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Big Pharma is Broken; Long Live Specialty Pharma

By Dr. Robert C. Keefer

The headlines tell the story of Big Pharma's recent troubles...

"Merck Loses Protection For Patent On Zocor"
(New York Times)

"Another generic rises against Glaxo"
(Triangle Business Journal)

"Pfizer to lay off 10,000 workers, close plants"
(MSNBC)

. . . while they paint a different picture for specialty pharma:

"Cephalon Reports Record Sales and Earnings for 2006"
(Company press release)

"No Earnings Face-Lift Needed For Allergan"
(The Motley Fool)

"FDA allows ZymoGenetics to skip trial of spray drug, saving time and money"
(Bloomberg News)

There are good reasons why specialty pharma - companies that focus on one therapeutic area with sales and marketing directed to a narrowly defined physician base - has experienced such growth and success in the last 10 years: Predictable revenue stream much earlier than start-up companies; quicker, sustainable profits; no huge sales force to feed; and, as profits grow, the option to retain ownership or sellout to a larger company. Well-managed specialty pharma companies are also appealing to private equity firms.

What are specialty pharmaceutical companies doing right? What strategies could be adapted to your business? Here are a few ideas:

1. Align teams to focus on one therapeutic area each: In general, functions throughout specialty-focused companies can be more cost-efficient. The sales force has a smaller target audience to detail. Marketing, sales, medical affairs and regulatory teams can be more knowledgeable, resulting in a reputation as the "go-to" company in your specialty areas.
2. Tweak products: Because concentrating in one area leads to efficiencies the pharmaceutical giants can't match, small product improvements that bring just modest sales gains can translate into healthy profits. For example, one strategy is to take an established drug and improve the delivery method. No expensive and risky clinical trials are required, costs are lower and the product reaches market faster.
3. Rejuvenate languishing products: An example tells the story here. When Pepcid went over the counter, Merck & Co., Inc. sold its OTC rights to Johnson & Johnson but maintained the license for the IV formulation used in hospitals. By big pharma standards, the product has a small target audience, so it languished in Merck's portfolio. Enter Salix Pharmaceuticals, Inc., a specialty pharma focused on gastrointestinal diseases. The IV formulation of Pepcid fell right in Salix's sweet spot, because the company already had the knowledge and customer base and could promote it without adding to the sales force.
4. Research your customer base: In addition to conducting a broad search for the right products to acquire, smart specialty pharma companies also understand the prescribing patterns of their target physicians to ensure that any new products will resonate with them. When they've done their homework, they know that the new products will also boost sales of the "old" products by giving the sales reps something new to talk about. When was the last time you did probing interviews of your best prescribers?

If you would like to share your experience in these issues, or discuss how you can ensure a successful product launch, send an email to rkeefe@tcgbiopharma.com.

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AFFILIATES:

The TCG Group - TCG is an international consulting firm with offices in the US and Europe. For more information, please visit www.t-c-group.com or contact Ken West at ken@t-c-group.com.

TCG Germany – TCG Germany is an international consulting firm based in Heidelberg, Germany. For more information, please visit www.t-c-group.de or contact Dr. Reinhard Merz at reinhard.merz@t-c-group.de.