EXECUTIVE SUMMARY

Recapturing the vision*
Restoring trust in the pharmaceutical industry by translating expectations into actions

PricewaterhouseCoopers' Health Research Institute

*connectedthinking

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“There is one great problem that seriously challenges the ability of America’s research-based pharmaceutical companies to continue doing what they do better than any other entity on the globe: research and develop new cures and treatments. In a word, it is trust.” That statement, made recently by Billy Tauzin, president and CEO of Pharmaceutical Research and Manufacturers of America, captures the core of one of the greatest challenges to the pharmaceutical industry in America and throughout the world: that of restoring its damaged reputation.

While the industry’s reputation has been damaged, however, it has not been destroyed. Although healthcare remains one of the least-represented industries in the Financial Times/PricewaterhouseCoopers annual reputation rankings, a few pharmaceutical companies maintain a position among the world’s most reputable companies.[1] *Recapturing the Vision* is PricewaterhouseCoopers’ view of how pharmaceutical companies can identify, address, and alleviate the core issues that affect their reputations and how they can take steps to regain any lost respect.

We base our point of view upon the hypothesis that pharmaceutical industry stakeholders* and consumers have lost trust in the industry because they believe that financial success and subsequent pressures have blurred the industry’s greater purpose of improving human health. We believe this is just one of several reputation-related issues on which key stakeholders and pharmaceutical companies perceive the industry differently. While reputation knows no national borders, we focused on the U.S. market, where—primarily because of the rise in consumerism—we see reputation-related issues as most pervasive and as posing the greatest threat to the industry.

To test our hypothesis, we surveyed pharmaceutical industry executives, consumers, and stakeholders* about practices that carry significant reputation risk: research and development, sales and marketing, product pricing, finance and ethics. The survey results strongly supported our hypothesis: we found significant strategic, reputational and operational gaps between the pharmaceutical industry’s perspectives and priorities and those of the industry’s stakeholders. Based on our findings we believe that, with support and positive publicity from industry organizations, individual companies can restore and strengthen the foundations of their damaged reputations by better understanding and addressing those gaps and their associated issues.

In short, our research indicates that companies can narrow strategic, reputational, and operational gaps (and thereby enhance their reputations) by demonstrating a successful balance of their primary mission to improve human health and their fiduciary obligation to manage shareholders’ assets wisely.

Key survey findings

Consumers and stakeholders believe that pharmaceuticals constitute a much higher percentage of total healthcare costs than current information from the Centers for Medicare & Medicaid Services (CMS) indicates, which distorts the value–for–money argument used by the industry. Those surveyed said that drugs consume too high a percentage of health spending, and they significantly overestimated the value of that percentage. The disconnect may in part result from the fact that pharmaceuticals consume a higher share of consumers’ out-of-pocket spending than does any other component of health spending; many other health services receive far better coverage from insurance plans. As healthcare grows more consumer-driven in the near term, this disproportionate cost-sharing could continue to feed the public’s distorted view of how much drugs contribute to overall health spending.

Consumers and stakeholders do not understand the drug development decision process, and do not understand the risks and costs involved in researching new drugs and bringing them to market. Most consumers and stakeholders underestimated by more than 50 percent the average financial investment required to research and develop a new drug. This misperception may result, to some degree, from a recent industry trend: an inverse relationship between increasing research and development (R&D) spending and a decreasing number of new drugs brought to market. Unaware of the higher price pharmaceutical companies must now pay to develop a new product, many stakeholders perceive that increased industry spending focuses on marketing—particularly on highly visible direct-to-consumer advertising of products for non-life-threatening conditions.

There appears, furthermore, to be a discrepancy between the definition of innovation held by stakeholders and the definition held by the pharmaceutical industry. Consumers think of innovation in terms of products developed to address unmet medical needs rather than lifestyle needs or incremental improvement on existing treatments. Those consumers, however, also do not understand the complexity involved in the discovery, formulation and development of novel medicines.

Stakeholder groups and consumers continue to have concerns about the nature and extent of pharmaceutical sales and marketing practices. More than 94 percent of stakeholders said pharmaceutical companies spend too much on advertising; they also feel that industry advertising lacks transparency with respect to drug risks and benefits. Most stakeholders expressed concern about the amount spent on sales and marketing, about the influence marketing has on prescribing habits and about the impact of off-label drug promotion. While stakeholders accept

* Industry stakeholders, as referred to throughout this paper, are defined as the groups represented in our survey: doctors in physician groups, researchers in academia, former health policy makers, hospital executives, managed care organization executives, and employer executives.

the need for pharmaceutical companies to market products, those stakeholders believe that marketing focuses too much on sales and not enough on patient treatment and outcomes.

Pharmaceutical executives and stakeholders hold strikingly different views on a number of issues affecting reputation. These gaps in perception—particularly the following—may explain much of the well-documented erosion of the industry's reputation in recent years.

