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**CASE 1: DRUG LAUNCH**  
**Category:** Market Entry Analysis

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Question (posed by the interviewer):

Our client is the U.S. pharmaceutical division of a multi-national corporation. In about six months the division will receive FDA approval to launch an anti-depressant drug. Despite this apparent good news from the FDA, the U.S. division is not elated. It has concerns over the market potential for this drug and its ability to reach the key prescribers in this therapeutic category. How would you help them decide whether to 1) launch alone, 2) co-market with a partner, or 3) sell, license or swap the drug to a third party.

Information to be given if asked:

*Market Conditions*

- The concerns over market potential center on whether the drug can gain adequate competitive advantage in a market segment having two dominant, patent-protected competitors and nearly 100 generic competitors. Additionally, a competitor recently introduced a higher technology antidepressant, which appears to offer therapeutic advantages.

*Firm Conditions*

- Gaining the professional endorsement of psychiatrists is crucial to success in this therapeutic category since they write approximately half of the prescriptions for antidepressants. However, the division has no experience marketing drugs to this physician group. Consequently, it would have to hire a sales force and/or enter into a co-marketing agreement to gain access to psychiatrists through someone else's force. The client would be able to leverage its existing sales force to reach the other half of the prescribers (Internal Medicine specialist and Family and General Practitioners).

Interview Dialogue:

*Commentator:* Note here what is being asked, "How would you help them decide." What is not being asked is "Which is the correct option to choose?" The Interviewer is looking more for how this problem is approached than for the "correct" answer.

*Also note that it is totally appropriate to take some time to organize your thoughts before launching into the case discussion.*

*Candidate:* In helping the client decide which option they should choose, I will want to guide them to the option that will create the most value. To understand main value drivers (i.e., profitability drivers), I will first explore the market attractiveness and our competitive position within that market in order to determine revenue potential. After that, I will explore the major cost issues.

Starting with the revenue, I'll want to understand first what the overall market revenue opportunities are for this type of drug in addition to our product specifically. Now the client expressed concern over the market potential for this drug. How big is the market and what is its potential growth rate?

*Commentator:* Here the Candidate has done several things. Firstly, the Candidate has stated the overall objective, value creation. Next, the Candidate stated the method of walking through this problem, looking at revenue by using a market economics and competitive position framework, then looking at costs.

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*The Candidate provided a roadmap. Now the interviewer understands the approach and expected direction of questioning. This helps the interviewer understand the student's thought process - how he or she thinks through business problems.*

Interviewer: The overall antidepressant drug market is relatively attractive at \$1.1 billion per year and is growing well in excess of the population growth rate.

Candidate: You mentioned that concerns over "market potential center on whether the drug can gain adequate competitive advantage in a market segment having two dominant, patent-protected competitors and nearly 100 generic competitors." You also mentioned that a higher technology drug had entered the market. Is the antidepressant market segmented by technology?

Interviewer: Yes.

Candidate: And the two patent-protected competitors along with the 100 generic competitors are within our technology segment?

Interviewer: Correct.

Candidate: So, the overall antidepressant market is attractive at \$1.1 billion, but within that market, there are segments based on different types of technology that may or may not be attractive.

Interviewer: That's correct.

Candidate: What is the technology associated with our clients product?

Interviewer: Tricyclic antidepressants.

Candidate: How fast is this technology segment growing?

Interviewer: As a matter of fact, substitution by the new technology may cause a decline in sales over the next 5 years. Additionally, the existing competitive environment is very intense and will only increase if the market shrinks.

Candidate: So, the overall segment is not very attractive.

Interviewer: Correct.

Candidate: What percent of the volume do the two main competitors have?

Interviewer: In our own technology segment, the leader has approximately 10% and the number two player has about 4%. The rest of the 100 competitors each have less than a 2% market share. By comparison, the new technology has captured a 20% market share of the total antidepressant market.

Candidate: How much will our client's product be able to differentiate itself within our technology segment?

