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ESSENTIALS FOR PHARMA KEY ACCOUNT MANAGEMENT

PARTNERING FOR VALUE

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Vast changes in the health care landscape worldwide are transforming customers. Treatment decision making is rapidly shifting from the individual physician to a diverse set of institutional customers, from hospitals to integrated care entities, and from payers to pharmacies and health-benefit-management companies. The pressure to deliver greater value is also driving this evolution. And while some customers are already more sophisticated than others, all are building experience and new capabilities to improve their economic performance and better manage patient outcomes.

The experience of hospitals offers a good example not only of how these market pressures are affecting institutions but also of the new ways in which institutional customers are responding to them. With health-care reimbursement levels shrinking, hospitals are consolidating, and they are building scale and expertise in the process. Most hospitals now employ a variety of analytical tools, such as benchmarks and studies, to evaluate price, cost effectiveness, and outcomes. They are also creating new positions in their management teams to bridge the traditionally segregated clinical and procurement domains. And they are launching or expanding efforts to assess medicines and procedures in their patient populations. Moreover, they are using the knowledge they gain through these efforts to improve formularies and treatment protocols.

The more sophisticated payers and integrated providers are also investing heavily in building capabilities. Increasingly, these customers are adopting a holistic approach to health care, partnering with pharmaceutical companies to improve outcomes, disease management, and compliance.

Despite these dramatic developments in the customer landscape, however, many pharma companies have yet to adapt their customer models. When key account management in the pharmaceutical industry is compared with that of other industries, including consumer goods and industrial products, it's clear that most pharma companies are still lagging. Here's why:

- *Pharma companies don't fully recognize the range of customers' business drivers and needs.* A one-size-fits-all-approach, even when designed for the most important customers, no longer works.

- *Companies think transactionally instead of strategically.* Pharma companies often put short-term concerns ahead of long-term considerations—for example, focusing on getting the highest possible price or the greatest revenues right away instead of weighing customers' economic situations and evolving needs.

- *Companies overcomplicate their customer management models.* In an effort to keep pace with the growing complexities of customer requirements, pharma companies often end up tailoring individual customer relationships to an unsustainable degree. The result is reduced quality, unnecessary complexity, and inefficiencies that erode the profit potential of key accounts.

- *Customer management is hampered by conflicting roles and responsibilities.* Customer-facing functions, from account management and medical affairs to business units and support departments, often end up tripping all over each other—and the customer. The resulting redundancies and confusion can do more to erode value than to create it.

- *Key account managers (KAMs) often lack the right competencies, and companies don't seek or cultivate these skills.* The best sales-line managers and sales representatives don't necessarily make the best KAMs. Unfortunately, many pharma companies still struggle to recruite and promote people who have the skill sets that key account management requires. So far, few organizations have embedded the development of those skills in their hiring, training, and promotion processes.

These weaknesses limit pharma companies' ability to serve their largest, most complex customers effectively. Pharma companies are already losing out on opportunities to create value through partnerships with health care systems and the broader community of health care stakeholders, largely because such relationships require cross-functional capabilities.

Effective key account management, in our view, depends on cross-functional integration to deliver value. Many pharma companies do practice some form of key account management, but gaps exist in even the best-managed companies.

Getting Key Account Management Right

Effective key account management helps foster partnerships to create long-term mutual value and advantage. While adoption has been slow, and the success stories thus far are few, pharma companies can take heart. We've seen a number of impressive examples of key account management in other industries with comparably complex customer segments, stakeholder relationships, and sales and distribution channels.

Through our client work, we've identified ways in which companies have transformed transactional, adversarial relationships into long-term, strategic partnerships founded on joint value creation. Here, we present the essentials for getting key account management right—and unlocking long-term value.

Dig deep to mine customer insights. Successful key account management demands a deep understanding of customers' operating models, needs, and objectives. This understanding guides everything from identifying and prioritizing key customer accounts to developing interaction models and programs that can foster long-term partnerships. It helps companies better mobilize the people, resources, and capabilities they need to serve these accounts.

