STATE OF THE U.S. BIOPHARMACEUTICAL INDUSTRY 2012: EXECUTIVE SUMMARY
State of the Biopharmaceutical Industry

A wide range of challenges unique to the biopharmaceutical industry affect public confidence and the ability to remain competitive in the marketplace. From foundational demands for product safety and quality to evolving expectations about chronic disease management and innovation, stakeholders continue to demand more from biopharmaceutical companies to remain trusted and leading corporate citizens.

APCO Worldwide and its research consultancy, APCO Insight®, developed the Return on Reputation (ROR) Indicator to better understand and address key stakeholders’ expectations in order to protect, enhance and track reputation over time, as well as quantify the impact on the industry and its individual companies. At the core of the research is a proprietary model that isolated the key drivers that define the reputation of biopharmaceutical companies. The model was developed based on comprehensive qualitative and quantitative research among key stakeholders, including Health Care Opinion Leaders, Health Care Providers, Policy Leaders and Payers.

This groundbreaking study has three major components:

• The ROR Indicator quantitatively measures the relationship between the reputation of the biopharmaceutical industry and its companies and several key outcomes, including consumer behavior, prescribing behavior, community activism, policy and litigation environment, and financial value.

• The Biopharmaceutical Industry Reputation Model identifies the 28 most important drivers of the reputation of the biopharmaceutical industry and its major companies (defined by 54 discrete attributes).

• The Biopharmaceutical Industry Reputation Matrix helps identify specific reputation strengths and, more importantly, those opportunities that can help improve the industry’s reputation most significantly over time by discrete audience segment.

"APCO’s Return on Reputation Indicator provides companies with direction to support business strategies at the highest level all the way down to the tactics. To me, the most interesting information is learning what matters most to key stakeholders and then applying this knowledge to create strategic, targeted reputation programs. Through this process, APCO helped us enhance our organization’s reputation on multiple levels."

Phyllis Piano
former vice president, corporate communications and philanthropy at a major biotechnology company
senior counselor, APCO International Advisory Council

"The ROR Indicator shows that the reputation of biopharmaceutical companies has a measurable impact in improving the business environment, including increasing sales and market capitalization. The study provides a clear roadmap for how the industry can effectively enhance its most valuable asset. Addressing public health concerns is one of several opportunities, the research shows, that can both help improve reputation and drive positive business outcomes."

Bryan Dumont
president
APCO Insight
Based on a sophisticated statistical analysis, the ROR Indicator reveals that reputation can:

- **Lead to more patients asking their doctors about a company’s medicine**: For every one-point increase on the Reputation Index, it is estimated that an additional 987,922 patients will ask their doctors about a company’s medicine.

- **Increase the number of prescriptions physicians write for a company’s medicine and increase sales**: For every one-point increase on the Reputation Index, it is predicted that sales for the average biopharmaceutical company would increase by 0.2 percent.

- **Mobilize community activists to become advocates**: For every one-point increase on the Reputation Index, the industry adds approximately 201,140 additional likely community activists who advocate on behalf of the industry.

- **Increase the level of support among Policy Leaders on the most important policy issues facing the industry**: For every one-point increase on the Reputation Index, the proportion of Policy Leaders who support policies favorable to the industry would increase by 1.2 percent.

- **Gain the benefit of the doubt when crises arise**: The data suggests that a one-point increase in the Reputation Index could translate into more than 1.6 million additional people who are likely to support and defend the industry.

- **Maximize shareholder value and increase market value**: For the average biopharmaceutical company, the data shows that a one-point increase in the Reputation Index can lead to approximately a 0.02 percent increase in market capitalization.
The foundation of APCO’s ROR Indicator is a robust model that measures the extent to which all stakeholders believe the industry and the individual biopharmaceutical companies are meeting their unique and specific expectations. The model is based on more than 10 years of extensive qualitative and quantitative research in the sector that identified 28 drivers that define the reputation of the biopharmaceutical industry.

Correlations between the factors show there are eight broad dimensions of reputation across all audiences: Economic Impact, Government Relations, Innovation, Pricing, Public Health Leadership, Responsible Business Operations, Safety & Efficacy and Social Responsibility.

In 2012, the model was refreshed (through advanced statistical analysis) to confirm additional attributes that add dimension to the Safety & Efficacy, Innovation, Public Health Leadership and Social Responsibility themes.

