Confidential

The Journey to Entrepreneurship

Key account management in pharma

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KAM is an important topic for pharmaceutical companies…

Key account management (KAM) is a topic that is top of mind for most senior leaders in the pharmaceuticals industry. These days, nearly every pharmaceuticals marketing and sales conference has a breakout session dedicated to "KAM" and almost every pharmaco has some type of KAM function.

And this is not surprising, given that institutional accounts are becoming increasingly important for pharmacos. The historically fragmented customer base, made up of individual prescribers and a scattered hospital landscape, is consolidating. For the pharma industry, key accounts can be hospitals, pharmacies, or non-traditional customers, such as payers, which are quickly emerging as critical stakeholders. For instance:

- In many countries, the *individual prescriber is handing over the decision maker role* to larger entities (e.g., physician networks in Switzerland)
- The *hospital sector is concentrating* in many countries and buying groups, as well as hospital chains, are emerging (e.g., Generale de Santé, Helios)
- In the OTC segment, *online pharmacies* are capturing increasing market share and are becoming major customers (e.g., DocMorris, Europa Apoteek Venlo, Sanicare)
- In an increasing number of countries, *payers* now have explicit negotiation relationships with the pharma industry (e.g., the UK, Germany).

… but they are often missing the point

Despite all of this focus on KAM, we believe that much of the discussion taking place misses the core of the debate. Excellence in KAM is about much more than having the best tools, training schedules, and account plans. It's about entrepreneurship – which means hiring key account managers who possess an opportunity-driven mindset and providing them the autonomy, resources, and support to create innovative, tailored solutions for key accounts.

Few pharmacos have taken their KAM approaches far enough along the journey from "administrator" to "entrepreneur." There is a great deal they can learn in how to achieve this from the experiences of other industries – particularly, the fast-moving consumer goods (FMCG) arena. In the following, we share several lessons that pharmacos can learn from FMCG companies and then describe three important actions pharmacos can pursue to make KAM really work.

Five myths about KAM

We frequently hear misleading assumptions being made in the pharma industry about what excellent key account management involves. Based upon our experience in working with leading FMCG companies and with pioneers in pharma KAM, there are five particular myths within the KAM context that should be challenged.

- **Myth #1: KAM can help improve business performance in all accounts**
  Key account management is often considered the silver bullet answer to large institutional accounts. In many cases, however, building KAM structures is simply not the right solution – even in high-potential accounts. We reviewed the hospital landscape as part of a client engagement in a large European country and identified fewer than 20 hospitals that required a true KAM approach for their particular portfolio. In the other accounts, the key was rather to upgrade their reps' negotiation skills and adapt the selling model to address the increasing complexity of the hospital environment.
- **Myth #2: The best reps will be good key account managers**
  Too often, we have seen that giving reps new business cards and a week of training on "how to manage an account" is what some companies consider implementing key account management. But this clearly doesn't work. A key account manager is an entrepreneur who can manage both internal and external relationships in order to build up business for the company. A very successful example of this can be seen with one European generics player. When the market environment changed and contracts with payers suddenly became the ticket to play, the company deviated from the typical route. Instead of up-skilling existing reps, it hired the key members of its KAM team from FMCG companies – and the company has now become a leader in the new payer-driven world.

- ***Myth #3: The key account manager should be the "one face to the customer"***
  One of the greatest misconceptions of KAM is that it reduces all interaction with the account to one single point of contact – the key account manager – in the belief that "one face to the customer" is the preferred customer interaction. One of our clients tried to implement such an approach in its core market. But the company soon realized it was impossible to find candidates who could simultaneously develop strategic cooperation plans with hospital management, engage in scientific discussions with physicians, and negotiate price with the lead pharmacist. The popular "one face to the customer" battle call should be replaced with "coordinated voice to the customer." The key account manager needs to coordinate an entire cross-functional team, similar to a conductor working with an orchestra.
- ***Myth #4: KAM is all about relationship management***
  It's true, a good key account manager knows his or her customers, remembering their children's names and ages, being aware of which soccer team they support, and so on. But along with that, true key account management has a mission to fulfill: laying the foundation for long-term collaboration and innovative contracting. One of our clients used this approach to revitalize an ICU specialty product whose growth was restricted by the number of patients reaching the ICU in time. The company co-created customized programs for referrer management with its key accounts, which led to more patients reaching the hospital in time and subsequently, greater drug use.
- ***Myth #5: The most innovative business solutions will win the game***
  Account strategies are often focused on innovative ways of cooperation, ranging from fixing a hospital's IT needs to offering public relations training to hospital management. However, it's surprising that many pharmacos don't have a clear pricing strategy for institutional accounts, given the value at stake for them. Our experience in working on KAM excellence suggests that starting with basic analyses on account profitability, price leakage, and commercial terms creates significantly higher value for clients than many of innovation concepts being pursued by key account managers.

