CUSTOMER VALUATION

Customer valuation is crucial to success and survival. What approaches should pharma be taking to ensure that it achieves customer valuation from discovery through to development and commercialisation?

Customer valuation is an invaluable concept for streamlining the development, commercialisation and life cycle management of pharmaceutical compounds as they advance from discovery through the pipeline to realisation as viable products serving distinct patient needs. Its essence is defined by incorporating systematic and ongoing feedback from potential customers into every stage of a compound's life. When conceived and executed using a thoughtful long-range plan, customer valuation reflects seamless integration of a pharma company's commercial skills into its developmental programmes.

> *"Customer valuation is a process of continuous learning and improvement"*

For pharma the benefits of adopting a rigorous customer valuation programme vary depending upon the type of company and its business objectives.

For large companies with ambitious developmental programmes, customer valuation offers a rational method to prioritise the value of competing assets on the basis of customer evaluations. Commercial perspectives on the viability of a novel compound in treating existing or so far untreated patient populations are combined with traditional value defining parameters (such as market size, growth rate and resource requirements) to generate relative value priorities.

Alternative developmental paths for an early-stage compound are subject to commercial scrutiny by stakeholders from myriad potential customer populations so that a rational, outside-in perspective on the relative merits of each path emerges.

Depending upon the structure of the customer evaluation framework, key quantifiable measures and metrics that inform prioritisation – and subsequent resource allocation decisions – can advance specific programmes through each development phase developed.

For small companies with one or a few key assets, customer valuation offers rational bases for important decisions such as: seeking development partners, valuing assets on a broad basis for engaging in deal-making activities, or defining clinical programmes that have a higher chance of succeeding because they are embedded with commercial perspectives of relevance to market adoption.

In a highly evolved company, customer valuation is a process of continuous learning and improvement rather than an end. It can take on a distinctly commercial focus when applied to assessing the brand–customer fit before launch. If it is designed properly, it enables rational selection of customer targets for sales, marketing and medical affairs activities.

Costly resources can be balanced against a universe of potential provider, payer, patient or hospital targets duly valued on criteria that matter directly to their propensity to adopt the product. When the valuation is based on criteria that are not restricted to past behaviours but also include measures representing the degree of fit between a product's features and its potential customers (regardless of past behaviours), it also helps you to identify groups that will be valuable to the new product who may not have been active customers in the past.

Figure 1 outlines five marketing goals by stage of product development and provides an example of how customer valuation can help achieve them.

Figure 1

STAGE	*Example* MARKETING GOAL	IMPLICATION
Discovery	Matching alternate target product profiles with diverse patient target populations	Assess patient value as a function of alternate target product profiles
Development	Mapping the importance of target endpoints into physician segments	Assess value of physician segments as a function of alternate primary, secondary and tertiary clinical trial endpoints
Commercialisation	Prioritising physician, patient and payer segments	Assess value of physician segments as a function of alternate primary, secondary and tertiary clinical trial endpoints
Launch	Developing market value map of target customers	Develop relative valuations for market segments based on matching physician, patient and payer segments
In-market	Monitoring & revising customer targeting priorities	Incorporate physician, patient and payer feedback into segment valuation schema, updating valuation, market maps and targeting priorities

Discovery

Among the most common reasons why compounds fail to make it through all phases of clinical trial testing is a lack of adequate commercial input in the early stages of discovery and development. Detailed customer-driven analyses of why product launches fail typically point to inadequate or no market insight informing early R&D activities.

The underlying fact of the matter is that the level of uncertainty inherent in determining commercial potential is higher in discovery than at any other stage of product development. The corresponding need to minimise its adverse impact is never more acute. Despite this, however, the scientific nature of the discovery process – surrounded as it is with a multitude of mostly science-related debates – precludes any significant commercial involvement.

> *"Detailed customer-driven analyses of why product launches fail point to inadequate market insight"*

Regardless of company size, opportunities exist to incorporate commercial analyses into the discovery process. One of the most useful commercial engagements in discovery aims to reduce the risk in pursuing multiple target product profiles suggested by the promise of an early-stage compound. The role of commercial analyses is to provide reliable market perspectives on each of the target product profiles, covering the continuum of possibilities that represent risk.

Equally, commercial analyses can help match the possible universe of target product profiles with a set of patient markets that could represent future indications.

