

# Mini Case

## MedTech Pharmaceuticals

DOUG: “Now that it looks like we are going to get approval on these two new cancer drugs, we need to get a sales force out there selling them for us and we need to do it quickly.”

HAROLD: “I agree. We’ve put so much time and effort over the last three years into developing the drugs, conducting the clinical trials, and getting them

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through the FDA approval process that we forgot to consider what would happen when that approval came through. We have to make sure the sales force has the right incentive to see a lot of doctors and generate sales. Our window of opportunity for these drugs is only seven years, so we have to maximize our return during that time.”

BECKY: “Based on my experience with other sales organizations, paying our sales force based solely on commission should generate the sales we’re looking for. Salespeople love to make money, and if they know that the more they sell the more they’ll make, we’ll be in good shape.”

DOUG: “Good idea, Becky. Harold, put together a sales organization and start assembling your sales force. With FDA approval expected within the next six weeks, we’ll need to move quickly.”

With that conversation as the backdrop, MedTech Pharmaceuticals was in business. MedTech began when Doug Reynolds left his position as a university research fellow to start a new company. Doug’s work as a molecular biologist gave him an idea for a new cancer treatment compound that could be used to treat the deadliest form of skin cancer, melanoma. This new drug can treat melanoma without surgery (which is the typical treatment for this type of cancer). Doug also speculated that a different variation of the drug compound would treat a more common but less deadly type of skin cancer called basal-cell carcinoma. Doug thought that these new drugs would be in great demand in the future because as baby boomers age, many will be afflicted with skin cancer.

Based on the promise shown by this new drug, Doug was able to secure venture capital financing to develop the compound and submit it for approval by the Food and Drug Administration. To facilitate the development and approval process, Becky Smith was hired from another pharmaceutical company because of her expertise in conducting clinical trials and responding to FDA inquiries about the effects of the drug on patients. Harold Moran was hired to be the business manager. When the conversation above took place, Harold was the only person in the company with the expertise to develop a sales force that could successfully introduce the products.

#### **Four Years Later**

In the four years since MedTech received FDA approval, it has employed a sales force of 150 representatives organized geographically across the United States, calling on oncologists and dermatologists whose primary specialty is treating skin cancer. Each sales rep reports to one of 10 sales managers. The sales managers all report to Harold. Sales of the new drugs have been good but have not met the company’s expectations. Several of the sales managers have mentioned to Harold that a regular program of sales contests would create more excitement among the sales force and provide greater motivation to increase sales. Harold’s response is always, “The salespeople are getting paid 100 percent commission. That should be enough incentive for them to generate more sales.”

The sales managers also have mentioned that reimbursing sales reps for entertainment expenses would allow them to compete on a level playing field, since most pharmaceutical companies reimburse physician entertainment expenses. MedTech currently provides a \$250 per month car allowance and another \$50 per month for incidental expenses such as parking, tolls, and making copies of

sales information to leave with doctors. This reimbursement plan was implemented four years ago when the sales force began, and neither the dollar amounts nor the types of expenses reimbursed have changed since.

In light of the disappointing sales numbers and the impending expiration (in three years) of the company's patent on the two drugs, Harold has been listening to his sales managers more closely. He's concerned that a number of the salespeople may leave the company to pursue other opportunities. Consequently, he is considering changes to the overall compensation program at MedTech Pharmaceuticals.

### **Questions**

1. Discuss the advantages and disadvantages of MedTech Pharmaceuticals paying employees on a straight commission basis. What specific changes would you recommend Harold make to the compensation program? Why?
2. What do you think of Harold's opinion about sales contests? Are contests an appropriate incentive in this situation? Why or why not?
3. Design a sales contest that MedTech can implement to generate enthusiasm among the sales force and increase sales for the company. Describe the contest's objective, its theme, how many of the reps should be winners, and what types of rewards the contest should provide.
4. What are the differences between direct and limited expense reimbursement plans? Which type of plan do you think Harold should use with MedTech's sales force? Justify your response.