Interviewer: Not much, in a market research study we commissioned, the product was seen as very similar to the number two product in our technology segment, slightly inferior to the number one product,

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and slightly better than the generic products. The new technology was viewed as far better due to a lower level of sedation.

Candidate: So summarizing the market environment, although the anti-depressant market is attractive, the segment that we would be participating in is relatively unattractive and runs the risk of becoming smaller and more competitive over time. Additionally, within this unattractive segment, we have limited ability to differentiate ourselves relative to our competitors, and thus, will not be able to charge a premium price.

I would think that this unattractive market and relatively undifferentiated position within that market would translate to a lower market share. I would estimate that our share might be lower than either of the branded products given our new presence in the market, say maybe a 2-4% share and this, like the rest of the segment, would probably decline over the next couple of years.

Interviewer: That sounds about right.

Commentator: *In understanding the revenue potential, the Candidate did several key things.*

- *Disaggregated the antidepressant market*
- *Established the overall attractiveness of the relevant market segment*
- *Established the client's relative attractiveness to competitors within that segment*
- *This enabled the Candidate to come to the correct conclusion that an undifferentiated position within a relatively unattractive market will limit the revenue potential.*
  
- *Also, note that the Candidate is doing most of the talking. Use the interviewer to clarify questions or provide information, but the Candidate must lead the discussion.*

Candidate: Knowing that our revenue potential is relatively low, puts more pressure on minimizing the costs if we were to market the drug. I want to see what area within the cost structure impacts profitability the most. What percent of net sales is COGS?

Interviewer: About 20%

Candidate: And what is the bulk of the remaining line items?

Interviewer: Most of it is selling expense. There are some overhead/admin and advertising and promotional expenses, but most of it is selling expenses.

Candidate: So, selling expense is the largest portion of the cost structure, which means that whichever option we choose, launching alone vs. with a partner, will certainly impact the selling expense (in addition to the number of prescribers reached, thus revenue potential).

Commentator: *You can pick up a good "tip" here, spend time on things having high impact and feel free to test and see how important they are. Tests might include how large something is as a % of sales, how important it is to the customer, or how much of an impact it has on manufacturing economies, etc.*

Candidate: In understanding the effect of the co-market agreement on number of prescribers reached, I think it would be helpful if I could get an idea of who makes the purchasing decision.

Interviewer: Well, there are four main parties involved. There are the manufacturers (such as our client), the Doctors (who prescribe the drug), the Druggists (who fill the prescription) and the Patient (who

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initiates the transaction). Selling is concentrated on the Doctors, since they are the group that determines if medication is needed and, if so, what type.

Candidate: Is the growth in managed care going to influence the dynamics of this?

Interviewer: Yes, but for the purposes of our work, let's not address that.

Candidate: So, for the purposes of our work, the Doctors make the purchasing decisions, this includes two groups of physicians, the Psychiatric group and the Internal Medicine/General Practitioner group.

Interviewer: Correct.

Candidate: You noted that we don't currently have connections to psychiatrists. This group prescribes half of the antidepressants. Can we launch the drug by only marketing to IMs and general practitioners and ignoring psychiatrists?

Interviewer: No, they are at the top of the pyramid of influence and thus must endorse the drug before their colleagues in the IMP/GP will endorse it.

Candidate: So if we are to market this product, we cannot do without the psychiatric group. It then becomes a matter of what is the most efficient and effective way to reach them, through a newly hired sales force vs. a co-marketing agreement.

Interviewer: Correct.

Candidate: What are the advantages and disadvantages of marketing the drug ourselves?

Interviewer: In terms of having our own sales force, the main benefit would be that we would be concentrating on our product only and this may help sales. On the downside however, the cost of this focus is all attributed completely to our product, and having a dedicated sales force representing only one product would be expensive.

Candidate: Do you have any other psychotherapeutic drugs in development or plans to expand this part of your portfolio through licensing?

Interviewer: Nothing is planned for the next three years.

