Pharmaceutical Advertising

A Business School Perspective

In a press release on February 25, 1993, Congressman Henry A. Waxman stated that, "to bring drug prices down, we must focus on the ten billion per year spent on wasteful and detrimental advertising and promotion, which is further subsidized by federal tax deductions." Is this description of pharmaceutical advertising as wasteful, detrimental, and a cause of increased prices accurate? The purpose of my report is to briefly examine these accusations by focusing on current knowledge concerning the value of advertising in general, the evidence concerning the value of pharmaceutical advertising, and some of the expected changes in pharmaceutical advertising.

**The Value of Advertising**

Advertising is paid, nonpersonal communication through which an identified advertiser (e.g., a firm, a nonprofit organization, or an individual) sends a message to a target audience with the hope of informing, educating, and persuading. Advertising, as part of an overall communication program, is a critical marketing and social process that offers significant value to advertisers, consumers, and society.

For the firm, advertising provides efficient and effective ways of reaching and communicating with target audiences to create awareness, understanding, interest, and willingness to accept and to try the firm's offerings (products and services). Advertising should result in more satisfied and loyal customers and stakeholders.

For consumers, advertising offers an effective way of getting information and knowledge. Advertising facilitates better choices, which lead to the selection of newer, better, and faster products and services, reduces the price of competitive products and services, and thus may lead to improvement in the quality of life.

For society, if the objective is a well-informed and well-educated public, advertising is a major source of competitive information, pays for most of the content portion of the media, and is a significant industry that employs thousands of professionals and other employees. Furthermore, no competitive market economy can exist without competitive advertising. Does all advertising offer all these benefits to the advertising firm, consumers, and society? Obviously the answer is no. Advertisers find that not all their advertising communications are effective. Consumers may find some advertising irritating and noninformative. Some advertising may be misleading and deceptive and may negatively affect the competitive equilibrium.

Furthermore, most advertisers (especially business advertisers) are concerned with long-term effects such as increased customer satisfaction, loyalty, and repeated purchases. It is, thus, in their self-interest to design advertising that is cost-effective and that adds value to the target audience(s). The increased acceptability of this view that clear, informative, and truthful advertising is in the long run a good business practice, coupled with the watchful eyes of regulators and competitors, encourages the design of value-creating advertising rather than abusive and misleading advertising.

In examining the value of advertising, it is important to recognize that, despite its visibility, advertising is only one of the communication tools a firm can use to market its products and services. Thus, advertising should be assessed in the context of the entire communication and marketing strategies of the firm.

Despite the obvious value of advertising to the advertisers, the consumers, and society, there have always been critics of advertising. Each generation has its Vance Packard and other critics who complain about the manipulative nature of advertising.

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However, it must be remembered that, at the same time that the advertising of "undesirable" products such as tobacco is under attack, advertising is viewed as a must and is being applauded when it promotes socially "desirable" (or politically
correct?) products, services, and ideas, such as encouraging the use of seat belts, or berates undesirable behavior, such as drug abuse or the irresponsible use of alcohol. Other domains, such as the promotion of political candidates, are often more controversial but are viewed by most politicians as critical. Whereas criticisms of pharmaceutical advertising position it on the undesirable part of the continuum, it is important to examine actual evidence concerning the value of pharmaceutical advertising.3

THE EVIDENCE REGARDING PHARMACEUTICAL ADVERTISING

In discussing the evidence concerning the value of pharmaceutical advertising, we will address directly the three criticisms raised by Congressman Waxman.

Is Pharmaceutical Advertising Wasteful?

While we do not have conclusive empirical studies that assess whether pharmaceutical advertising expenditures are optimal, the fact that producers of pharmaceuticals continue to advertise and that physicians and consumers continue to read and rely on pharmaceutical advertising suggests that not all advertising is wasteful.

In considering the value of the advertising and promotion of pharmaceuticals, as in the more general case of the value of marketing, it would be helpful to start by exploring the impact of advertising, promotion, and other marketing activities on a new set of dependent variables, focusing on the value created for consumers, the advertisers, and society. The following summarizes some of these dependent variables that provide the foundation of the Value of Marketing program initiated this year at the Wharton School of the University of Pennsylvania (Philadelphia).

The Benefits of Marketing and Advertising

From the customer’s perspective:
- Better choice
- Better information and knowledge
- Better quality products and services
- Better, more convenient access
- More, faster, and better new products
- Higher satisfaction
- Reduced prices
- Better quality of life

From the firm’s perspective:
- Increased efficiency and effectiveness
- Higher profits
- More satisfied and loyal customers, employees, shareholders, suppliers, and other stakeholders

From society’s perspective:
- More competitive industries
- Higher government profits
- Better quality of life

More specifically let us consider the value of pharmaceutical advertising to physicians, pharmaceutical firms, patients, and society at large.