A third benefit of viable commercial analysis is to provide reliable insight on such issues in multiple geographies. It is no secret that considerable variations exist in disease epidemiology by geography, leading to local differences in disease incidence. This in turn has a significant impact on provider preferences, health system proclivities to purchase one type of medication over another and patient reactions to specific types of medications.

Commercial analyses that match optimal target product profiles to potential patient markets can provide actionable recommendations by staying true to geographic idiosyncrasies. Harnessing the results of such analyses to prevailing scientific opinions provides a comprehensive basis for valuing alternative target product profiles.

Depending upon the details of the underlying analysis, it is possible to evaluate the sensitivity of such valuations to changes in underlying assumptions. For example, it is possible to study the impact (on a target profile's market value) of changes in adverse event data in specific patient populations. Such changes in estimated value can be predicated on varying levels of risk associated with the availability of adverse event data. Such analysis is invaluable in identifying which target product profiles to pursue well ahead of committing significant developmental resources.

Development

A programme of clinical trials can often mean the difference between enormous scientific effort and true patient benefits. And yet the chances of a compound advancing successfully through all clinical trial phases is remarkably low.

Multiple studies have pegged the probability of clinical trial success at between 13-20 per cent. This estimate has remained constant over decades. Among the major reasons for clinical trial failure are problems that rest squarely in the domain of customer analysis and valuation.

In the absence of specific endpoints that matter to a drug's end users – such as payers who control its access, clinicians who evaluate it on the basis of available evidence and patients who experience it firsthand – a product is doomed to fail.

It is also the case that endpoints reflecting prevalent benefits offered by blockbuster medications do not represent the inherent value of an untested compound to its potential customers. Frequently, the full range of possible benefits and risks of a compound is misrepresented (or inadequately so) by the range of possibilities represented in designated endpoints used for testing hypotheses with clinical data.

Problems such as these are mitigated by rigorous customer evaluations of a broad range of hypotheses driving clinical trial design and implementation.

In collaboration with trial designers, commercial researchers can develop:

- Market-driven definitions of clinical trial endpoints
- Expected ranges of endpoint values that resonate with payers, providers, patients and other potential customers alike
- Working profiles of trials that hold more value.

Such recommendations necessarily vary by type of customer. It is frequently the case that while payers prefer data that illustrates net value of a compound in terms that establish clear outcomes, providers seek strong efficacy data over existing standards of care, and patients prefer convenience provided a modicum of safety and efficacy is assured.

As such, smart commercial analysis factors for disparate customer valuations of a full range of possible endpoints should be carried out before recommending rich, workable insights about what endpoints to pursue and why. A key benefit of such analyses is the ability to derive estimates of the financial impact of conducting one type of clinical trial over another.

"... value connotes distinct benefit-to-cost assessments for varying customer types"

When combined with internal estimates of the costs and time required for execution, qualitative and numerical customer perspectives on key aspects of a set of alternative clinical trials can be used to predict the net present value of each trial, after adjusting for the probability of its success.

Incorporating such analyses into a development programme can go a long way in bringing much needed commercial rationality to the all too important task of deciding which trials to pursue, with what parameters, why and with what type of expected returns.

Commercialisation

As firms begin to prepare for the commercial future of new brands, a variety of new challenges come to the fore. While the product may have crystallised into a viable commercial entity, the way in which significant challenges regarding market position are answered remain open to choice and strategy.

- Where would finite marketing resources be spent best?
- Which types of customers would perceive immediate value in the brand?
- Where would the salesforce need to focus its efforts to realise the highest possible returns?
- How should the product be priced so its value proposition results in the highest profit impact?
- How would the brand best be differentiated against the current standard of care to realise sustained revenues over its patented life?

A core theme running through possible answers to such questions is the notion of how customers value the product. If there is one overarching metric that represents an objective, the maximisation of which would provide cogent guidance to the development of sensible product strategies, it is customer value. It is a real fact of the commercial world that value connotes distinct benefit-to-cost assessments for various types of customers in the value chain extending from wholesalers, pharmacies, payers and providers to patients.

By the same token, it can also be unequivocally said that assessing customer value for a brand provides significant answers to several important questions that inform effective commercial strategy.

As such an important, albeit less frequent, aspect of commercial research preceding strategy development for a new brand, is to focus on assessing customer value. Explicit hypotheses about what constitutes value to clinicians, patients, payers, hospital pharmacists and other customers of the product are framed and tested with reliable marketing research processes.