Candidate: So by entering a co-marketing agreement, the costs of the sales force is spread across several products, and, if the co-marketer did not have a competing product, then our product would get the appropriate selling attention warranted. Also, since this sales force has existing relationships with the psychiatrists and doesn't need to take time to further establish these relationships, sales of our product might peak sooner.

So all in all, I would think that if we were to market this product, it would be a less costly and higher value option to enter into a co-marketing agreement rather than go it alone.

*Commentator: Here, as with most case interviews, the Candidate has the opportunity to go "deep" into an issue. The Candidate has chose to do this here with one type of cost, the sales force. The Interviewer is looking to see if the Candidate can identify some of the key "value" drivers of the function being explored. In the case of the sales force, the Candidate correctly identified the key value drivers as being:*

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- *The ability to spread the cost of a sales call across multiple products*
  - *The ability to choose a co-marketer that needs this product in their existing product line*
  - *The ability to leverage an existing psychiatric sales force infrastructure to reach peak sales sooner.*
  - *Remember, there are many value drivers, here, we have touched on a few, but don't be concerned about identifying the "right" ones, just try to identify what type of issues effect the situation the most.*

Interviewer: OK, and what about the third option, to sell, license or swap the drug to a third party?

Candidate: Again, the client would want to chose the option that was more value creating. There could be several reasons for going with third option:

- We might sell our drug because the sum of the promotional or overhead costs may make it unprofitable for us to market whereas a company having a similar product line might be able to carry this product at a very small incremental cost.
- We might license it for the same reasons we would sell it.
- We might swap it if we could find a company needing this type of drug while having a drug that might fit more with our existing infrastructure.

In any case, for the options being considered, I would want to forecast cash flows and discount them back to see what option is more value creating before making a final recommendation.

Interviewer: OK, thank you for your input on how to approach this problem.

*Commentator: You'll note here, that the Candidate doesn't actually make a final recommendation. This is fine. The Candidate has demonstrated how he would approach the problem, and in doing so, has hit on many of the key issues you would find in a real client case situation.*

Recapping the steps the Candidate took into evaluating the client's options:

- On the revenue side:
  - Segmented the market to the appropriate technology level
  - Determined that the segment was unattractive
  - Determined that the client's product was not significantly differentiated
- Concluded that for these reasons, the revenue potential was limited
- On the cost side:
  - Determined that selling expense was a key component to profitability
  - Determined that the Psychiatric group needed to be included in the selling efforts
  - Determined that it would be less expensive to co-market vs. go it alone
  - Determined that there are other considerations to evaluate when comparing co-marketing vs. selling, licensing, or swapping the product.

Interviewer: Provide summary comments and wrap-up

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**CASE 2: PROZAC CASE**Firm: A. T. Kearney (2<sup>nd</sup> round – summer internship – 2001)Category: Industry Analysis

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Question (posed by the interviewer):

Fluoxetine hydrochloride – commonly known as Prozac – is the world's most widely prescribed antidepressant, with sales that totaled \$2.8 billion in 1998. Produced by Eli Lilly & Company, Prozac has already been in the market for several years, presenting very impressive growth rates (only between 1997 and 1998, the product accounted for 20% of the company's growth). Prozac is a prescription-only, very high margin product, one that represents approximately 40% of Eli Lilly's earnings.

However, in the last years, Prozac has been facing stagnant and even declining sales in some periods. Eli Lilly's management team is not quite sure why this has happened to one of their most important brands. It is now your job to try to figure out why Prozac's sales are flat/declining.

In order to help you do that, the extremely busy Eli Lilly CEO, Sidney Taurel, will meet you in a VIP lounge at Indianapolis International Airport, between his arrival and his next connection. He will only have 15 minutes, in which time you will be allowed to ask no more than 5 questions. Right after that, you'll have to call your manager at A. T. Kearney's Chicago office and give him your assessment of the situation and a set of potential solutions, so the team can start to work in order to meet the very tight deadline imposed by the client.