For Physicians. Given the time pressure on physicians and the proliferation of scientific medical publications, advertising and promotion provide one of the most effective ways for physicians to learn about diseases and the availability of new treatments. Being better informed, physicians can better select the drug most appropriate for the specific situation.

For Pharmaceutical Firms. Given the important role of pharmaceutical companies in effectively and continuously communicating, informing, and educating physicians and other managed care professionals, advertising and promotion are essential and cost-effective ways of achieving this goal.

For Consumers. Pharmaceutical advertising can provide readily available and understandable information about diseases and how to prevent and treat them.

For Society. Advertising and promotion speed up the adoption of new products and treatment procedures, which lead to improvements in the quality of life and help to save lives. They also ensure a competitive market with all its benefits.

Is Advertising Detrimental to the Decisions of Physicians and Consumers?

The second major criticism of pharmaceutical advertising is that it is detrimental to the decisions of physicians and consumers. In this regard, let us consider the following.

First, physicians are sophisticated professionals who choose the products that best meet the needs of their patients. The role of advertising and promotion is, thus, to inform and to educate physicians concerning the range of available options. At most, if successful, advertising can stimulate trial; repeated prescribing and use depends primarily on the product’s actual performance.

Second, pharmaceutical advertising to consumers focuses on educating consumers and always encourages them to see a physician. It creates more aware, informed, and knowledgeable patients. Being informed increases the chances that patients will seek medical help when they need to do so. Informed patients also help the physicians to reach an accurate diagnosis and can lead to improved patient compliance.

Does Pharmaceutical Advertising Increase Pharmaceutical Prices?

There is no empirical evidence to suggest that advertising increases the price of pharmaceutical products. Some critics suggest that cutting all or most advertising could reduce the price of pharmaceuticals. These proposals ignore six basic facts, however.
Advertising, in its informative and educational role, is critical. Without the information that informs and educates the physicians when and how to use the product and for which patient, the physical product is useless.

In a competitive market, it is critical to allow each firm the opportunity to best communicate with their target audiences. Advertising offers not only a relatively low-cost way of reaching large audiences of physicians, other managed care professionals, and consumers, but it also stimulates critical word-of-mouth communication. Any restrictions on this freedom can hurt the level of competitiveness in the given market, creating a tendency toward a monopoly or oligopoly and, hence, leading to increased prices.

Competitors often respond to advertising and loss (or potential loss) of sales or market shares by lowering their prices, thereby making lower price options available to the customer. Advertising often leads to lower overall average market prices.

With higher levels of advertising, a lower selling effort is required by the channels of distribution. In general, with higher advertising, there are smaller distributor margins, and the price to the customer may actually go down.²

The cost per pill is not the appropriate measure of cost. The correct measure should be the total cost of therapy or, better yet, the total cost of achieving wellness. Advertising to physicians and consumers can contribute to better diagnosis and prescriptions, even better compliance, and, thus, a lower total medical cost.

As lower-cost pharmaceutical options are being developed, advertising can inform physicians, other managed care professionals, and consumers of the availability of these options. This ability again contributes to a lower total cost of pharmaceutical products.

IN CONCLUSION: CHANGES IN PHARMACEUTICAL ADVERTISING

Pharmaceutical advertising and promotion are cost-effective ways for pharmaceutical firms to communicate with, inform, and educate physicians and patients and, as such, are critical for society’s welfare. However, pharmaceutical advertising is not as effective or valuable as some of its defenders would like us to believe. With the absence of hard data on the value of advertising to consumers, firms, and society, it is imperative that pharmaceutical advertisers increase their attention to and measurement of the value of advertising and promotion to their constituencies.

Accepting these conclusions has significant implications to all involved. Pharmaceutical firms have to increase their attention to creating and delivering cost-effective and value-creating advertising and promotion, using current and new technology. It is critical that they realize that the old and proven ways of doing business are no longer going to work. Reinventing pharmaceutical marketing, advertising, and promotion by capitalizing on the opportunities offered by technology is a must. This reinvention should also be coupled with a focus on new performance measures of advertising and promotion, stressing the value to their target audiences—physicians, other managed care professionals, and consumers—created by these processes.

Physicians, other managed care professionals, and consumers should also change from passively receiving pharmaceutical advertising and promotion to actively seeking information, using customized, interactive, multimedia-based information. Traditional print advertising may still have a role, but it has to be viewed as an integral part of an overall communication program at the disposal of physicians, other managed care professionals, and consumers.

Under this scenario, which is already reality for a small segment of innovators, the value of advertising can be enhanced to the advertisers, physicians, customers, and society as a whole. This scenario will require, however, continuous efforts at reinventing advertising and promotion to capitalize on the opportunities that the changing technology and the business environment offer us.

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REFERENCES