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Know thy customer: Winning in the hospital channel

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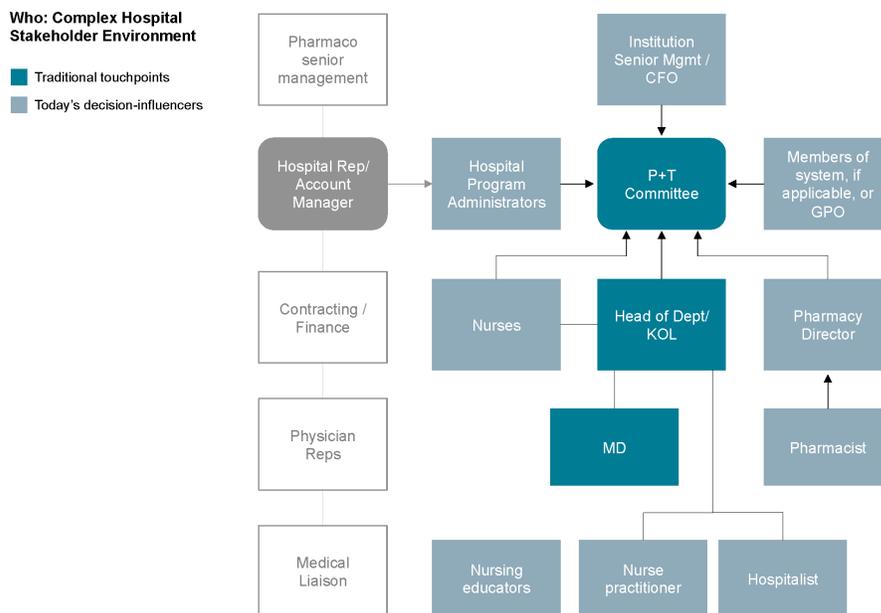
Pharma companies need to try three new actions if they want to drive growth in the hospital channel.

The increasing complexity of selling to hospitals and their growing importance as a channel require pharmaceutical companies to respond quickly with updated strategies and refined capabilities. Driving these two needs is a handful of trends:

- *The topline importance of the hospital channel for Pharmaceutical sales continues to grow.* One example: we project that Oncology drug revenues through hospitals will grow by 8 to 10% annually between 2011 and 2015—more than through any other channel. By 2015 over a third of Oncology drug revenues will be generated through the hospital channel. Overall, the hospital channel will benefit from increasing demand for healthcare and hospital services among a growing customer base of baby boomers and those becoming newly insured under healthcare reform. However this demand will be tempered by some downward pressure on reimbursements and ultimately profitability.
- *Hospital influence outpaces that of other channels.* The reach and influence of hospitals will continue to increase as they purchase or take controlling stakes in physician practices. The number of hospital-owned physician practices more than doubled between 2002 and 2008 and the trend shows no signs of abating. Overall, pharmaceutical companies are facing a market where the influence of the individual physician is declining and that of centrally-controlled networks of physicians affiliated with hospitals is expanding.
- *Hospitals are core components of increasingly complex and sophisticated healthcare systems.* More hospitals than ever are consolidating into larger health systems, which can include payors, specialty services, outpatient clinics, long-term care facilities, and physician practices. Indeed, the convergence of payors and providers will present a significant customer service challenge, as these hybrid entities' priorities and their definition of success continues to evolve.

- *Healthcare reform will exert additional pressure on hospitals to deliver cost efficiency and quality care.* The expansion of 340B entities will increase economic pressures on all hospitals, because of program-mandated price discounting and rebate structures.
- *The set of hospital stakeholders that must be engaged is expanding along with the complexity of these institutions.* Exhibit 1 illustrates how physicians and pharmacy directors have been joined by program directors and finance managers as primary influencers on prescribing, requiring customer-facing pharmaceutical teams to understand and manage more touchpoints to achieve consensus on using therapies.

Exhibit 1 Why look at hospital channel today



One consequence of these changes is that there is no tried and true template for pharmaceutical companies reaching much less succeeding in the hospital channel.

In this context, we see three key actions a company must take to drive growth in this channel today:

1. *Develop* a deeper understanding of the changing hospital customer segments, including their unique needs and willingness to engage with pharmaceutical companies.

2. *Expand* team/account-based sales model and build new capabilities and supporting processes and tools to better meet the needs of select hospital customers.
3. *Broaden* and tailor your value propositions to address hospitals' evolving cost, quality/ outcomes and patient satisfaction priorities.

Key Success Factor 1: Use a variety of lenses to develop a deeper understanding of the changing hospital customer segments and their unique needs and willingness to engage with pharmaceutical companies

The approach must identify each hospital's specific priorities and goals. When reassessing their hospital channel strategy, the first task for many pharmaceutical companies is to conduct a more robust and granular segmentation based upon hospital characteristics and behaviors. We suggest using at least three different 'lenses' or levels of segmentation (beyond size) to develop a deeper understanding of each hospital customer, including:

- *Organization type and structure.* First, separate hospitals into major groups, and even sub-groups based upon their structure, e.g., non-federal institutions (sub-groups include health systems, academic medical centers (AMCs)/ teaching institutions, and independent community hospitals), federal institutions such as Dept. of Defense and Veteran's Affairs facilities, and long-term care institutions.
- *Control and access.* Then, divide hospitals into those where your sales representatives have good vs. poor access and those which exert more vs. less control over their physicians' prescribing behavior.
- *Strategic priority for sales.* Finally, understanding a hospital's current, historical and projected market share and volume should influence your sales strategy and resource deployment. Some institutions will justify more company resources to defend and build relationships while others' profiles may imply a need to de-prioritize it as a customer.
- *Other factors to consider:* Profitability, or acquisition and consolidation velocity are among several other criteria that could help meaningfully segment hospital customers. Consequently, it is important is to test different criteria to identify which are most useful for one's products, therapeutic areas and competitive positioning.