- When deciding whether to use a given pharmaceutical product, consumers place more value on a pharmaceutical company's reputation than pharmaceutical executives believe
- In contrast to the views of pharmaceutical executives, the majority of consumers and stakeholders view pharmaceutical companies as too aggressive in their promotion of drugs for unapproved uses, and many said that companies lack adequate processes to monitor unapproved drug use once a product has been released to market
- Though pharmaceutical executives report that they make health needs their top priority when deciding which drugs to research, consumers and stakeholders do not recognize those executives as doing so

Increased transparency by the industry could improve its image with all stakeholders. Most stakeholders and consumers know very little about the pharmaceutical industry's significant financial pressures and unique business model. Companies can enhance stakeholder trust if they deliberately sharpen the public's vision of these matters—including the public's view of the development process, drug risk and benefit information and drug cost and value data. More concentrated efforts to communicate the industry's role in improving human health and to promote programs already in place that help indigent patients also could improve the industry's image.

Recommendations for consideration

Our recommendations for pharmaceutical companies to consider fall into two categories. They are summarized here and further discussed later in this report:

1. Restore trust in the company's choices and processes regarding drug discovery and clinical development.

- Communicate to stakeholders the differences between chemical and biological innovation and educate stakeholders about the difficulties and nuances of fostering breakthrough medical products
- Address consumer misconceptions about the costs and risks of pharmaceutical product development
- Understand the most effective channels for the accurate and complete reporting of clinical trial outcomes by collaborating closely with healthcare workers and patient groups, and establish links so that information can be provided for relevant stakeholders

2. Refocus sales and marketing activities on improving the efficacy, safety and compliance of patient treatment.

- Ensure that marketing practices and promotional activities focus on improving the treatment of diseases, as well as—in light of the trend toward consumerism—the cost-benefit ratio of treatments and communications around safety profiles
- Partner with healthcare professional associations such as medical or advisory societies and physician groups to pursue mutually beneficial activities that improve patient outcomes by improving the prescribing habits of educated healthcare professionals
- Work with health plans and pharmacy benefit managers (PBMs) to develop incentive arrangements that contribute to clinical preventive treatment goals—that is, cost-sharing and performance incentives that reward preventive treatment plan compliance—thereby ultimately saving on hospital costs for payers
- Differentiate the corporate brand with communications that feature improved, cutting-edge pharmacovigilance activities
- Ensure that company culture and incentives promote compliance with sales and marketing policies and controls
- Work with state pharmaceutical distribution licensing agencies, enforcement agencies and wholesalers to strengthen controls over the integrity of the pharmaceutical supply chain

Conclusion

It continues to be difficult to understand why an industry whose mission is to save lives and improve the health of our communities should be held in such low public esteem. Whether consumers and stakeholder group perceptions are accurate or are based on misconceptions is to some extent irrelevant. The realities are that perceptions drive people's behavior and that in recent years the pharmaceutical industry has, for a myriad of reasons, lost the trust of its key stakeholders—regulators, payers, physicians, and patients. As such, the industry can and should act to restore trust as the central tenet of all of its relationships.

At the core of these actions there must be an enhanced focus on transparency and the provision of complete and accurate information for consumers and stakeholders. The right level of transparency will address the concerns identified in the survey by those who cited a lack of accurate information as the principal driver of mistrust and reputational decline. In addition, public commitment to and private actions toward the creation of a patient-based pharmaceutical marketing model—supported by a sustainable program to promote compliance with laws and regulations—could help restore in the public's eyes the balance between the legitimate need of pharmaceutical companies to promote their products and the greater good of patient health. In our view, companies can take concrete action to effect the needed changes.

Restore trust in discovery and development. Companies should change the way they define innovation and communicate it to the public. They should correct commonly held misconceptions related to the costs and risks inherent in the development process. They should also take steps to ensure that they are using the most effective channels for accurate and complete clinical trial reporting to all relevant stakeholders.

Explain the broader benefits of the medicines the industry delivers. Improved communication of the broader socioeconomic benefits of modern drugs will enhance stakeholders' esteem for the industry and help educate the public on the impact of modern drugs on healthcare in general. Improved understanding may make price justification easier in a market in which government pricing policies impede industry economics.

Redirect marketing and sales activities toward more effective, safer, and more compliant patient treatment. Sales and marketing efforts should espouse a greater bipartite focus on the treatment of diseases and the cost-benefit ratio of those treatments. Toward that end, companies should consider nontraditional venues to educate physicians and thereby improve prescribing habits and, in turn, patient outcomes. Third-party financial arrangements should incentivize compliance all along the supply chain. Improved, cutting-edge pharmacovigilance and drug safety activities, as well as a companywide culture of compliance, should become hallmarks of the corporate brand. Companies should reinforce stringent business ethics as a basis of good corporate behavior and penalize those who run afoul of expected good practice.

Foster a culture of compliance and patient-focused behavior. By ensuring that the company demonstrates dedication to ethical, patient-focused behavior and by implementing fundamental changes in the processes and tools that are relevant not only to the efficient and effective conduct of business operations but also to reputation management, pharmaceutical companies may guard against exposure to excessive and unnecessary business and financial risk—and thereby protect stakeholder value.

Educate the public. Communication on the benefits of the industry for the day-to-day lives of patients—as well as communication on the risks and costs inherent in the development of new drugs for future consumption—is needed if patients are to understand the role of the industry in their personal health cycle. An improved understanding of the role of the industry in enhancing personal lifestyle and longevity will reestablish the trust and the bonds that have historically existed between the patient and drug company.

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