Making KAM really work

So what should pharmacos do to accelerate their journey toward truly value-creating KAM? We believe there are three important actions that pharmaceutical companies can take to make KAM really work.

- **Define the scope** – identifying customers that are *really* key accounts and determining the right level of investment for them.

- **Refine the basics** – for example, tailoring pricing tools and tactics, contract options, and customer offerings based upon a true understanding of needs.
- **Align the team** – determining the optimal size and setup of your KAM group; defining key capabilities and staffing strategy; orchestrating collaboration with other functions; and adjusting incentives to foster entrepreneurial behavior.

Define the scope

Our experience with key account segmentation suggests that only a small number of all accounts really need a key account approach. We have generated a proprietary set of criteria to use in objectively determining the ***lifetime*** value and degree of complexity of each account and analytically determining which high-value high-complexity accounts warrant a KAM approach (Exhibit 1). In doing so, we have routinely helped clients redirect investment levels, leading to greater savings and higher effectiveness at each account level.

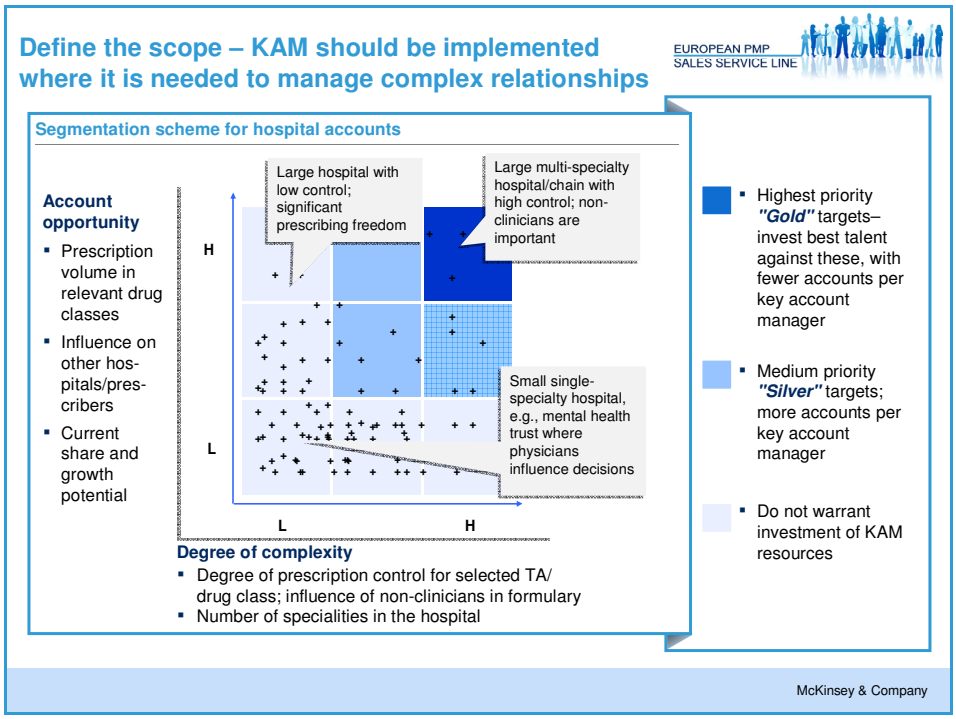

Exhibit 1

Refine the basics

This simple (yet analytically robust) approach relies upon historical data on account spend and sales (Exhibit 2). We have routinely identified great potential from better pricing discipline and growth opportunities. These

analytics are complemented by a set of customer interviews that inject a qualitative perspective on main "gaps" and growth opportunities. Our work in this area also includes piloting ideas for capturing growth with a select set of key account managers and accounts to ensure that recommendations can be practically implemented within the organization. Recently, we helped a client implement a capability-building program to enable institutionalizing these concepts across multiple countries and business units.

