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[ijirset@gmail.com](mailto:ijirset@gmail.com)

[www.ijirset.com](http://www.ijirset.com)

# Promotion Response Modelling in the Pharmaceutical Industry: Best Practices for ROI Analysis

Shantanu Seth

Senior Director, Atria - Ingenious Insights, USA

**ABSTRACT:** The pharmaceutical industry operates in a highly regulated and competitive environment, where optimizing promotional spend is critical for success. Promotion response modelling offers a powerful framework for understanding the impact of various marketing activities on product sales and ultimately, return on investment (ROI). This paper examines the complexities of promotion effectiveness analysis in the pharmaceutical industry, highlighting the limitations of standardized models and the growing adoption of advanced data-driven techniques. Recent advancements in modelling approaches, such as Multi-Equation Regression Models, Bayesian Methods, and Network Effects Modelling, have provided more robust tools to capture complex interactions like halo effects in promotional campaigns. These advanced methodologies enable pharmaceutical companies to quantify both direct and indirect effects of promotions, enhancing the ability to measure ROI comprehensively. The paper delves into the key drivers of physician prescribing behaviour and patient demand, exploring the effectiveness of different promotional tactics such as detailing, sampling, and advertising. Furthermore, it reviews mathematical modelling approaches that incorporate factors like carry-over effects, physician dynamics, and multi-stakeholder interactions to provide a more nuanced understanding of promotion response. Finally, it outlines best practices for ROI analysis in the pharmaceutical context, emphasizing the importance of model validation, sensitivity analysis, and dynamic resource allocation. The paper concludes that sophisticated promotion response modelling, combined with rigorous analytical techniques, can empower pharmaceutical companies to make data-driven marketing decisions, optimize resource allocation, and ultimately achieve higher profitability.

**KEYWORDS:** Promotion Response Modelling, Return on Investment (ROI), Marketing Mix Optimization, Physician Prescribing Behaviour, Detailing, Sampling, Carry-over Effects, Dynamic Resource Allocation, Multi-Equation Regression Models, Bayesian Methods, Network Effects Modelling, Halo Effects, Indirect ROI Quantification.

## I. INTRODUCTION

The pharmaceutical industry is characterized by substantial investments in research and development, intense competition, and stringent regulatory oversight. In this challenging landscape, effective promotion plays a pivotal role in driving product adoption, market share, and ultimately, profitability. However, accurately measuring the impact of various promotional activities on sales and ROI is a complex endeavour, requiring sophisticated analytical techniques (Gupta et al., 2018; Haughton et al., 2015).

Promotion response modelling has emerged as a valuable tool for pharmaceutical companies seeking to optimize their marketing strategies. These models leverage historical data on promotional activities, sales, and other relevant factors to quantify the relationship between marketing inputs and sales outcomes. Traditional models often struggle to capture the full spectrum of promotional impacts, especially indirect effects like halo effects, where promotions for one product influence the sales of others.

Advanced approaches, such as Multi-Equation Regression Models, Bayesian Methods, and Network Effects Modeling, have been developed to address these challenges. These methodologies allow companies to quantify both direct and indirect promotional effects, offering a more holistic understanding of ROI. By understanding the effectiveness of different promotional channels and tactics, companies can make more informed decisions about resource allocation, marketing mix design, and overall strategic planning (Montoya et al., 2010).

This paper aims to provide a comprehensive overview of promotion response modelling in the pharmaceutical industry, focusing on best practices for ROI analysis. It begins by exploring the unique challenges associated with evaluating promotion effectiveness in this sector. Subsequently, it examines the key drivers of physician prescribing behaviour and patient demand, highlighting the role of different promotional activities. The paper then delves into advanced mathematical modelling approaches that can capture the complexities of promotion response, including carry-over effects, physician heterogeneity, multi-stakeholder interactions, and halo effects. Finally, it outlines best practices for ROI analysis, emphasizing the importance of robust data, model validation, and dynamic resource allocation strategies.

