Innovative marketing strategies after patent expiry: The case of GSK's antibiotic Clamoxyl in France

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INTRODUCTION

Before assessing how best to respond to a loss of patent protection, it is important to consider whether radical change is really necessary. It may be that the pharmaceutical product is operating in a niche category that is too small to attract challenging generic competition, at least in the short term. It could also be that the awareness and image of the brand is so strong in patients' and doctors' minds that it would retain most of its equity even after the loss of patent protection. In most cases however, the entry of generic competitors radically alters the competitive landscape and calls for appropriate radical responses. In the next section, the five major strategies available to pharmaceutical brands facing competition from generics are briefly reviewed. This is followed by a review of the innovative marketing strategy adopted by SmithKline Beecham in France in the late 1990s, when its Clamoxyl antibiotic faced a sudden increase in competition from generic amoxicillin.

FIVE STRATEGIES FOR COMPETING AGAINST GENERIC PHARMACEUTICAL PRODUCTS

Figure 1 shows that the five major marketing strategies available for a prescription drug facing competition from generics involve a trade-off between brand building and price competition. Of course, a company can also resort to non-marketing oriented strategies such as legal efforts to extend patent protection or tactical alliances with generic makers and can simultaneously implement different strategies, thereby creating a hybrid model. In a first stage, it is nevertheless useful to review each strategy independently, starting from the most common to the least common.

Divest

This strategy involves cutting all promotional and research expenses once the brand faces direct competition from

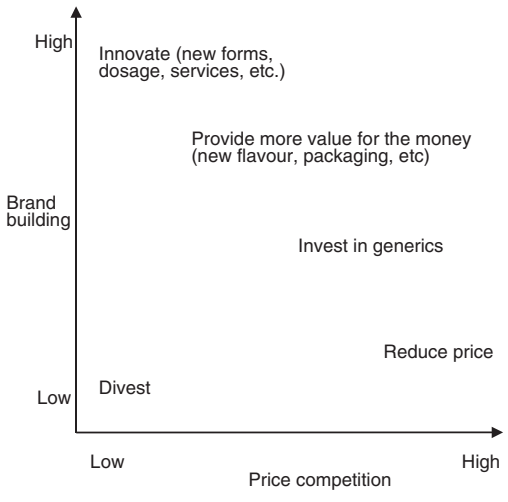

Figure 1: Marketing strategies after patent expiry

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generics and redirecting the savings towards brands that are still enjoying patent protection. Sometimes, this 'milking' strategy actually involves price increases to take advantage of the higher brand equity of the brand among the smaller segment of hard-core loyal customers. This strategy leads to the lowest levels of brand building (because the brand is not supported) and price competition (because the price advantage of generics is not challenged).

The success of this strategy hinges on the inertia of doctors, patients and the other stakeholders (pharmacists, HMOs, governments). When their motivation to switch to the newly-available generic is low, either because of low financial incentives or strong attachment to the brand or to the value of brand equity for funding research and development, such a strategy can deliver high profitability, at least over the short term. Over the longer term, however, the profitability of this strategy depends on the elasticity of the other still-patent protected drugs to the additional promotional investments. As many examples have shown, it is not always easy to convince doctors and patients to upgrade to the new patent-protected drug in the category and patenting these next-generation products is becoming increasingly hard. One of the major drawbacks of this strategy is that it encourages generic makers to challenge drug patents more aggressively, knowing that the market will be all theirs as soon as they have received the green light.

Innovate

Short of introducing a completely new molecule, pharmaceutical companies can innovate by launching new forms and dosages or by demonstrating effectiveness for new indications. They can also innovate by offering better services for doctors (eg hotline), and better communication on the illness and on the brand through higher promotion by the medical representatives. Compared with the 'milk and divest' strategy, this option also entails low price competition, but can improve the equity of the off-patent brand by offering additional patent protection. On the other hand, innovations require years of research before being authorised and, in some countries, do not necessarily extend the duration of the patent.