For example, value to clinicians from a new product that offers distinctive convenience benefits compared to its predecessors may be framed on the basis of its:

- Convenience
- Safety
- Efficacy focus
- Price sensitivity
- Sensitivity to formulary access
- Knowledge seeking/innovative behaviour
- Patient profile and volume
- Volume of potential product use in combination with other products.

Data on such constructs collected through customer research can be analysed to estimate the impact of the hypothesised value drivers on clinicians' propensity to adopt the product to treat specific types of patients. Such data can be used to derive the relative value of a clinician inasmuch as his/her propensity to be open to commercial activities conducted in support of the new brand.

Using marketing science models, sample-level estimates can be propagated reliably to the relevant population of clinicians, enabling the creation of a database wherein individual clinicians are scored for value.

Such value scoring can be made flexible to accommodate alternative value hypotheses for a new brand, as well as designed to reflect value for a set of possible commercial activities. Clinician value scoring can be a vital input into strategy formulation in the areas of salesforce targeting, market segmentation, tactical programme execution, pull-through programme effectiveness and direct-to-consumer campaigns (in the US).

Launch

One of the more challenging aspects of launching novel brands in competitive categories is the ability to make strategic decisions impacting multiple types of customers in multiple channels. For instance, strategies designed to make available a new product to patients receiving treatment by specialist physicians in private clinics, hospitals or long-term care settings covered by insurance offered through commercial payers, Medicare or Medicaid need to differ by definition.

Obvious patient differences in disease severity, affordability and reaction to type of medication and regimen make a big difference in the effectiveness of such strategies. Additional nuances such as differences in how clinicians are reimbursed in one channel versus another also have a non-significant impact on the effectiveness of such strategies.

As such, a foundation that provides a reliable valuation of the distinct market segments defined by patient, physician and payer segments in each channel of importance to the novel brand is an indispensable framework for formulating a host of product strategies.

"Using marketing science models, sample-level estimates can be propagated reliably ... "

The availability of such valuation enables channel specific strategies to be formulated not in isolation or piecemeal, but holistically across all the market segments of value, with a quantitative basis. The availability of a pre-defined valuation framework by market segment allows important 'what if' simulations to be carried out to determine the relative impact of a strategy on a channel versus another, especially when the all too real possibility of spillover looms.

A market value map is an effective tool to facilitate a wide variety of launch strategies. Such a map lays out a multi-dimensional grid, each dimension of the grid representing a customer type and its segments. For example a simple market map may be based on three dimensions – physician, patient and payer segments. Overlays based on additional dimensions representing channels of product distribution (such as clinics, hospitals, LTCs) can also be mapped along the three basic dimensions. As a result of comprehensive commercial research and analysis, a brand team develops actionable definitions of what segments define any dimension.

Corresponding valuation research and modelling allows for populating the resultant cells in the grid with estimates of customer value as a function of brand, competitor and market characteristics. Provided appropriate data is collected and the right set of metrics is calibrated, such a market value map serves as an indispensable tool to allocate finite commercial resources, craft and measure customer response to specific programmes in sales, marketing, medical affairs or managed care and structure and continually inform targeting activities.

The ability of marketing science modelling methods to generate such metrics at the level of a target population empowers the development and implementation of specific marketing effort in tune with informed strategy.

In-market valuation

A database of developing customer valuations for a novel product as it moves from the pipeline to market serves multiple strategy and tactical objectives over time, provided it is replenished, with data capturing significant changes in how customers value the product in the context of its competitors and the evolving market.

This can be accomplished through the conduct of a systematic marketing research programme designed to inform and refine commercial activities. Toward such objectives, collecting customer valuation data on specific product, competitor and commercial programme measures is a standard requirement of all strategic market research instruments implemented over time.

Research instruments such as questionnaires designed with customer valuation as one objective carry common questions providing inputs for valuation in multiple versions strung over time. For example, multiple waves of awareness, trial and usage (ATU) surveys carry the same set of questions which provide inputs that can be used to calibrate customer valuation models.

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Using product-specific models calibrated for objectives such valuations for salesforce targeting, marketing, channel-specific price concessions or sampling activities, brand teams can design, implement and monitor closely the impact of a diverse array of initiatives with a high degree of success.

Such a database has the added virtue of enabling synergies in seemingly disparate activities such as physician and payer marketing, sales force promotions, direct-to-consumer (DTC) programmes and push and pull-through programmes designed to maximise the impact of payer contracting.

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