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## **Electronic Sampling Services Gain As Big Pharma Changes Commercial Model**

A small deal in a niche market could be another sign of changes underway in pharmaceutical marketing, as drug firms get more comfortable with the Internet as a marketing tool and doctors realize the Internet's benefits in managing their practices.

In April, digital marketing service provider Physician's Interactive acquired MedManage Systems, an e-sampling provider, that manages drug sample orders that physicians make online.

E-sampling services are essentially an electronic middleman between physicians and pharma companies. Doctors can order samples online and an e-sampling provider handles fulfillment. Drug companies pay the cost of the e-sampling service.

MedManage Systems transmits physician orders to the appropriate pharma fulfillment center, which then distributes the product to doctors' offices. The company can track physician ordering trends and other data useful to both suppliers and contractors.

MedManage CEO Cecil Kost said his business has grown "exponentially" since its start in 1999, with more rapid uptake recently.

With the buyout, MedManage becomes part of the Physicians Interactive "digital mall," which will offer several online tools, like e-detailing, for drug makers to reach physicians.

Electronic sampling has seen its share of turbulence, however. Several companies that started in the space about 10 years ago could not stay in business at a time when physicians and pharma firms were less willing to embrace the Internet.

Pharma companies were reluctant to explore digital marketing solutions at a time when they were pouring dollars into expanding sales forces. But as drug makers change the way they market products, they're more willing to consider a marketing mix that includes online alternatives.

As pressures have mounted on pharma to innovate commercial strategies, Kost said, internet use by health care practitioners has also grown. More physicians are using the Internet in their day-to-day work lives – for medical information, dealing with third-party payors, information management and eliminating paperwork. E-sampling has also grown, in direct proportion.

### **A Niche Of A Niche Market**

Physicians Interactive is owned by the private equity firm Perseus, which acquired it from Allscripts in September 2008.

Perseus/PI is one of the first significant investors to look at the e-sampling space. The difference now is that drug makers face a much-changed marketing environment, says Perseus senior managing director Norman Selby.

Still, e-sampling is a “niche of a niche market,” Selby said, and not an area many are familiar with. Past failures also weigh on the minds of potential investors. As a result, some venture capitalists – the group most likely to invest in the field – are reluctant to get involved.

“I think right now we’re benefiting from the fact that some investors feel burned by prior losses ... this also is not a world many people know well,” Selby said.

E-sampling’s business model also is particularly difficult to categorize – it doesn’t fit the description of a specialty pharma or health care information technology firm. That makes it hard for venture funds to interest potential investors.

“This is not a space people are looking at yet since you have to really understand customers and understand the regulations,” Selby, a former board member of an e-sampling firm, noted.

### **Sales Reps Are Still Pharmas’ Cash Cow**

Pharma, too, is cautious. It sees balancing sample distribution is more important than how samples are distributed. Regardless of the distribution channel, firms must be careful not to give targeted physicians too few samples and risk getting overshadowed by a competitor, or too many samples and risk cannibalizing their own sales.

“This is not a space people are looking at yet since you have to really understand customers and understand the regulations,” said Perseus’ Selby.

And samples, like sales reps, are costly. Given the option, firms will likely entrust their sales reps to deliver samples, since they are getting paid to have in-office access to physicians, before allocating free product for electronic orders.

E-sampling, though, does offer some distinct benefits to firms, especially those looking to cut back or even eliminate sales reps for a specific brand or therapeutic category, proponents say.

It costs less for physicians to refresh sample supplies online. E-sampling services also create electronic records of accounts that eliminate time and paperwork for physicians later. Those records enable users to better understand physician behavior, for example, by tracking which physician orders what sample, in what quantities and how often.

E-sampling also offers an alternative channel for sample distribution in cases where all drug sales reps are banned from hospital grounds or doctors’ offices, as is the case in an increasing number of university medical centers.

### **Ban On Sales Reps Could Boost E-Sampling**

The University of Pittsburgh Medical Center, which has a ban on sales reps delivering samples to its physicians, does allow doctors to order samples electronically through MedManage (“The Pink Sheet” DAILY, May 1, 2009).

UPMC officials hope that e-sampling helps reduce any potential bias that could develop through physician interaction with sales reps. Just the same, proof that it works is hard to come by, said Kelly Wasicek, project manager for UPMC’s eSample Center.

Academic medical centers could be a source of revenue as more implement conflict-of-interest policies which, in some cases, target sampling. For instance, Johns Hopkins University Medical Center recently announced that, effective in 2010, it is banning the acceptance of samples. The medical center is in the early stages of exploring e-sampling as an alternative.

### Why E-Sampling Now?

Though interest in e-sampling appears to be on the rise, it remains a risky investment with little evidence ensuring a strong upward growth trend.

Selby is optimistic that physicians and pharma are ready for e-sampling, as opposed to 10 years ago when those groups were less willing to embrace digital services.

"In some ways, the ideas were good, but they were just too early," Selby said.

Physician use of the Internet has dramatically increased within the past few years – expanding the pool of users. And the Internet itself has evolved, allowing those services to work through former road bumps and boost efficiency, he noted.

"E-sampling can reach a large population of users through the Web and do so at a relatively low marginal cost," MedManage's Kost said. "E-sampling could be as much as 10 times less expensive than a traditional sample ... but it's intended to complement a sales force. No one argues that a sample with a product message is probably most the effective vehicle to serve the needs of physicians."

Perseus has spent \$20 million on Physicians Interactive and its deals to date; a third acquisition is expected to close shortly, Selby hinted.

"The time is right for trying to build a really cool and integrated digital marketing and selling company that is able to package [physician access] and value in a way for pharma companies to reach," Selby said.

Physicians Interactive CEO Donato Tramuto said, "I think in the next number of months you'll see additional acquisitions being made to round out the portfolio," adding that these could include e-safety alerts or programs for continuing medical education. Such expansions would enable firms to use the Internet at various stages of marketing a product.

Tramuto, though, stressed that those services are not intended to replace sales reps, but to be a collaborative addition, and in some cases is alternative, to in-office visits.

About 150,000 physicians are now in PI's network of e-mail relationships, and Tramuto hopes to expand this to more than 300,000 accounts with additional acquisitions.

– Carlene Olsen ([c.olsen@elsevier.com](mailto:c.olsen@elsevier.com))

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