Provide more value for the money

Introducing new and improved flavours, packaging, or delivery systems (eg easy to swallow pills, or patches) can lead to additional emotional or functional consumer benefits (eg higher compliance). The resulting differentiation enhances the awareness and image of the brand and hence increases its equity. Because these innovations typically do not extend patent life however, it is more difficult to pass the costs on to the consumer when facing generic competition and hence, this strategy's lead is one step ahead towards price competition. In addition, these improvements can be easily copied by generics and thus often have only a weak impact on sales, while reducing margins. These changes can also be perceived as marketing gimmicks and hurt the perceived scientific integrity of the brand.

Invest in generics

Pharmaceutical companies can try to fight at both ends of the market by introducing their own generic. This will reduce the profitability of generic makers and may deter them from entering the category. On the other hand, pharmaceutical companies have realised that producing and marketing generics requires different skills to their traditional business and that it is difficult to be a strong player in both business models. To overcome this difficulty, pharmaceutical companies can license the drug before the expiry of the patent in exchange for royalties. The new

copy will typically be priced higher than a true generic, but will benefit from first-mover advantage, preferential access to raw material and manufacturing know-how, while still deterring entry from other generic makers.

Reduce price

On one hand, this strategy has the lowest potential for brand building. On the other hand, narrowing the price gap with generics addresses the main problem created by the expiry of the patent; that the equity of the brand can no longer sustain a large price differential with what is, essentially, the same product. At the extreme, aligning the price with the generic will make doctors, pharmacists and regulators indifferent between the two and may force the weakest generic makers out of the business, given their lower economies of scale. On the other hand, price competition invites retaliation and can quickly degenerate into a price war that would kill all the profits in the category. Another issue to be kept in mind here is that most doctors who prescribe the drug are not aware of prices. Communicating the price change is therefore an integral part of this strategy.

CONTEXT OF THE CLAMOXYL CASE

When it was launched in 1974 by Beecham laboratories, Clamoxyl was the first amoxicillin available in France (it was launched under the Amoxil brand in the USA and other countries). Clamoxyl was a rare breakthrough product and enjoyed immense success. Despite losing its patent protection in 1980, Clamoxyl was still the highest selling antibiotic in 1996. To understand this peculiar situation, it is important to highlight some points regarding the antibiotics market and the regulatory and political environment regarding generics in France.

The antibiotics market

Doctors are facing many uncertainties when deciding which antibiotic to prescribe. It is difficult to identify the specific bacteria that are responsible for the symptoms, let alone to know with confidence that these symptoms are not caused by a virus. Some families of antibiotics like amoxicillins have a large spectrum of indications and therefore compete with other families such as macrolides and first generation cephalosporins for the most common causes (respiratory infections). At the time of the crisis, these more recent families of drugs were lucrative because they were more expensive than amoxicillin, were still patent protected, and were heavily promoted. As a result, the antibiotics market exhibits a very strong level of competition.

From the very beginning, Beecham laboratories positioned Clamoxyl with strong scientific support, notably a photograph of dead streptococci. Thanks to the strong research and development efforts of SmithKline Beecham (SB), Clamoxyl quickly became available in oral and injectable forms adaptable to all situations for adults and children. In line with the functional positioning of Clamoxyl, SB always communicated on the therapeutic benefit of these improvements. SB also provided excellent service for doctors, ranging from a 24-hour hotline, to jars of sweets to offer to children during medical visits. Finally, SB promoted Clamoxyl heavily, relying on a dedicated salesforce and on distinctive advertisements emphasising the uniqueness of Clamoxyl and its red colour.

The arrival of generic competition

After the expiry of Clamoxyl's patent in 1980, generics and branded copies entered the market, selling for at least 30 per cent less than Clamoxyl. These generics were not available in as many forms as