The model retains its ability for year-to-year comparison to reflect changing evaluations of the biopharmaceutical industry among key stakeholders.
The Reputation Matrix maps each of the 28 reputation drivers by their relative impact and performance across audiences.

The industry’s core strengths are defined by its commitment to Safety & Efficacy, specifically Product Safety, Product Quality and Product Transparency. A new Manufacturing driver offers the industry an opportunity to further demonstrate its commitment to quality and reliability.

The industry continues to receive strong, positive ratings on Innovation factors, with rebounding importance after a dip in 2011. Stakeholders’ expanded definition of Innovation amplifies a growing demand for the industry to address public health concerns, not merely create products. Expectations for the industry are to add context to their innovation story—and assure their future commitment.

Public Health Leadership remains an opportunity for the industry to demonstrate its value by offering solutions for critical public health challenges. Despite modest improvement in performance, these drivers receive middling impact ratings, suggesting the industry is not effectively articulating its value in these areas.

Government Relations remains a vulnerability for the industry. Advocacy (use of political influence) persists as a high-impact weakness—particularly among Policy Leaders, suggesting the collaborative efforts of the industry with regulators and payers are not being recognized. Perceptions of the industry’s commitment to Government Cooperation remain neutral.

The Reputation Matrix provides a roadmap for prioritizing key industry initiatives and communication efforts, as well as a quantitative view on the extent to which these efforts actually move the needle on reputation.
Summary of Strengths and Opportunities to Improve Reputation

Product Quality, Safety & Transparency: Industry Strengths

The ROR Indicator illuminates the industry’s value proposition: offering safe, quality medicines is what biopharmaceutical companies do best and is critical to the industry’s reputation. In 2012, the industry’s commitment to Product Safety remains a core reputation strength, as are perceptions about Product Quality. Key stakeholders continue to recognize Product Transparency as an asset of the industry, particularly as it relates to “providing complete information about product usage and indications.”

Despite performance improvement, Research Transparency is still a dominating issue where the industry receives more negative ratings than positive. To mitigate this weakness, companies can reinforce outcomes: a commitment to Safety & Efficacy, as well as a commitment to Product Transparency—each of which correlate with Research Transparency and are areas where the industry is viewed more positively.

Manufacturing and Counterfeit Medicines: New to 2012 Model

The 2012 model refinement revealed two new drivers within Safety & Efficacy: Manufacturing and Counterfeit.

Manufacturing emerges as an opportunity for the industry to leverage, demonstrating its commitment to quality and reliability. Specifically, Manufacturing is operationalized by “ensuring the purity of its products through careful ingredient sourcing” and “maintaining high manufacturing standards to reliably produce products.”

The Counterfeit driver measures how well the industry “works to prevent counterfeit medicines from entering the market.” Counterfeit is a relative strength, but accounts for a smaller proportion of overall reputation.

Redefining Innovation

In a marketplace defined by close scrutiny on pipelines and constantly evolving product lifecycles, the study reveals distinctive expectations for Innovation. In defining Innovation, two related themes emerge: Bold Advancements, the “what” of Innovation, and Sustainable Innovation, the “how.”

In 2012, the Innovation theme evolved to include new attributes that reflect expectations for the industry to add context to their innovation story. In addition to stakeholders' expectations for wholly new, life-saving medicines, a new attribute regarding personalized medicine symbolizes hope for future, high-value therapies. Specifically, it measures how well the industry “develops personalized medicines that improve patient outcomes through better efficacy and reduced side effects.” Bold Advancements is the second leading driver of industry reputation and core strength.

Sustainable Innovation (formerly Research & Development) expands the notion of Research & Development to be forward looking to seek efficient and sustainable ways to develop the medicines of tomorrow. Sustainable Innovation adds two attributes: “participates in public-private partnerships to fund research and development of new treatments” and “has a sustainable financial model for investment in new research.” Sustainable Innovation is also a strength, but with relatively lower impact than Bold Advancements.

Industry Strength: Economic Impact

Communicating the industry’s Economic Impact offers relatively little influence on shaping reputation. However, Employee Investment performance rises up as a demonstration of their scientific expertise and experience. Alongside strong Innovation ratings, communicating about the people behind the research and discovery could bolster an evolving view of Innovation.