**What might be causing Prozac's stagnant sales and which are the possible solutions?**

Note from Author: I was only allowed to ask 5 questions. That was a new situation for me, as far as case interviews were concerned, so I had to both manage the stress and think carefully on my strategy to get the most out of each question. In a situation like that, there's not one single framework that would help you ace the case. I decided to write this case on a dialog format, based on the notes I took during the interview. I also took the initiative to add some more information, in order to make the write up more complete.

**Interview Dialogue**

Myself (paraphrasing the interviewer): Prozac is an antidepressant that is only sold under prescription. It has been the first drug in this market and has rapidly grown due to its effectiveness in the treatment of depression. Is that correct?

Interviewer: Yes, it's correct...

Myself (smiling): Did that count as one of my five questions? Ops! I've just missed my second one...

Interviewer (smiling): Don't worry, go ahead...

Myself: So, if this was the case, I would imagine that some competitors tried to follow Prozac and develop similar formulas over the years in order to gain a stake of this profitable market. The product's impressive record of success may have attracted not only generics but also brand name competitors.

Interviewer: Yes, the company saw the entrance of new products in the antidepressant market...

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*Myself:* So, I will make this one my first question: do any of the competitors exhibit any distinctive feature and/or characteristic (such as higher effectiveness, fewer side effects or lower prices) that would pose a major threat to Prozac? If yes, it would be great if you could describe those specific features and/or characteristics. *Question count = 1.*

*Interviewer:* Sure. But before that, let me give you a brief perspective on how the market for antidepressants have developed... Before Prozac was launched, the most commonly used type of antidepressant was called "tricyclics". Those drugs were carefully controlled and largely prescribed by psychiatrists only, due to their serious and sometimes fatal side effects. The innovation Prozac brought to the category was a reduction on the side effects, which prevents users from committing suicide by ingesting large doses of medication. As a result, the number of patients treated for depression grew five to seven times from what it used to be. Now, you're right: Prozac has been a favorite target for both generics and other brand name drugs (such as Zoloft, from Pfizer, and Paxil, from GlaxoSmithKline). Generics basically compete on price (30-40% lower). Moreover, Prozac has been particularly suffering attacks from other patent-protected antidepressants in the same category, the Selective Serotonin Reuptake Inhibitors (SSRI). Those products, among other indications, have been specifically prescribed for General Anxiety Disorders (GAD).

*Myself:* As you described, it seems to me this is a very mature category and I wouldn't expect much of the growth opportunity coming from category expansion...

*Interviewer:* Right. If you were in another product category, it could be the case. However, manifestation of psychotic disturbs are so apparent that we can assume there are very few untreated patients.

*Myself:* Right... If other products within the same category are growing, while Prozac's sales have been stagnant or declining, the company must have experienced a decline in market share. Was that loss observed more notably in one particular segment of the market as opposed to the others? *Question count = 2.*

*Interviewer:* Yes. Prozac's market share is decelerating pretty significantly in the psychiatrists' offices. So far, prescriptions by primary care practitioners are holding up better, but they tend to follow specialists' lead.

*Myself:* I see... Apart of the generics, do prices vary significantly among branded drugs? *Question count = 3.*

*Interviewer:* No. All of them are at about the same price range. Price only varies significantly between brand name products and generics. As I mentioned before, generics tend to be 30%-40% cheaper in average.

*Myself:* And when does the Prozac patent expire? *Question count = 4.*

*Interviewer:* The basic patent expires in 2001, and subsidiary patents in 2003... I believe should remind you that you only have one question left.