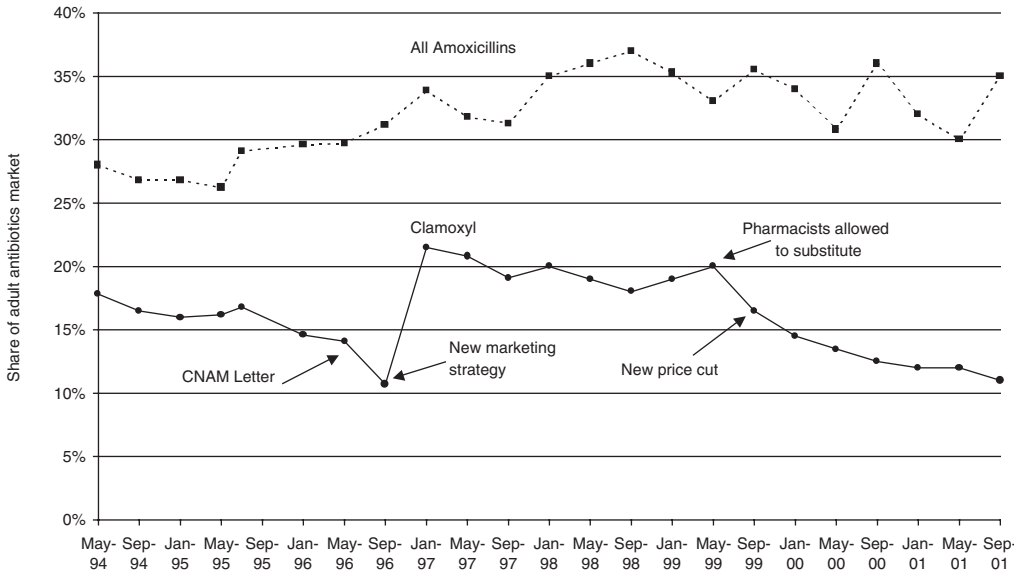

Figure 2: Market share of Clamoxyl and of all Amoxicillins in the French adult antibiotics market (1994–2001)

Clamoxyl. Generics quickly gained about half of the amoxicillin market (see Figure 2). Yet, most producers of generic drugs were not breaking even because they lacked the wide portfolio of products necessary to achieve economies of scale.

To counter the loss of the patent, SB developed and tested different improved versions of the molecule, which could have been marketed as a replacement for Clamoxyl, but to no avail. In the absence of a foreseeable breakthrough, SB invested in the brand by developing new forms and dosages (eg 1 g dose necessitating only one take per day; sugarless Clamoxyl for children) and continued to promote Clamoxyl through medical representatives and advertising. In addition, the arrival of many undifferentiated generics and copies ironically helped reinforce the positioning of Clamoxyl as the only true amoxicillin.

The progression of generics halted after 1985 and the market share of Clamoxyl remained stable for about 10 years, when it started to erode again (losing about two market share points in 1996). Whereas some of its decline was due to competition from generics, part of it was also due to increased competition from other families of antibiotics, helped by their substantially higher promotional investments. Still, in the year ending in August 1996, Clamoxyl remained the most prescribed antibiotic in France, captured 34 per cent of the amoxicillin market and 8.8 per cent of the total antibiotic market. Its turnover (€75.4m) accounted for 33 per cent of SB's antibiotic sales and 18.2 per cent of its total sales.

Regulatory and political environment

Multiple public authorities regulate the pharmaceutical industry in France. Each is quite autonomous and looks after different aspects like licensing, pricing, reimbursements, etc. The price and reimbursement levels are decided after negotiation with the pharmaceutical labs and depend on the incremental therapeutic benefits that the new drug would offer. Social security reimburses 65 per cent of the price of antibiotics, but 85 per cent of French people have private insurance, which reimburses the rest. In practice, patients do not pay for their pharmaceutical products and can visit as