## II. LITERATURE SURVEY

### Challenges in Analysing Promotion Effectiveness

Evaluating the impact of promotional activities in the pharmaceutical industry is inherently complex due to several factors:

- **Multi-Channel Promotion:** Pharmaceutical companies utilize a diverse array of promotional channels, including detailing (personal selling to physicians), sampling, direct-to-consumer (DTC) advertising, medical journal advertising, conferences, and digital marketing. Each channel may have a unique impact on sales and interact with other channels in complex ways (Manchanda et al., 2004).
- **Delayed Response:** The effects of promotional activities often manifest over time, creating a lag between marketing input and sales outcome. This "carry-over effect" can make it difficult to isolate the impact of specific promotions (Leeflang & Wieringa, 2009).
- **Physician Heterogeneity:** Physicians exhibit diverse prescribing behaviors based on their specialty, experience, patient demographics, and personal preferences. A one-size-fits-all promotional approach may not be effective for all physician segments (Narayanan et al., 2005).
- **Regulatory Environment:** The pharmaceutical industry is subject to strict regulations regarding promotion, particularly for prescription drugs. These regulations can influence the types of promotional activities employed and the way they are communicated (Donohue, 2006).
- **External Factors:** Sales of pharmaceutical products can be influenced by a multitude of external factors, such as competitor actions, changes in reimbursement policies, economic conditions, and public health events.

Standardized models often fail to capture the brand-specific nuances and market realities that influence promotion effectiveness (Leeflang & Wieringa, 2009). For example, a model that performs well for one therapeutic area may not accurately reflect the dynamics of another. This necessitates the development of more sophisticated, customized models that can account for these complexities.

### Key Drivers of Promotion Response

Understanding the key drivers of physician prescribing behaviour and patient demand is essential for designing effective promotional strategies. Several factors contribute to the overall response to pharmaceutical promotions:

- **Detailing:** Personal selling to physicians by pharmaceutical sales representatives, or "detailing," remains a cornerstone of pharmaceutical promotion. Detailing provides an opportunity to educate physicians about a product's benefits, address their concerns, and build relationships. Research indicates that detailing is particularly effective as an acquisition tool, driving adoption of new products among physicians (Haughton et al., 2015; Mizik & Jacobson, 2004).
- **Sampling:** Providing physicians with free samples of a product allows them to gain firsthand experience with its efficacy and tolerability. Sampling can be particularly effective in encouraging trial and adoption, especially for products that are new to the market or have a different formulation than existing therapies. Studies have shown that sampling is more effective in retaining existing customers, encouraging continued use among physicians who have already prescribed the product (Haughton et al., 2015; Chew et al., 2000).
- **Advertising:** Direct-to-consumer (DTC) advertising for prescription drugs, which is permissible in certain countries like the U.S., aims to raise awareness among patients and encourage them to discuss the advertised product with their physician. DTC advertising can drive patient requests for a specific product, influencing physician prescribing decisions. Medical journal advertising provides another channel for reaching physicians with information about new products and clinical trial data (Calfee, 2002; Rosenthal et al., 2002).
- **Managed Care Influence:** The role of managed care organizations (MCOs) in influencing prescribing decisions

has grown significantly. MCOs often develop formularies that list preferred drugs, which can impact physician choices. Pharmaceutical companies may offer rebates or discounts to MCOs to secure favourable formulary placement (Kreling et al., 2006).

- **Patient Factors:** Patient adherence to medication regimens, their perceived value of a particular treatment, and their out-of-pocket costs can all impact overall product demand and sales.

