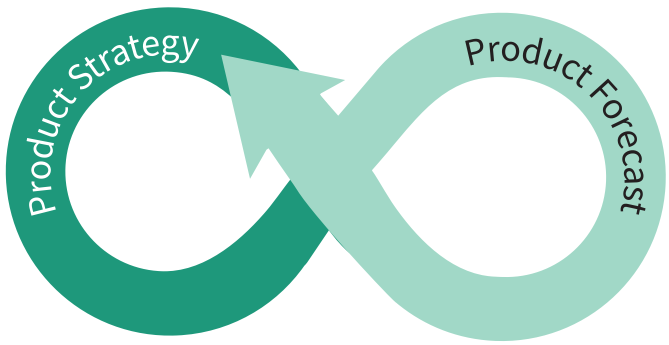
Solving for the Future:

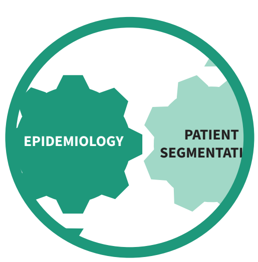
Building Strategy through Forecasting



Predicting your future sales requires a keen understanding of the market and your product. What is your value proposition? Who is your patient? Who will prescribe your drug? Who is the competition – and how does our competitive set change over time?

A forecast is a powerful tool that marries quantitative inputs with qualitative beliefs about the market to inform the outlook of your product and portfolio. In this paper, we will focus on some of the key guiding principles for effective forecasting, common pitfalls, and how to use a forecast to develop better strategy.

THE BRIEF



Nuts and Bolts

Essential forecasting inputs and common pitfalls

Segmentation & Share

Guiding principles for two inputs at the crux of forecasting

Better Decision-making

Insights for leveraging your forecast as a decision-making tool

Introduction

Much of the information used to construct a forecast is quantified and concrete. However, at its core, forecasting is more art than science. A forecast represents a set of beliefs about the market and how it is changing, and about your product's future place. The forecast tells a story – a story you can communicate to your board, investors, a partner or acquirer.

The most successful forecasts are also powerful decision-making tools that marry qualitative beliefs with a quantitative picture of their impact on your business. These forecasts not only articulate the current opportunity but also help illuminate alternate paths forward and clarify the trade-offs between new directions. Should we run a longer trial to generate more compelling data, or get to market as quickly as possible? Which patient populations should we prioritize for future data generation and marketing investments? Should I cannibalize an existing business in pursuit of something larger?

The best forecast can help us grapple with these choices, and ultimately, bring confidence in the path forward.

Nuts and Bolts: Key Forecast Elements and Common Pitfalls

Let's start with the quantitative inputs (see Figure 1).

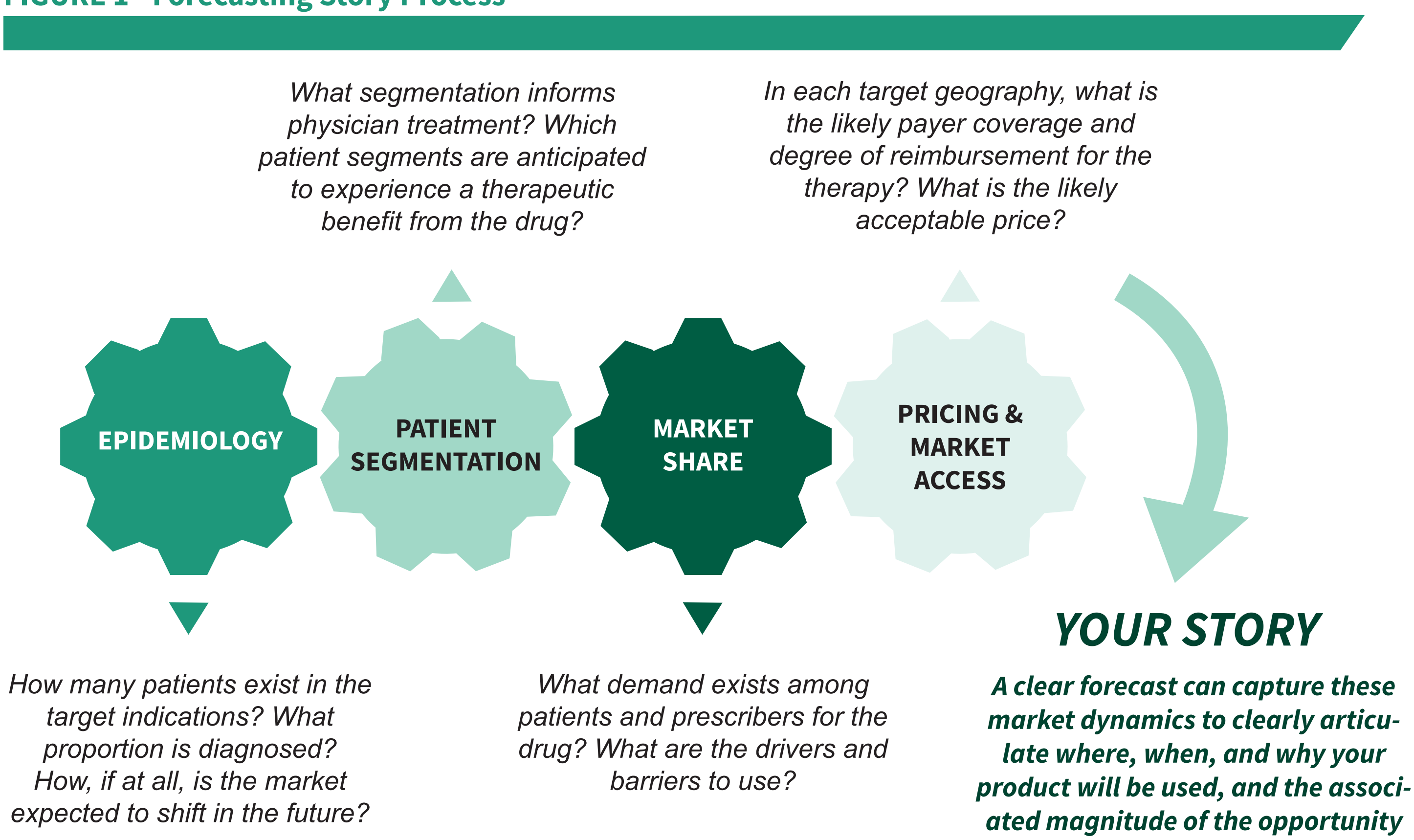
Your drug's market forecast will include a rigorous exploration of the epidemiology of its therapeutic area over time, normally sized based on literature or claims data. This population is then segmented in a way that corresponds to current and future treatment decisions. Within each of those segments, assumptions on market share, pricing, and access articulate how interwoven physician, patient, and payer dynamics will shape utilization of your product.