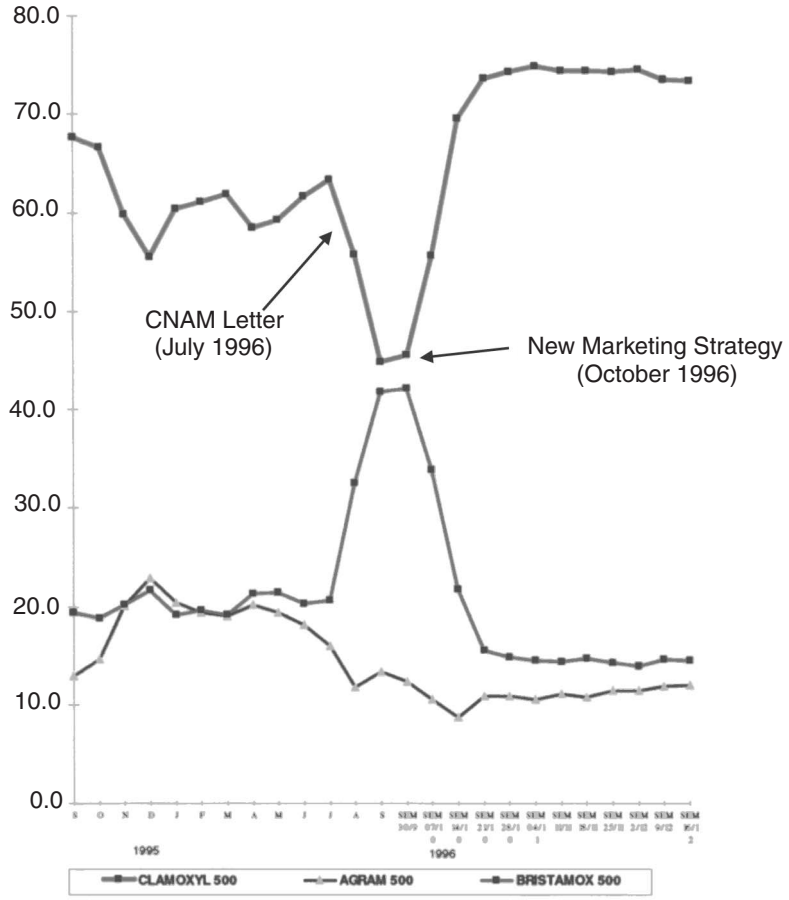

Figure 3: Relative market share of Clamoxyl 500 (€5.64 per box), Agram 500 (€5.34), and Bristamox 500 (€3.51) in 1995 and 1996

many doctors (general practitioners and specialists) as they want. Up until 1999, pharmacists were not allowed to substitute the prescribed drug with its generic counterpart. As a result, French annual *per capita* expenditures on pharmaceutical products were (and still are) the highest in Europe.

Little had been done to really curb medical expenses up until 1996, when the Juppé reform (named after the French Prime Minister who led it) granted new power to the regulatory bodies. The new law established limits on the number of authorised prescriptions and on the choice of drugs and proposed to set up a computer network that would monitor doctors' prescriptions more easily and encourage the systematic choice of alternative, less costly drugs. In practice however, the French authorities used a mixture of persuasion and threats of future financial sanctions to encourage doctors to opt for generic drugs.

Clamoxyl is targeted

In July 1996, the social security agency responsible for the reimbursement of drugs (the CNAM) sent a letter to all doctors urging them to prescribe generic amoxicillin instead of Clamoxyl. Although doctors regarded this as an interference and an attack on their freedom of prescription, it affected them because of the threats of future financial sanctions and because a strong media campaign pointing the finger

at them. Clamoxyl sales saw a sharp decline of 29 per cent in the three months following the CNAM letter (see Figure 2). The market share of all amoxicillin products increased, but not as much as the market share of Clamoxyl decreased, suggesting that some of the sales lost by Clamoxyl were diverted towards other families of antibiotics. Within amoxicillin, most of the substitution went towards the cheapest generics such as Bristamox rather than towards branded copies such as Agram (see Figure 3).

MARKETING OPTIONS FOR CLAMOXYL

The rapid decline in market share caused by the CNAM letter, combined with the slow but continuous erosion of Clamoxyl sales over the last year and the continued promotional support for other families of antibiotics was a source of deep concern for SB. The management forecast that Clamoxyl's market share of the antibiotics market would drop to 8 per cent at the end of 1996 (compared with 10.6 per cent in 1995 and 8.8 per cent in the year ending in August 1996) if they changed nothing to their strategy. Changing nothing was therefore not an option: Even Clamoxyl, one of SB's 'jewel drugs' had to confront competition from generics one way or the other. SB therefore considered each of the strategies outlined in Figure 1.[1]

Milk Clamoxyl and invest in Augmentin

One obvious idea would be to stop investing in Clamoxyl and to redirect all the freed resources towards Augmentin, which was still patent-protected. Introduced in 1984, Augmentin is a combination of amoxicillin and clavulanic acid, an inhibitor that neutralises the most prevalent mechanism of bacterial resistance to amoxicillin. When it was launched, Augmentin was not positioned to doctors and sold to the CNAM as an improved Clamoxyl, but as an advanced cure for specialised problems (eg sinusitis, patients at risk such as children) and in cases of bacterial resistance to Clamoxyl. The specialised positioning of Augmentin limited its prescriptive potential, but enabled SB to keep Clamoxyl's positioning as the antibiotic for the majority of common infections. It also allowed Augmentin to be priced at 2.3 times the price of Clamoxyl.