Table 1: Summary of Key Drivers of Promotion Response and Their Impact

Driver	Description	Impact on Prescription Behaviour
<b>Detailing</b>	Personal selling to physicians by pharmaceutical sales representatives.	Primarily an acquisition tool; educates physicians, builds relationships, and drives adoption of new products.
<b>Sampling</b>	Providing physicians with free samples of a product.	Primarily a retention tool; encourages trial, fosters firsthand experience, and promotes continued use among existing prescribers.
<b>DTC Advertising</b>	Advertising directly to consumers to raise awareness and stimulate patient requests.	Influences patient demand and indirectly affects physician prescribing through patient requests.
<b>Journal Advertising</b>	Advertising in medical journals to reach physicians with product information and clinical data.	Provides scientific information, increases product visibility among physicians, and supports detailing efforts.
<b>Managed Care</b>	Influence of managed care organizations (MCOs) through formularies and reimbursement policies.	Shapes prescribing patterns by incentivizing the use of preferred drugs through formulary placement and cost-sharing structures.

### III. METHODOLOGY

To accurately quantify the impact of various promotional activities on sales, researchers have developed a range of mathematical models. These models typically utilize econometric or statistical techniques to estimate the relationship between marketing inputs (e.g., detailing, sampling, advertising spend) and sales outcomes.

#### Basic Sales Response Models

Early sales response models often employed simple linear regression to estimate the relationship between promotional spend and sales. These models could be represented as:

$$\text{Sales}(t) = \beta_0 + \beta_1 * \text{Promotion}(t) + \epsilon(t)$$

Where:

- Sales(t) represents sales in period t.
- Promotion(t) represents promotional expenditure in period t.
- $\beta_0$  is the intercept.
- $\beta_1$  is the coefficient representing the impact of promotion on sales.
- $\epsilon(t)$  is the error term.

While these models provide a starting point, they often fail to capture the complexities of promotion response, such as diminishing returns and carry-over effects.

### Incorporating Carry-over Effects

To account for the lingering impact of past promotions, researchers introduced models that incorporate lagged variables, such as the Koyck distributed lag model:

$$\text{Sales}(t) = \beta_0 + \beta_1 * \text{Promotion}(t) + \lambda * \text{Sales}(t-1) + \varepsilon(t)$$

Where:

$\lambda$  represents the carry-over effect, indicating the proportion of sales in the previous period that carries over to the current period.

This model allows for a more realistic representation of how promotional effects accumulate over time.

### Advanced Modelling Approaches for Accounting Halo Effects

Accurately accounting for the halo effect is essential to avoid over- or under-attributing promotional effectiveness and to improve overall decision-making. Advanced modelling approaches provide precise tools to capture and quantify these interactions.

### Multi-Equation Regression Models

Use simultaneous equation modeling to capture interactions between promotional efforts for different drugs. This approach models sales of multiple drugs simultaneously to account for cross-drug dependencies.

### Mathematical Representation:

$$Y_A = \beta_{A0} + \beta_{A1}X_A + \beta_{A2}X_B + \varepsilon_A$$
$$Y_B = \beta_{B0} + \beta_{B1}X_B + \beta_{B2}X_A + \varepsilon_B$$

Where:

$Y_A, Y_B$ : Sales of Drug A and Drug B

$X_A, X_B$ : Promotional spend for Drug A and Drug B

$\beta_{A2}, \beta_{B2}$ : Coefficients representing the cross-drug halo effects

$\varepsilon_A, \varepsilon_B$ : Error terms

Example: Suppose you promote a new oncology drug (Drug A) and observe an uplift in prescriptions for an older oncology drug (Drug B). Using multi-equation regression, promotional spend for Drug A can be included as a predictor in the response model for Drug B, enabling a robust attribution of the observed impact.

### Hierarchical or Bayesian Models

These models allow for the exploration of both individual and collective effects of promotions across drugs, capturing direct and halo effects.

### Mathematical Representation:

$$Y_{ij} = \beta_{0j} + \beta_{1j}X_{ij} + \beta_{2j}Z_{ij} + u_j + \varepsilon_{ij}$$

Where:

-  $Y_{ij}$ : Sales for drug  $i$  in geography  $j$

-  $X_{ij}, Z_{ij}$ : Promotional efforts and control variables

-  $u_j$ : Random effect accounting for variations across geographies

-  $\varepsilon_{ij}$ : Error term

Example: A hierarchical Bayesian model treats halo effects as random effects () that vary across drugs or geographies. This accounts for regional or product-specific dynamics, providing a nuanced understanding of promotional impacts.