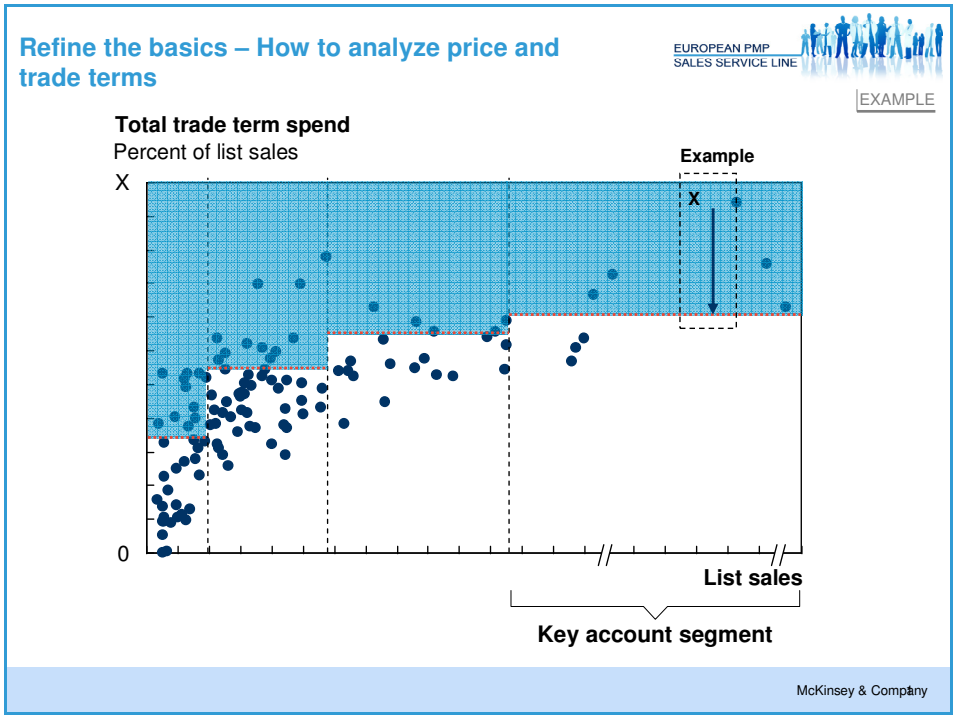

Exhibit 2

Align the team

Customers respond better to offerings tailored to their needs than to offerings that are generic and unappealing. Key account managers must be given sufficient freedom to run their account as a business. They need to be able to draw in and work with internal stakeholders to deliver what their customer needs. Developing entrepreneurs within a large organization is challenging. Several of our clients mention internal barriers: *"There was no endorsement from our leadership"*; *"Key account managers have no authority to leverage resources from across BUs"; "This is not important to other functions – for example, the marketing team doesn't care since 85 percent of their business is in primary care"*.

Besides developing an approach to the size and structure of the KAM team, we have defined "must have" capabilities for achieving a world-class KAM (Exhibit 3). Our diagnostic with clients often surfaces significant gaps in

these capabilities, leading to a comprehensive recruiting and attraction plan for high-performing key account managers from other industries. Additionally, governance and incentive models to support an entrepreneurial KAM approach are critical to the overall success of such an effort. We have found two behaviors in particular that have a disproportionate impact on creating an entrepreneurial environment: first, explicit commitment and role modeling from the leadership to the entire organization and second, ability of the key account manager to align the cross-functional team on key customer needs, account objectives, and the resulting interaction plan.

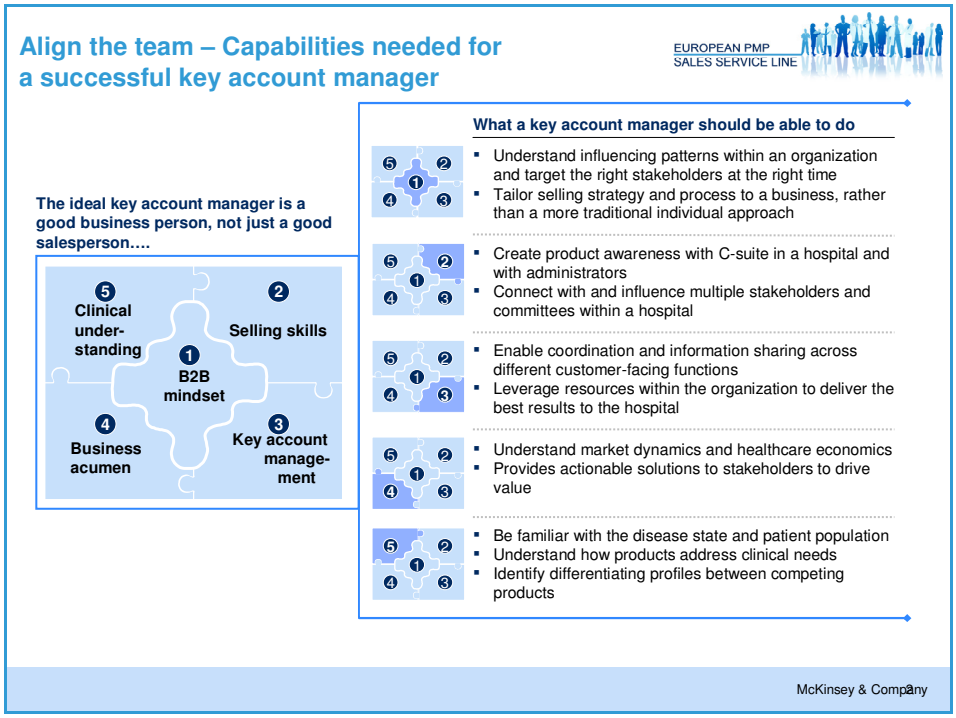

Exhibit 3

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Pharmacos need their KAM programs to deliver results – cost efficiently. While the journey toward effective KAM is not easy and the industry's understanding of what it means is still evolving, the good news for pharma leaders is that other industries have paved the way. Those who are quickest on the journey of entrepreneurship will reap the benefits of KAM ahead of their competitors.