SB decided against following this strategy for the following reasons. First, despite perception of the contrary by some doctors, Augmentin and Clamoxyl were not direct substitutes. Clamoxyl had fewer side-effects and was more effective than Augmentin for some key indications. The level of resistance to Clamoxyl was still low in 1996 and, last but not least, Clamoxyl tasted better than Augmentin. Secondly, repositioning Clamoxyl as a new all-purpose antibiotic would seriously damage the credibility of SB (which had been arguing to the contrary for 12 years) and would require new price negotiations with the CNAM. Finally, promoting both Clamoxyl and Augmentin increased doctor's awareness of amoxicillin, the key component in both drugs, at the expense of other families of antibiotics.

Innovate or provide more value for money

This strategy was difficult to follow, simply because it was becoming very difficult to improve upon Clamoxyl. Clamoxyl was already available in more forms than any other brand. In addition, obtaining the license and launching a new dosage or form would take years and could be easily copied by generics, once authorised. It was also difficult to think about how Clamoxyl could be promoted differently to doctors (direct-to-consumer advertising is forbidden in France). What could SB say that doctors did not already know? Clamoxyl had the highest brand

awareness and best image of all amoxicillins. The very strong promotional and advertising pressure from macrolides and cephalosporins also implied that it would be very difficult for SB to significantly reverse the balance of power in favour of the overall amoxicillin category.

On the other hand, by pointing the finger at Clamoxyl, the CNAM letter has made it a symbol of the new hardball attitude of the government, putting pressure on branded drugs and on doctors. By continuing to fight for Clamoxyl, SB would be seen as fighting for doctor's freedom of prescription and for continuing research and development. To be effective, this message would have to be coupled with a price reduction to nullify the financial arguments put forward by the CNAM.

Reduce price

A price reduction would help tackle the source of the problem. Clamoxyl was still a strong brand but was it strong enough to warrant a 30 per cent price premium over generic amoxicillin, especially in the face of intense pressure by the CNAM and the media in favour of substitution? The main issue with this strategy is that it was inconsistent with SB's corporate philosophy and business model, which were oriented towards the discovery of innovative drugs, not price competition. It is also risky because generics would eventually lower their price, as this was their only competitive advantage.

Even if SB decided to reduce the price of Clamoxyl, the size of the cut is a hotly debated issue. On the one hand, a small price cut might be sufficient to reduce the price gap to the level of the brand equity gap. This price cut could also be selectively implemented only on the forms facing competition from generics. On the other hand, a drastic price cut aligning Clamoxyl with the cheapest generic would be easy to communicate to doctors, patients and the media. This is important, since people are often not aware of drug prices and not accustomed to the idea of price haggling over medical products. A large price cut would also be hard to match by generics drug makers, who would need the approval of their corporate management to retaliate at this level. It would also probably wipe out copies (such as A-Gram) that were priced at a 10 per cent discount by encouraging their manufacturers to stop their promotion. Finally, it would deter the entry of new generics.

WHAT HAPPENED

The strategy ultimately followed by SB for Clamoxyl was innovative on many points. First, because they implemented many of the options reviewed here simultaneously. Secondly, because they explored new routes by moving the debate from price haggling towards a more comprehensive solution. The solution was a direct result of the dynamics of competition between antibiotics and of a deep understanding of the long-term goal of the CNAM, which is to lower their reimbursements, not to reduce the price of a particular drug. Yet, its letter encouraged some doctors to substitute Clamoxyl not with only generic amoxicillin, but with the still-patent protected and more expensive, macrolides and cephalosporins, resulting in a net increase in expenses for the CNAM.