### Network Effects Modeling

Use network analysis to understand referral patterns or therapeutic linkages between drugs.

#### Mathematical Representation:

$$S_{ij} = \sum_{k \neq j} w_{jk} \cdot P_k$$

Where:

- $S_{ij}$ : Influence score of Drug  $j$  on Drug  $i$
- $w_{jk}$ : Weight representing the strength of linkage between Drug  $j$  and  $k$
- $P_k$ : Promotional spend for Drug  $k$

Example: Analyze how healthcare professionals (HCPs) shift from one drug to another due to promotional campaigns using network maps of referrals.

### Measuring and Quantifying Halo Effects

To accurately measure and quantify halo effects, several methods can be employed:

#### Correlation Analysis

##### Mathematical Representation:

$$\rho = \text{Cov}(X_A, Y_B) / (\sigma_{X_A} \sigma_{Y_B})$$

Where:

- $\rho$ : Correlation coefficient
- $X_A$ : Promotional spend on Drug A
- $Y_B$ : Sales of Drug B
- Cov: Covariance,  $\sigma$ : Standard deviation

#### Lagged Variables

##### Mathematical Representation:

$$Y_B(t) = \beta_0 + \beta_1 X_A(t-1) + \varepsilon$$

Where:

- $X_A(t-1)$ : Lagged promotional spend for Drug A
- $Y_B(t)$ : Current sales of Drug B

### Cross-Promotion Metrics

##### Mathematical Representation:

$$\Delta Y = \sum_{i=1}^n \gamma_i P_i$$

Where:

- $\Delta Y$ : Combined sales uplift
- $P_i$ : Promotional spend across multiple drugs
- $\gamma_i$ : Cross-promotion effectiveness coefficient

**Example Application**

Imagine a scenario where promotional efforts for Drug A led to an uplift in sales of Drug B:

1. **Multi-Equation Regression:** Include promotional spend for Drug A ( $P_A$ ) in the response model for Drug B ( $S_B$ ) to quantify its indirect effect.
2. **Attribution Framework:** Apply Shapley Values to fairly distribute the combined sales impact between Drug A and Drug B, ensuring accurate ROI measurement.

**Advanced Models for Physician Dynamics and Multi-Stakeholder Interactions**

These sophisticated models have been developed to capture the heterogeneity of physician behaviour and the complex interactions between physicians, patients, and payers. For example, Montoya et al. (2010) proposed a Markov-switching model to identify different physician prescribing states and estimate the long-term effects of detailing and sampling. Their model can be represented as:

$$S_{it}f = (\text{Detailing}_{it}, \text{Sampling}_{it}, S_{it-1}, X_{it}) + \varepsilon_{it}$$

Where:

$S_{it}$  represents the sales volume for brand  $i$  at time  $t$  for a specific physician segment.

$\text{Detailing}_{it}$  and  $\text{Sampling}_{it}$  represent the levels of detailing and sampling for brand  $i$  at time  $t$ .

$S_{it-1}$  represents the lagged sales volume, capturing carry-over effects.

$X_{it}$  represents other covariates, such as physician characteristics, competitor actions, and market conditions.

$f$  is a function that models the relationship between the independent variables and sales, potentially incorporating non-linearities and interactions.

$\varepsilon_{it}$  is the error term.

This type of model allows for a more nuanced understanding of how different physician segments respond to various promotional activities over time. It recognizes that physicians may transition between different prescribing states (e.g., non-adopter, trial user, loyal user) based on their cumulative exposure to promotions and their individual characteristics. Other models incorporate game theory to analyse interactions between different stakeholders (e.g., pharmaceutical companies, physicians, and payers) (Villas-Boas, 2007; Stremersch et al., 2012).