Continued Opportunity: Public Health Leadership

Competing priorities have led to a decline in importance among Public Health Leadership factors. However, the window is still open for the industry to clarify its role as a solutions provider in addressing critical public health challenges. Policy Leaders, Health Care Providers and Opinion Leaders all expect the industry to play a prominent role in helping the country better address and manage chronic disease. Stakeholders expect the industry to demonstrate how it leads the way in helping patients effectively manage chronic conditions and partnering with the public health
community to share information/data to promote disease prevention, raise awareness of serious disease and emphasize long-term health outcomes. Disease Awareness and Chronic Disease Management remain opportunities for the industry to shape its reputation: middling performance and impact offers the chance to educate and lead.

In addition, a new Comparative Effectiveness Research driver underscores the industry’s need to demonstrate the value (clinical benefits) of their medicines. Neutral performance extends the opportunity to create industry leadership.

**Evolving Vulnerability: Responsible Business Operations**

Responsible Marketing and Executive Engagement—two ways in which the industry visibly connects with key stakeholders—remain key vulnerabilities. For the third year, Responsible Marketing is the most important driver of the biopharmaceutical industry’s reputation. The research suggests persistent concerns about the industry’s marketing practices weigh down overall reputation. Despite collaborative efforts by the industry to adopt a code on interactions with health care professionals, stakeholders have more negative views about the manner in which the industry markets to health care providers than on its methods in direct-to-consumer product advertising. This suggests that opinion-leading audiences are still not yet convinced that the industry has eliminated perceived unethical practices in the way it engages with providers. As the industry evolves to a “solutions provider” or “educator”—rather than a “salesman”—it better meets the expectations of its stakeholders.

Executive Engagement has declined in relative importance from the 2011 surge. However, performance remains weak—especially among Providers and Policy Leaders. There is a continued interest in seeing executives who are “visibly involved and interacting with the community”—an important factor in maintaining public confidence in the industry. Even more, executives are expected to be part of the solution to the industry’s challenges by acting as “thought leaders on key health care issues.”

**Government Relations: Challenges and Opportunities**

The industry continues to receive neutral ratings about how the industry cooperates with regulators and payers, which affords the industry an opportunity to inform rather than persuade. However, Advocacy persists as a high-impact weakness—especially among Policy Leaders. Specifically, concerns about the industry’s use of political influence continue to weaken reputation, suggesting the industry’s collaborative efforts with regulators and payers are not being recognized. The industry receives notably positive ratings for “advocating for public policy that works toward the goal of improving public health,” which supports the notion that the industry’s cooperation and partnership with regulators and payers can help mitigate negative perceptions about its political influence while emphasizing its role as a public health advocate.

**Evolving Expectations: Social Responsibility**

Reliability, a new factor, evolves stakeholders’ definition of Social Responsibility, particularly relating to access. Being responsive to public health needs means addressing the needs of all society, not just those in need. Beyond philanthropy and patient assistance, there is an expectation for the industry to assure a reliable supply of medicines to all.

**Affordability and Pricing: Persistent Industry Weaknesses**

Affordability and product pricing are perennial challenges facing the biopharmaceutical industry. Affordability and Pricing Transparency remain the industry’s weakest performing drivers. “Is transparent about how drug prices are determined” registers as the single lowest rated attribute in the study, followed by “assures drugs rise at a reasonable rate,” receiving particularly low ratings among Policy Leaders.

Taking a defensive position on an issue where the industry has the weakest credibility will not be effective in improving reputation. Notably, while Affordability persists as an industry challenge, it has less impact on industry reputation than addressing health outcomes. The data reveals that Public Health Leadership programs have two times more impact on reputation than addressing the price of medicines.
APCO Worldwide and its research consultancy, APCO Insight®, developed the ROR Indicator, a robust measurement tool that takes an integrated approach to reputation management. The ROR Indicator study for the biopharmaceutical industry is based on a quantitative survey that offers a holistic view of reputation across key stakeholders. The complete findings for the biopharmaceutical industry, as well as an interactive display of the data, can be viewed at www.rorindicator.com.

Detailed, company-specific findings from the latest tracking phase of this groundbreaking research model are now available to member companies. In the most recent study, more than 20 of the top biopharmaceutical companies were evaluated—and, for many companies, tracking data is also available. Members receive a complete report of company-specific findings, including an in-depth view of the company’s reputation ratings relative to the industry, a quantitative assessment of the key reputation strengths and opportunities for protecting and enhancing reputation among each audience, and the impact of reputation on key business outcomes.

To find out more about the ROR Indicator study or how your company can become a member and receive a custom report on company-specific findings, please contact: Chrystine Zacherau, director, APCO Insight, at +1.202.778.1000 or czacherau@apcoworldwide.com.