SB therefore negotiated a gentleman's agreement with the CNAM, whereby Clamoxyl would be taken off the table of drugs to be substituted in subsequent CNAM letters. In exchange, SB lowered Clamoxyl's price to the level of the cheapest generic amoxicillin (–30 per cent on average) and promised to continue to promote Clamoxyl, and thus Amoxicillin, so as to reduce the switch towards more expensive macrolides and cephalosporins. Simultaneously, SB sent an open letter to

all French doctors in October 1996, announcing the price reduction and the decision to continue to develop and promote Clamoxyl. Consistent with the scientific positioning of Clamoxyl, the letter emphasised that this decision ensured continued medical research and freedom of prescription for the doctor. The letter was accompanied by an advertising campaign in the specialised press emphasising that Clamoxyl offered doctors 'the power of choice'.

Immediate effects

The announcement that SB would align the price of Clamoxyl with the price of generics generated a lot of positive media exposure for Clamoxyl and SB. Probably due to the size of the price cut, competitors did not immediately match Clamoxyl's new price. As a result, Clamoxyl regained all the market share lost to generic amoxicillin within a couple of weeks (see Figure 3).

By the end of 1997, Clamoxyl's market share was actually higher than its pre-July 1996 level, gaining 3 percentage points to stabilise at around 20 per cent of the adult antibiotics market (see Figure 2). As predicted by SB, their strategy also improved the market share of amoxicillin in the antibiotics market (about 33 per cent in 1997 compared with 29 per cent in 1996). The total savings for the CNAM in September 1997 were estimated by SB at €36.7m, of which €28m came from Clamoxyl's price cut, €4.5m from subsequent price reduction by other amoxicillins and €4.2m from the substitution of more expensive antibiotics by amoxicillin.

Financially, the new strategy did not break even: The higher market share did not compensate for the 30 per cent price reduction. However, the pre-July 96 situation cannot be used as a realistic benchmark given the rapid erosion of Clamoxyl's market share. As noted earlier, SB had forecasted an 8 per cent market share for Clamoxyl if they changed nothing. Compared with the 'no move' scenario, SB's strategy generated a positive €17m profit for SB.

Longer-term effects

As expected, generics continued their slow growth, helped by a widening price gap with Clamoxyl, continued pressure from the government and media in favour of generics and continued promotional effort by still patent-protected drugs (see Figure 2). SB lowered the price of Clamoxyl again in September 1999 by 17 per cent on average, while maintaining research and promotional efforts. As a result, SB was able to stabilise Clamoxyl's market share for a while. The positive effects of the price cut however, were more than offset by a new law introduced in the spring of 1999, which allowed pharmacists to substitute branded drugs with generics and granting them higher margins on generics. The continued fall in sales was also due to the decision by generic amoxicillin's to match the two price reductions initiated by Clamoxyl. Yet, the market share of amoxicillin continued to decline and the total cost of reimbursing antibiotics for the social security system therefore increased over the period.

CONCLUSION

It is inevitable that the competition from generics will erode the profitability of the original brand. As this paper argues however, and as the Clamoxyl case demonstrates, this does not imply that pharmaceutical companies should not put up a fight. Clamoxyl is obviously worse off now than it was in the summer of 1996. The continuous investments in brand building, coupled with well-publicised price cuts, and win-win agreements with the French social security system however, helped extend the life of the brand for half a decade, generating substantial profits.

Every pharmaceutical company facing competition from generics should therefore carefully review the different marketing strategies briefly outlined here before deciding to pull the plug on their brands. It may be more profitable, and considerably less risky, to add a few years to an old brand's life by continuing to invest in it, even for a reduced margin, than to let generics take over the market in the hope that the newly freed investments will substantially boost the sales of other still patent-protected brands.