*Myself:* Yes, thank you. Is there any other information, an important external factor, for example, that I should be aware of before developing my final recommendations? *Question count = 5.*

*Interviewer:* Yes, and I'm really glad you asked me that. In recent years, Prozac has deserved more attention from the general media than we probably would like to. It all started at about 10 years ago. Around 8:30 a.m. on September 14<sup>th</sup>, 1989, Joseph Wesbecker walked into the Standard Gravure printing plant in Louisville carrying an AK-47 assault rifle and hundreds of rounds of ammunition. Within 30 minutes, he killed eight people and wounded 12 others before pulling a pistol from his belt and shooting himself in the head. He had worked for the company for many years, but had found it so stressful that he had been off sick for a year. He was under treatment from a psychiatrist, and shortly before the fatal incident he had been prescribed Prozac. Without Prozac, the killings would have been just another horrifying instance of the senseless mass killings that seem to plague modern life. With

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Prozac, they became a famous cause. By 1990, 54 civil and criminal suits concerning Prozac had been filed against Eli Lilly, including one by the survivors of Wesbecker's killing spree and the families of the dead. The victims claimed that a reaction to Prozac, not Wesbecker's inherent mental illness, had caused the act and that Eli Lilly had consistently misrepresented Prozac's safety to the Food and Drug Administration and the medical community. Until today, Prozac has been frontally attacked on the general media, which has generated disbelief from the general public.

*Myself:* Ummm... pretty interesting story. Well, I know your time is scarce, so I would like to summarize my general assessment of the situation and briefly share with you a set of potential recommendations that I will be forwarding to our project team in Chicago. Is that okay with you?

*Interviewer:* Yes, please, go ahead...

*Myself:* Prozac has been extremely successful since its launch, rapidly achieving market leadership and still producing high margins. Despite all the difficulties and the tough competitive environment, Prozac is still a very important product on Eli Lilly's portfolio, accounting for a significant portion of the company's earnings. Various factors contribute to the current decrease in sales: a more fragmented and aggressive market, new improved products, and public misjudgment. The development of a new drug could be costly and takes several years before it's ready to go to market. Moreover, the patent expires in a few years.

*Interviewer:* Good...

*Myself:* My very first impression is that Prozac fits very well the concept of a "cash-cow": large market share and high margin, but stagnant/declining sales. But for the development of a first set of hypotheses, I would also consider other less probable possibilities. In order to save us some time, I'll list some of the possibilities I currently have in mind, and then we can go through each one of them as time permits. Would that be fine?

*Interviewer:* Yes, that sounds perfect to me...

*Myself:* Right... Here they are (*I took a clean white sheet and started to write in bullet points*):

- Do nothing
- Extend Prozac's life cycle
- Product development
  - Product modifications (expand user base through OTC status)
  - Develop a new antidepressant
  - Develop a new drug in other segment



*Myself:* As a "cash-cow", Eli Lilly should consider "milk" this product, extracting earnings as long as the product survives in the market. The first alternative to that would be to extend Prozac's life cycle as long as possible. That could be achieved, for example, by prolonging Prozac's patent protection.

*Interviewer:* But how could that be achieved?

*Myself:* Honestly, I'm not very familiar with the mechanisms through which a patent can be extended. Having said that, I would imagine there might be a legal mechanism to do that... And this issue brings us to one of my other points. There have to be a way to prolong Prozac's life cycle and/or expand its user base. Lobbying might be a valid

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option. Also, we could consider product modifications that would allow Prozac to be used for applications different of the ones it is currently prescribed.

*Interviewer:* Right. I think that can be possible...

*Myself:* ... and if developing a new version of Prozac is possible, imagine if this modified drug could be sold as an over-the-counter medicine! That would bring a huge market expansion potential for Eli Lilly.

*Interviewer:* Wow! That would be huge!

*Myself:* In the product development field, I would also explore two addition possibilities. First of all, I would assess Eli Lilly's current R&D capabilities and resources, and evaluate whether the company is able to: 1) develop the modified version of Prozac we have just mentioned, and 2) develop a new drug, either in the antidepressant market or in any other promising segment. Alternatively, I would recommend Eli Lilly to do some industry research in order to identify potential partnerships. Do you want to get into the details of any of those (*pointing to my bulleted list*)?

*Interviewer:* No, actually not. Unfortunately I do have to catch my plane and I do believe we have a pretty good start for this project. Send my congratulations for you're A.T Kearney project team, you did a very good job.