Many pharma companies have a one-size-fits-all approach to serving customers. Others use complex segmentation schemes that end up fragmenting their service approach to an almost unmanageable extent. BCG has developed a straightforward segmentation approach called 3-S—for size, sophistication, and specialization—that we feel is optimal. (See Exhibit 1.)

Instead of screening key accounts solely on the basis of size—such as potential prescription, patient, or sales volumes—companies can use the 3-S approach to highlight the substantive characteristics of each account type. The 3-S approach points to customers' actual needs and objectives—their structural, operational, and business model differences. Companies can thus discern the requirements of serving specific customer segments and determine the right model for each one. Because the 3-S approach indicates the level of sophistication and specialization of major accounts, it shows which ones are best suited to a key account management approach.

A simple example can illustrate the sophistication and specialization dimensions within the hospital segment. Unlike traditional hospitals, more-sophisticated hospitals, such as specialty clinics, typically have well-established, central formularies with strictly enforced treatment protocols. Increasingly, these more advanced hospitals employ professional management teams that combine medical and economic expertise. A key account management model for such hospitals would therefore need to cover a broad range of medical and managerial stakeholders. Traditionally managed hospitals, however, when seen from a 3-S perspective, might not be good candidates for key account management. They are generally not equipped to engage in the leading-edge practices, such as joint programs and preferred-purchasing models, that key account management is designed to support.

Focus on joint value creation. Regulatory, marketplace, and economic changes have put increasing pressure on health care organizations to seek cost efficiencies, both overall and in terms of patient outcomes. Many companies throughout a broad range of industries have been able to realize efficiencies and other advantages, including enduring economic benefits, by developing long-term strategic relationships with their business-to-business customers: witness the consumer goods

Exhibit 1 | The 3-S Model Allows Companies to List Customer Segmentation Criteria for Each Key Account Type

	Physician networks	Hospitals and clinics	Payers	Pharmacies and wholesalers
Size	Commercial potential			
	Current sales or share of account			
Sophistication	Joint drug formulary and treatment approach	Central-drug-formulary decision making	Positive and negative reimbursement lists	Selected inventory offering
	Strong enforcement of formulary	Strong enforcement of formulary	Strong enforcement of formulary	
	Economically driven; practice and business management	Economically driven; professionalized management	Economically driven; data capture of outcomes and cost effectiveness	Economically driven
	Shared patient management across treatment pathway	High level of integration in hospital group	Professional contracting; preferred contracts	Professional contracting; preferred contracts and listing
Specialization	Therapeutic area specialization	Therapeutic area specialization	High degree of integration with providers	Forward integration in patient management
	In-house drug dispensing		Programs with focus on particular therapeutic areas	

Source: BCG analysis.

industry (Procter & Gamble), the technology sector (Cisco Systems, Siemens), and the medical technology field (Fresenius Medical Care, General Electric), for example. Pharma companies, too, need to seek opportunities for joint value creation with their customers—for instance, by improving patient outcomes while reducing redundancies, minimizing overlap, and decreasing overall treatment costs.

A U.S.-based pharma company and its HMO customer, for example, codeveloped a patient registry and outcomes-monitoring program with a large teaching hospital. The pharma company provided funding and medical and technical support to establish the registry, which has helped all three entities obtain diagnostic, treatment, and outcomes data that would otherwise have been virtually impossible to achieve. The program also helped the HMO and the hospital optimize treatment approaches by improving diagnostic triage and managing treatment selection.

Another pharma company and its customer, a European specialty oncology clinic, jointly created a patient support program to ensure that patients comply with their treatment programs. The pharma company provides nursing resources, a call center, and educational material to support patients over the course of their treatment, especially with regard to managing side effects. In return, it gets preferential status on the clinic's formulary, along with better access to the clinic's physicians.