**Directed Acyclic Graphs (DAGs)**

DAGs are becoming increasingly valuable in visualizing and testing causal relationships between variables. Haughton et al., (2015) utilized DAGs to show direct and indirect effects of promotional efforts on sales, and in doing so, improved the accuracy of their results and were able to recommend dynamic resource allocation that led to increased profitability even while using less promotional resources. Using DAGs allows researchers to represent complex causal pathways and identify potential confounding variables, which is especially important when analysing observational data (i.e., not from a controlled experiment). They also provide a framework for understanding the mechanisms through which promotions influence sales (Pearl, 2009; Elwert & Winship, 2014).

By integrating these strategies into promotion response models, companies can more effectively account for halo effects, leading to improved resource allocation and enhanced marketing ROI.

**IV. BEST PRACTICES FOR ROI ANALYSIS**

To maximize the value of promotion response modelling, pharmaceutical companies should adhere to several best practices:

- **Robust Data Collection:** Accurate and comprehensive data on promotional activities, sales, physician characteristics, and market conditions are essential for building reliable models. Data should be collected at a granular level (e.g., physician-level, territory-level) and over a sufficient time horizon to capture long-term effects (Srinivasan et al., 2004).
- **Model Validation:** Models should be rigorously validated using holdout samples or cross-validation techniques to ensure their predictive accuracy and generalizability. This helps to avoid overfitting the model to the training data and ensures that it performs well on unseen data (Arora et al., 2008).

- **Sensitivity Analysis:** It's crucial to assess the sensitivity of model results to different assumptions and parameter values. This can help identify key drivers of ROI and understand the potential impact of uncertainty in the data or model specification (Roberts & Pashley, 2000).
- **Dynamic Resource Allocation:** Promotion response models should inform dynamic resource allocation strategies. This involves continuously monitoring the effectiveness of different promotional activities and adjusting the marketing mix accordingly. For example, if detailing is found to be highly effective for a particular physician segment, resources may be reallocated from other channels to increase detailing frequency for that segment. Haughton et al., (2015) demonstrated this with their research and found significant increases in ROI.
- **Integration with Business Objectives:** Promotion response modelling should be aligned with overall business objectives, such as market share growth, profit maximization, or new product launch success. Model outputs should be translated into actionable insights that can guide strategic decision-making (Farris et al., 2010).
- **Continuous Improvement:** The pharmaceutical market is constantly evolving, so it's important to continuously update and refine promotion response models to reflect changes in physician behaviour, competitive dynamics, and the regulatory environment (Germann et al., 2013).

## V. CONCLUSION

Promotion response modelling is a powerful tool that can help pharmaceutical companies optimize their marketing investments and achieve higher ROI. The introduction of advanced modelling approaches, such as Multi-Equation Regression Models, Bayesian Methods, and Network Effects Modelling, has significantly enhanced the ability to capture both direct and indirect promotional effects, including complex phenomena like halo effects.

These advanced techniques provide deeper insights into the dynamics of promotional campaigns, enabling pharmaceutical companies to measure the true impact of their marketing activities. By accurately quantifying both direct and indirect effects, these models empower organizations to make better-informed decisions about resource allocation and enhance their strategic planning efforts.

While challenges remain in accurately measuring promotion effectiveness, the development of sophisticated mathematical models, combined with robust data collection and rigorous analytical practices, has significantly enhanced the ability of pharmaceutical companies to make data-driven marketing decisions. By embracing best practices for ROI analysis, including model validation, sensitivity analysis, and dynamic resource allocation, companies can maximize the value of their promotional efforts and achieve sustainable success in a highly competitive market.

Future research should focus on further refining these advanced techniques to account for emerging marketing channels, such as digital and social media, as well as incorporating real-world evidence and patient-reported outcomes into the analysis. As the pharmaceutical industry continues to evolve, sophisticated promotion response modelling will play an increasingly critical role in driving profitability and ensuring that valuable therapies reach the patients who need them.

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