How these assumptions are developed and translated into a forecast differs by company. However, there are a few common pitfalls worth acknowledging from the beginning:

"No one wants to change the numbers."

As products move through development, the forecast becomes more specific, sophisticated, and sticky. Despite gaining new insights into the marketplace with additional research and market advancement, we nonetheless

FIGURE 1 - Forecasting Story Process



encounter resistance across clients big and small to altering assumptions – particularly if they paint a less positive picture. The best mitigation strategy is to be clear about your uncertainties early and often, and be wary of artificial precision. Every time figures are presented, also share critical sensitivities and be vocal about where you have less confidence in your assumptions.

"What is that percentage out of?"

Often times a variety of people and/or groups are tasked with determining the assumptions that feed into a forecast. In order to successfully do this, all parties need to be aligned on the "funnel" of the forecast: What is the starting population? What cuts will be taken to whittle the population down to our customer? In what order should those cuts be taken?

Take for instance two internal teams at a biotech, who were modeling physician demand for a product to identify ways to increase revenue. One conducted market research to understand physician willingness to use the product, and then took cuts to account for patients who would not be able to access the product due to reimbursement or other factors. The other team took the inverse approach, first determining which patients would likely have access, and then exploring demand within those patient groups. This led to weeks of confusion around how to articulate the main driver of the opportunity: securing access in key patient segments or driving demand toward those segments. Had the teams been aligned in the first place, this could have been avoided.

"Can the forecast do that?"

Creating an effective forecast requires striking a careful balance between simplicity and functionality. Individual requests for added functionality can often spiral into forecasts with near-infinite degrees of freedom, which can make them overly complex to use and, importantly, difficult to explain.

A common challenge we see is attempting to account for every permutation of competitor launches in the model. While modeling competitive scenarios is important, every sequence of competitor and data launches could lead to a unique impact on market share. Modeling all of these can dramatically decrease usability and divert time and energy better spent solidifying other assumptions. Early alignment on the most critical 2 to 3 scenarios can help focus the team and the forecast on the most critical issues and improve long-term forecast usability.

Segmentation & Market Share

In the next two sections, we will specifically focus on two assumptions that comprise the crux of a forecast: patient segmentation and market share. These two inputs are the most challenging to come up with because they require not only an intimate understanding of the clinical paradigm and unmet needs, but also your product's value proposition and future positioning. We'll focus on just a few guiding principles to keep in mind.

Patient Segmentation: Finding your customer

An effective forecast must first answer the question: Who is this story about? Who is your patient?

One of the first assumptions in the forecast will be how the larger patient population is broken down by physicians making treatment decisions. This is normally based on patient characteristics, such as severity/stage of disease, presence/absence of risk factors, or response to prior therapies. Getting the segmentation right allows you to clearly articulate who is (and who is not) the target patient for your product.

Your ultimate choice for segmentation will fundamentally shape the way you talk about your patients. While there are multiple defensible ways to break down the market, these can be more or less aligned to how the market naturally identifies your patient. For instance, in the attention-deficit hyperactivity disorder (ADHD),

a small company excited about their ADHD product surveyed patients to determine satisfaction with their current treatment, dividing the entire ADHD market into "satisfied" or "unsatisfied" patients. The prospect of addressing the latter segment was obviously attractive to the company, and at first glance, tempting to incorporate into the product's forecast.