Forge long-term relationships through partnership. A central goal of key account management is to lay the foundation for long-term collaboration. Long-term relationships not only translate into lower transaction costs for both sides but also provide ongoing opportunities for significant joint value creation. (See the sidebar "The Exponentially Greater Value of Long-Term Partnership.") The need for standardization in dealing with multiple accounts in certain customer segments,

THE EXPONENTIALLY GREATER VALUE OF LONG-TERM PARTNERSHIP

The well-documented relationship between Procter & Gamble (P&G) and Wal-Mart Stores is a textbook example of transforming a transactional relationship into a strategic partnership, embodying the joint value-creation principle central to key account management.

Before 1987, P&G's interactions with Wal-Mart had been primarily adversarial and fragmented, as sales teams from multiple P&G brands pushed inventory and promotions. Dissatisfied with P&G's approach, Sam Walton persuaded P&G's sales division to treat Wal-Mart more like a partner.

P&G began creating tools to support a closer interaction with Wal-Mart and other key customers. It assembled multifunctional teams to serve those accounts and sharpened the focus on profitability by instituting new metrics and incentives. The two companies launched many joint initiatives, including a ground-breaking supply-chain collaboration in which they introduced radio-frequency-identification technology to track and manage inventory. Another initiative involved using test stores to better understand consumer shopping behavior. Joint working teams continue to run these shared endeavors, and common scorecards monitor progress.

As a result of its strategic partnership, P&G's business grew from around $400 million in 1990 to more than $4 billion only a decade later. Today, Wal-Mart is by far P&G's largest customer, representing about $12 billion in sales, or 14 percent of total P&G revenues in 2012. P&G products, in turn, became Wal-Mart's most profitable—and Wal-Mart was able to capture value without raising prices.

such as hospitals, does not preclude servicing other segments, such as large payers, more individually.

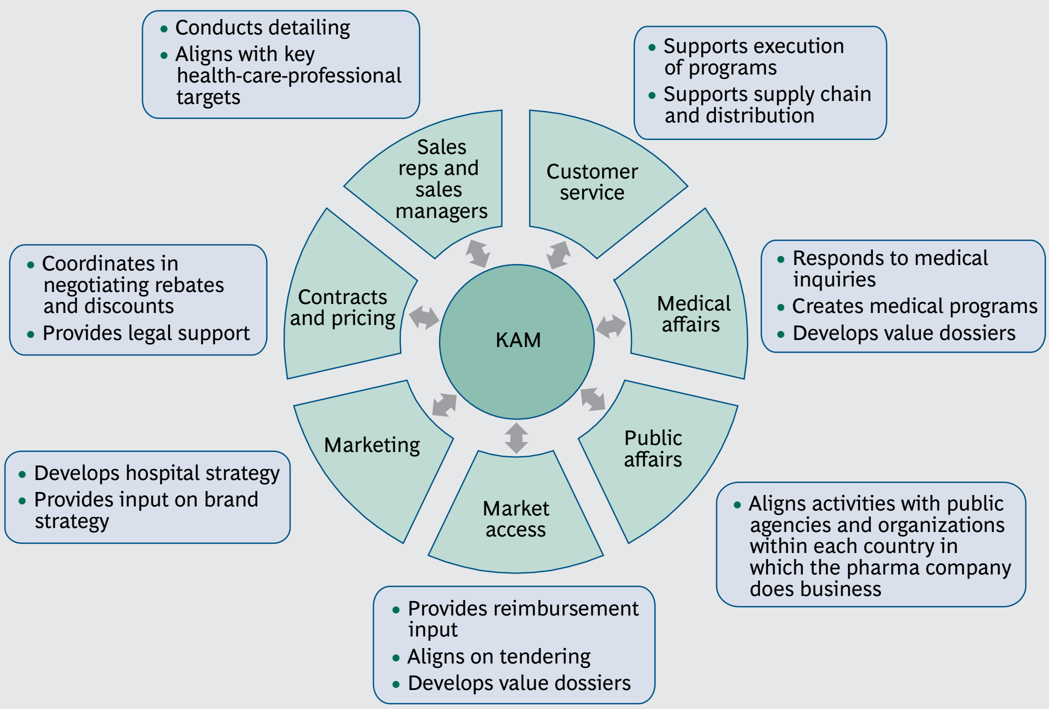
Consider the creative collaboration between a leading animal-health pharma company and its customer. In 2000, the pharma company teamed up with a major U.S. swine producer to optimize the producer's vaccination program through a client-specific study and registry. The pharma company provided dedicated, onsite, technical and medical staff; collected proprietary data; and conducted follow-up research. With the resulting information, the company was able to develop a vaccination program that was tailored to the producer's swine species, growth program, supplement regime, and other relevant factors. In return, the producer granted the pharma company exclusive supplier status and ongoing access to outcomes data. This relationship is now in its thirteenth year.