ACKNOWLEDGMENTS

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Note

1 Marketing their own generics was not considered at that time for a variety of reasons.

Case Commentary

Innovative marketing strategies after patent expiry

Pierre Chandon writes:
In 2003, what can we learn from what happened to Clamoxyl in France in 1996? The Clamoxyl story shows that pharmaceutical brands can have considerable equity and can thus put up a successful defence against generics. This is a lesson that many pharmaceutical companies should ponder, given how little respect they generally have for their brands. For example, we too often see newly merged corporations happily forfeiting esteemed old brands in favour of new acronyms with zero awareness and weak image. A market-savvy company would not give up that easily on these fantastic brands and on the value that they have, inside and outside the company. Similarly, too few pharmaceutical companies know how to leverage the power of their brands through careful brand extensions or coherent brand architecture (the relationship between the corporate brand and all the product brands). Finally, pharmaceutical companies are still learning how to brand the total customer experience, that is, not just the product, but the name, the packaging, the delivery system, and the pre- and post-consumption information search.

Another lesson from the Clamoxyl story is the importance of replacing a narrow problem definition (price competition from generics) in favour of a real understanding of the goals and constraints of the key stakeholder (in this case, the French social security system's goal of reducing the growth in antibiotic reimbursements). This lesson still holds today, although the specific strategy implemented in 1996 is no longer valid. Consider Augmentin, whose patent expired in France in 2002. The new law introduced in 1999 shifted a significant amount of power from the doctor to the pharmacists, who are now allowed to change a prescription to any cheaper generic. Most generics offer higher unit margins and therefore Augmentin would not gain if they were to reduce the price. Doctors would be more likely to prescribe it but pharmacists would continue to sell generics instead (and would be irritated at the lower margins for Augmentin). GSK therefore decided to license Augmentin to three generic makers six months before the end of the patent protection period. In exchange for royalties, these generics producers obtained manufacturing know-how and, most importantly, a head start deterring entry of other generic makers and hence reducing price competition.

Anthony J. Knight writes:
This case hinges on three main points: strong global branding and positioning, prescribing inertia and the establishment of

a mutually beneficial relationship with a government reimbursement authority.

The branding used for Clamoxyl/Amoxil set new standards in clarity and consistency of promotional material, brand image and positioning. This placed the product in a class of its own with performance and reliability to match; it was an icon of its age. There was a strong emphasis on palatability for children reinforced by the give-away sweets of the same flavour. The message was clear — prescribe this product and the patient would take it and get better; the security of knowing that the patient was unlikely to get worse or to have significant side-effects and lead to out of hours calls. Thousands of doctors did just that and the product lived up to its promise, which, coupled with a general ignorance of cost and an unchallenged view of the freedom to prescribe, created a strong post-patent loss position. Thus two of the main planks for post patent loss survival were in place. Only one, strong branding, survives as an option in today's markets. The opportunity to negotiate a win-win position with a reimbursement authority remains an opportunistic strategy that is dependent on local circumstances and unlikely to be a universal option.

The gain for GSK was estimated at €17m, however this was based upon their view of the decline in market share resulting from doing nothing. Without that estimated further decline, the project did not break even. The commitment to continue promotion would not be without cost, both real and opportunity. The latter should be valued in terms of peak sales value time gained for a patent protected molecule that could have benefited from that resource. It is doubtful that there was any financial advantage in this strategy over taking a royalty from out licensing and cash cowing the residual high price sales while withdrawing promotion.

There is little doubt that strong branding, line extensions, process patents, innovative delivery technologies and licensing deals all serve to slow down the rate of decline of patent profits, but the reality today is that payers take active steps, through policies and penalties, to drive down prescribing costs for post-patent molecules that have constituted a drain on health budgets. Post-patent profit protection strategies need to be in place long before patent expiration, the inhaler market provides a good model for observing this. Active promotion should be reserved for cases where the product offer is not reproducible, or tactically in response to a local opportunity.

Return on marketing investment must drive resource allocation decisions in today's pharmaceutical environment. Generics, whatever the strategy, do not provide the yields required when competing for investment revenue or capital in a mainstream pharmaceutical company. They do, however, make sense to highly focussed, low overhead, branded generic specialist company from whom royalties can flow for many years.

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Tony Booley writes:

Pharmaceutical companies often do not consider the range of strategies open to them when faced with a patent expiry. The likely degree of competition from generics will be influenced by external factors such as the competitive situation

with regard to parallel imports; which influences the relative attractiveness of a market for a generic competitor. The competitive landscape at patent expiry is very country specific due to the differing regulatory and market landscapes. For example, the retention of brand equity may be influenced by factors such as computerised substitution, which is sometimes mandatory.

