can be taken on whether to continue to market aggressively the branded generic, exploit the brand’s equity in the OTC arena or, as is increasingly the case, implement both strategies.

Successful pharmaceutical companies are rich in intellectual property. Historically this property has taken the form of patents. Now brands can add layers of sustainable value to these hard-won assets, and the skill in prolonging a good product’s life lies in managing the branding process. This we believe will be the future of value creation in the pharmaceutical industry.

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