Given the fragmented nature of the ADHD market, however, clinicians approached thinking about the new drug quite differently. When asked how they would use it, they spoke in terms of existing therapeutic options. A physician might say, "I would use this drug in place of Strattera," or another incumbent therapeutic option. Providers were therefore identifying patients in a way that was inconsistent with the company's forecast segmentation. This made it difficult to capture who the company's target patient was, and inflated their forecast beyond reasonable expectations.

This example illustrates an important lesson: if you go with a segmentation method that is less aligned with your market's stakeholders' segmentation, be prepared to make adjustments down the road to accurately capture the opportunity for your product. Furthermore, be prepared to do some work to help key stakeholders (physicians, payers) to clearly identify your patients once you launch.

Market Share: What are my product's strengths and vulnerabilities?

Market share should represent the strength of the value proposition for your asset based on its ability to address the needs of each segment, and to do so better than the competitors. In practice, market share is usually based on physician-stated preference share, triangulated through qualitative or quantitative research, and pressure tested against analogs. At the end, the research usually leads you to a range for the asset's potential market share – and it is up to you to decide whether to lean towards the higher or lower end of the range.

When your goal is to convey reasons to believe the organization can get more out of an asset, it may make sense to land on the more optimistic side of the range. Here, the purpose of the forecast might be to convey the maximum potential of a product after a series of investments, such as additional evidence generation, dose optimization, or market development activities. Importantly, an optimistic market share needs to be tied to a set of beliefs of what you will do to better position the asset in the market, and can help make the case for those investments.

On the other hand, you may opt to pick a more conservative market share when making trade-off decisions, such as assessing an external asset for acquisition. Here, being overly optimistic in a forecast may encourage you to invest in a product or in an area that will not yield reward. By honestly sizing dynamics such as competition or cannibalization of your existing products, the forecast will provide a more reliable picture of the true upside of investment relative to investment in other areas.

Forecasting for Better Decision-making

A forecast that credibly portrays beliefs about the marketplace and product is the foundation for many tactical activities (e.g., due diligence acquisition, resourcing and capacity-building for launch). However, it can also be a powerful strategic tool. A forecast can clarify the value of your existing strategy, and it can also elevate the value of pursuing a new direction entirely.

Robust forecasting can illuminate new opportunities for pivoting that may seem too risky or unfamiliar at first glance. For example, one company had a late-stage oncology portfolio that was positioned to enter a lucrative but increasingly competitive market. They were faced with novel mechanisms, second-generation molecules, generics, and biosimilars. The bar for differentiation was rising rapidly on all fronts. At the same time, the company had an emerging pipeline that was ripe for investment in less crowded spaces. However, there was greater uncertainty around the potential of these early-stage assets.

The company had a critical decision to make – pour resources into fighting for market share in an increasingly crowded space? Or pivot to a promising early-stage portfolio with significant uncertainty and risk?

Robust forecasting of both opportunities gave the company a clear perspective on the balance of risk and reward for each option, revealing that the emerging opportunity was the right play. This decision required realistic modeling of the commercial potential in both markets, including nuanced competitive analysis for the late-stage portfolio to understand what market share could be captured. On the other hand, the early-stage portfolio warranted detailed scenario planning to understand the full range of upsides and downsides in light of greater uncertainty. Ultimately, the commercial potential of the early-stage portfolio justified the risk, and the company felt confident shifting focus and embarking in a new direction.

A thoughtful and well-crafted forecast can bring structure and clarity to your murkiest business decisions, particularly when the stakes are high. While there are a lot of particulars to get right in the coding and interpretation of a forecast, perhaps the greatest pitfall we observe is a failure to recognize this strategic potential within the model.

Forecasting can be a compelling tool to inform the path of your product and portfolio, as well as the strategic direction of your company. It can help you to prepare for volatile competitive or policy environments, and can help tell you where or where not to invest. It can elucidate new opportunities for your product in complex and evolving markets, or highlight near-term activities necessary to meet this challenge.

Of course, in pharma it would be foolhardy to overstate the accuracy of every forecast. The way forward is full of clinical, regulatory, and commercial risk. However, if we approach forecasting as building a long-term decision making tool – as an engine to produce new insights about our product and our market – we can be clear and confident we are on the right path. ■

About ClearView Healthcare Partners

Founded in 2007, ClearView Healthcare Partners is a global strategy consulting firm serving the life science sector.

The firm combines international industry knowledge and deep scientific expertise across a range of therapeutic areas with an extensive network of external stakeholders to deliver practical and actionable recommendations to our clients' most complex challenges. The firm's projects include cross-functional support at the corporate, franchise, and product levels for pharmaceutical, biotech, medtech and digital, and diagnostics companies worldwide.

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