Companies also need to be proactive with older brands that may have been hit by generics, as brand revitalisation may be possible later in the life cycle. Getting price increases when employing a milking strategy depends very much on the pricing framework in individual countries. One method that has been employed is to 'foster' products to another company that may be in a better position to gain price increases. In countries such as the UK, it is now very difficult to get price increases due to the constraints of the UK Pharmaceutical Price Regulation Scheme (PPRS) system. It is not always easy to persuade doctors and patients to upgrade to the new patent-protected drug. We therefore need to consider replacement strategies such as those employed by Astra Zeneca with Losec or Schering Plough with Neo-Clarityn. In addition to fragmenting the business by dosage form, consideration needs to be given to outflanking the generics by taking the brand over the counter (OTC). Some innovations such as extended use or changed formulations can be brought to market relatively quickly if developed by an organisation committed to giving the project sufficient priority. A case can be made for a partnership or out-licensing to a speciality pharmaceutical company.

Concerning an 'invest in generics strategy', branded pharmaceutical companies have recognised that producing and marketing generics requires different skills and a different businesses model. Therefore the possibility exists that the product could be licensed out to a generics company in exchange for royalties. Perhaps pharmaceutical companies should recognise that managing a brand post-expiry is a specialist area? There are also speciality pharmaceutical companies that will manage brands post patent expiry.

Another strategy is to license the brand to another company to manage post-patent situation. This requires skilful valuation of future cash flows. It may be better to have the future value of the brand revenue stream now to invest in brand building in other more profitable areas. The marketing risk can also be passed onto another company. Companies with a branded pharmaceutical portfolio need to constantly evaluate marketing risk across the portfolio and actively manage this risk.

When considering a price reduction strategy, we need to look at an approach that reduces the price selectively through different deal structures. Examples would be hospital contracts or brand 'equalisation' deals with larger retail pharmacy chains, where a company's branded prescription line is sold at brand price and also dispensed for generic prescriptions, but reimbursed at an agreed generic price. The pharmacy benefits through lower administration costs and not having to stock both the branded and generic product. The pharmaceutical company benefits by effectively and selectively shutting out the generic equivalent of its product.

It is not surprising that Clamoxyl was still the best selling antibiotic in 1996. France has until recently at least, had greater difficulty in containing healthcare costs due to the local market structure. The existence of primary care gatekeepers in the UK renders the NHS more suitable to cost containment. Compared with other countries, France had remained a more largely branded market. Overall in 1996, generics only accounted for 2–3 per cent

of total prescriptions by value compared with approximately 40 per cent by value in Germany and 25 per cent in UK.

Did SB consider investing in brands other than Augmentin? Augmentin was considered principally to retain business in the same market. Extra investment in other SB brands may have given a greater return? Given that SB's business model was oriented towards the discovery of innovative drugs and not price competition, why did SB in 1996 or earlier not consider divesting the brand to another company? The net present value (NPV) of this strategy may have been superior given the strong brand equity and historical sales situation, which would have driven the forecasts.

No mention is made of manufacturing considerations. As Clamoxyl needed to increasingly compete on price, what consideration was given to shifting manufacturing to India or China in order to preserve margins? Also were there any formulation changes possible that would reduce the cost of goods? The campaign appealing to French doctors' 'freedom of prescription' obviously had the right emotional impact at the time. The SB marketing strategy demonstrates how rational and emotional marketing practices can work well together.

Pharmaceutical companies generally do not put up much of a fight post patent expiry. This is because their business models are focused elsewhere. However, the emergence of speciality pharmaceutical companies, whose business model allows them to focus on and manage brands post patent expiry opens up a host of new strategic options for managing this phase of the product life cycle.

Tony Booley

is a board director of Alliance Pharmaceuticals and has 23 years' experience in the pharmaceutical and healthcare industry including posts at the multinationals Leo Pharma, Glaxo Wellcome and Getinge Industrier. He can be contacted at tonybooley@alliancepharma.co.uk; URL: www.alliancepharma.co.uk