To start gaining deeper insight into hospital customer segments, pharmaceutical companies should:

- *Develop* a comprehensive hospital database with demographic information supplemented by intelligence from the sales force on hospital buying behavior and stakeholders.
- *Segment and prioritize* hospitals using one or more lenses as described above.
- *Identify* specific unmet needs for hospitals in each segment.

Key Success Factor 2: Expand team/account-based sales model and build new capabilities and supporting processes and tools to better meet the needs of select hospital customers

Extracting the most value from the new hospital customer segmentation often requires a different sales deployment model for some segments. Some pharmaceutical companies are already adjusting to the changes in the hospital channel and the emerging segments, and this requires more than just tweaking their traditional commercial approach. We've found that transitioning to a more team-based account management model in some segments is more effective because it is more flexible and allows a more targeted approach to different stakeholders within hospitals.

For example, using access and control as the segmentation lenses could lead to a few different approaches. For hospitals that are high control and low access, a team composed of primarily account managers could be most effectively deployed to develop relationships with key hospital management stakeholders who influence formulary or Gx decisions, while all or nearly all reps are pulled out due to low access. In contrast, using a segmentation that focuses more on hospital type or structure could lead to different deployment models that focus resources on the most important and influential stakeholders as they vary between federal and long term care institutions. Combining multiple segmentation lenses can further refine and enhance the effectiveness of the sales deployment model.

Although the specific deployment models will differ by customer segment, the common foundation of the required evolution is an account management-based approach. An account management approach can help pharmaceutical companies better meet hospital customer needs by:

- *Developing* broad and deeper insight into each hospital's organizational structure, priorities, processes, needs and behaviors.
- *Applying* this knowledge to identify key decision makers and influencers.
- *Aligning* different roles, resources and capabilities to these different stakeholders.

The account manager role is critical to this approach as it coordinates the customer-facing team members and their relationship development and selling. In addition, the account manager serves as the primary point of contact with key non-physician stakeholders in priority hospital accounts, and must manage and sequence interactions with them.

Given that this account management skillset differs from that of a great salesperson and sets different customer expectations, simply re-titling sales reps as account managers is not an option. Rather, pharmaceutical companies will need to develop or hire individuals with the requisite skills, and put in place organizational enablers such as new training, processes and tools, and compensation models to institutionalize and gain maximum benefit from the account management approach. *Exhibit 2* details some examples of the types of roles and skills an account management team needs to serve hospitals well.

Exhibit 2 Roles & responsibilities

	Key Account Manager	Engages non-clinical management stakeholders
	Medical Outcomes Specialist	Proactively engages clinical and non-clinical management on outcomes and healthcare economics data
	Regional Business Manager	RBM for corporatized provider account team – manages dedicated account reps, and in some markets, engages clinical management
	Dedicated Reps	Fully focused on a select number of corporatized provider account(s) in pilot markets
	Medical Support Coordinator (MSC)	Liaises with medical team to coordinate customers' coverage
	Nurse Educator	Educates clinical stakeholders such as nurses, physician assistants, physicians, etc.
	Customer Network Coordinator	Helps build customer's networks by "brokering" relationships between them and other relevant stakeholders (e.g., NCQA)
	Customer Solutions Partner	Partners with customers to build solutions to improve performance, especially under new ACO metrics and goals
	<ul style="list-style-type: none"> • Marketing • Patient satisfaction • Quality • Performance metrics 	<ul style="list-style-type: none"> • Marketing materials • Patient engagement + satisfaction • Quality, outcomes + other performance metrics
	Contracting Expert	Expert in alternative contracting structures (e.g., risk-sharing)
	State Affairs Liaison	Engages with state government and policy affairs stakeholders

In our experience the evolution can take one to two years to move from a pilot of this model to demonstrated financial impact. Yet, the journey is worth taking given that effective account

management can enable pharmaceutical companies to penetrate the hospital channel and overcome market and access challenges.

Key Success Factor 3: Broaden and tailor value propositions to the evolving needs of different hospital segments and stakeholders

Pharmaceutical companies now need a more sophisticated and varied set of value propositions to engage hospital customers. More specifically, pharmaceutical companies need to balance clinical, economic and educational value propositions, and know when and with whom to use each.

A solid segmentation as discussed before can provide the foundation for developing the most relevant and compelling value stories, and allow organizations to craft several messages and use different ‘tool kits’ to engage various stakeholders. For example, controlling operating cost and quality may be ranked as the most important priorities to the VP of Quality and Pharmacy at one hospital, while the CFO and CSO of the same institution prioritize revenue generation and growth. This insight demonstrates the need for messages and offerings to be tailored not only at the segment level but also at the stakeholder level.

Intense effort is required to develop segment and stakeholder-specific value propositions, messages and offerings, and pharmaceutical companies may wonder if the returns justify the investment. Our perspective is that it is not only justified but critical. As more hospital customers scrutinize drug costs and product proliferation, and adopt value-based mindsets for every product or service used, they select brands from companies that demonstrate ability to drive not just clinical results but also support their business and economic needs. In this changing landscape, they value vendors and partners who demonstrate a willingness to shape products, solutions, and service levels to meet those needs.



The increasing complexity of the hospital channel demands different capabilities and differentiated approaches from pharmaceutical companies seeking to increase their sales to these important customers. Most pharmaceutical companies are piloting the segmentation and differentiated value strategies, and some are in full-scale roll-out. Companies that invest in capabilities such as deep customer segmentation and key account management to identify and respond to the varied priorities of hospitals will be best positioned for future success. □