Enable internal cross-functional collaboration. The KAM is not meant to be the sole point of contact with the customer account. In our view, the KAM should oversee the entire customer relationship—monitoring developments, planning activities and interactions, supervising joint programs, and managing key relationships—so that the customer hears a single "voice." Above all, however, the KAM should coordinate the various experts and internal functions that serve the customer, whether directly or indirectly. Usually, this leadership role calls for marshaling resources beyond the KAM's reporting structure.

Consider what a large multinational pharma company did to manage key hospital accounts when it launched a new drug. For each account, KAMs created a detailed plan for securing a place in the formulary, adapting protocols, and ensuring adoption. The plan delineated specific activities for each function. (See Exhibit 2.)

For instance, the contracting and pricing teams would coordinate with the KAM to determine how to negotiate rebates and discounts; marketing would develop programs and initiatives; sales reps would

Exhibit 2 | Key Account Managers Coordinate Functions and Expertise with All Internal Stakeholders



Source: BCG analysis.

offer product information and education to the physician and nursing staffs and conduct promotional activities in the medical wards; and medical affairs personnel and liaisons would create medical programs and ensure that medical and scientific information needs were being addressed. The plan also outlined activities for market access, public affairs, and extended stakeholders, such as customer service personnel, who became responsible for ensuring delivery of programs and supply chain.

The plans for all the accounts were broken down by field activities for each function, and the KAMs monitored and followed up on all of them.

Foster an entrepreneurial mindset. Given their central vantage point and role as relationship coordinator, key account managers are perfectly positioned to manage the overall business relationship, including contract renewal; to spot emerging customer needs that represent potential opportunities; to anticipate and fend off encroachment by competitors; and to initiate joint value-generating efforts.

The KAM needs to strike the right balance between commercial agendas and other important considerations and requirements. Generally, it is not feasible to assign full P&L responsibility to KAMs, but that can also limit true ownership of an account. The right performance measures and incentives, linked to objectives outlined in the account plan, can be effective mechanisms for cultivating an entrepreneurial mindset.

What's Your Key Account Management Diagnosis?

Perhaps you're ready to move to a key account management approach, or you've already implemented one, but you're puzzled about the lukewarm results. Ask yourself the following questions:

- *How rich are your account insights?* Have you identified all your high-value accounts and their key decision makers? Do you understand what these accounts need in order to succeed?

- *How effective are your customer interactions and planning?* Have you defined ways to generate the greatest value for your company—and your accounts? Are you exploring new options?

- *Who in your organization is engaged in the effort—and how—and what processes have you established for effective execution?* Do you know who's responsible for what in each key account relationship? Do you have a process in place to coordinate the activities across a key account management program? Have you designated an individual responsible for ensuring quality and effectiveness in customer interactions?

- *Are both your organization and your governance system structured for success?* Do your key account managers have the authority they need to take the initiative and to be creative? Is your key account management approach embedded solidly within each of your regional country organizations? Can you measure success for each key account? Do you provide the right incentives?

- *How do your capabilities and systems measure up?* Have you articulated the skills that your key account managers need? Are they in place now, or are you providing the training necessary to build them? Can you track the performance of your key accounts?

Key account management is not just about sales or quarterly results. When done right, it is a cross-functional effort to define and create value jointly with major customers. Other industries developed the needed capabilities, often while in a defensive mode as they watched their customer base evolve. Pharma companies needn't risk being put on the defensive. The opportunities are here, and the time to engage your most important customers in value creation is *now.*

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