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Case Analysis

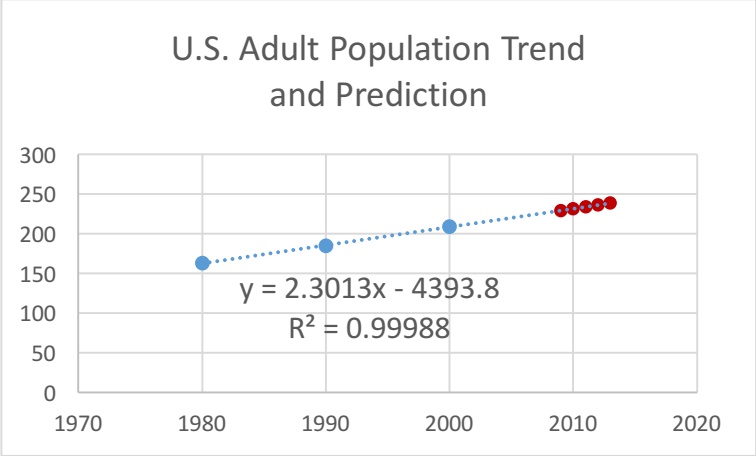
Metabical:

Pricing, Packaging, and Demand Forecasting for a New Weight-Loss Drug

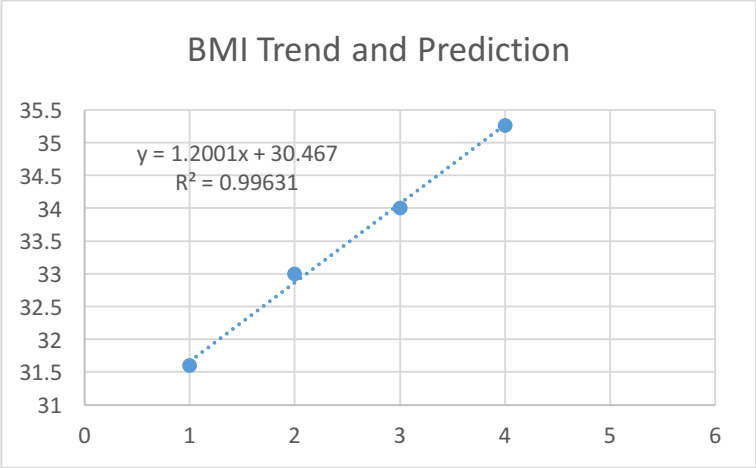
Situation analysis

CSP was planning to launch their newest prescription drug, Metabical, in the upcoming January 2009. After 10 years of testing and $400 million in research and development costs, Metabical was about to receive its coveted FDA approval and would be the first prescription drug approved specifically for overweight individuals with who with a BMI between 25 and 30. According to Mintel International Group's Weight Control Products- US- March 2007 report, total U.S. retail sales of weight control products in 2007 were estimated at $3.717 billion. Metabical was part of a strategic initiative that would allow CSP to enter this markets.

The potential market of Metabical was optimistic because the increasing number of overweight Americans became serious concerns to government and medical communities. By 2008, over 65% of the 230 million adults in the United States were considered overweight (BMI over 25), obese (BMI over 30), or severely obese (BMI over 40). Furthermore, based on the statistic percentage of overweight, obese, and severely obese adults in 1976-2001 (Exhibit 1 in case) to calculate and predict the data (Exhibits as below): U.S. adult population in 2009 is nearly 230 million and there were 36% population of overweight adults. This showed that the population of overweight adults were increasing gradually from 1976 to 2009, so it could prove that CSP had huge opportunities to sell Metabical very well in the following years.



Year	Million
1980	163
1990	185
2000	209
2009	229.4
2010	231.7
2011	234
2012	236.3
2013	238.6



	Overweight (%)	Period
1	31.6	1976-1980
2	33	1988-1994
3	34	1999-2000
4	35.267	2001-2005
5	36.467	2006-2009

In addition, due to the two created ingredients of calosera and meditonan in Metabical, CSP could be able to make a market segmentation to promote this newest obesity drugs. It was a major difference because other obesity drugs were used in the ingredients orlistat and sibutramine. Both of these ingredients have serious potential side effects to people, including hypertension, heart palpitations, liver damage, kidney stones, and son on. The ingredients of calosera and meditonan also became advantages to let Metabical compete with OTC drug Alli, which was also available specifically for the overweight segment in 2008. Alli was a reduced-strength version of the prescription drug orlistat and shared many of its negative side effects. For example, FDA regulators were reviewing over 30 reports of liver damage in patients taking Alli and Xenical between 1999 and 2008, including six cases of liver failure.

Last but not the least, due to the lack of regulation and safety concerns associated with OTC weight-loss drugs, it would result in an attractive business opportunity for CSP. The question was what alternatives should Barbara Printup consider in order to determine the optimal packaging and pricing strategy for Metabical. More specifically, which approaches can let CSP achieve a minimum 5% ROI within five years of the new product's launch.

Alternative courses of action

Printup decided to project demand using three different approaches that were based on varying assumptions about how potential customers would respond to Metabical. Printup also used her experiences to develop penetration guidelines (10% or 30% increasing by 5 % per year) and 60%20% model for repeat purchase. Based on Pricing Options: 4-Week Supply (Exhibit 3) and these assumptions, by calculating, it revealed each option used in this three different approaches that could create how much incomes in five years (Exhibits as below) and helped CSP to decide which is the best approach to adopt.

I. Forecasted demand by looking at the number of overweight individuals

BMI(25-30) in 2009: 35% ; CSP : 35% ; Weight loss drug : 15%				4-week	12-week	one-time user
Method 1		Accumulated Demand	First-time user	60%	20%	20%
1st year	10%	0.422625				
2nd year	15%	0.63945	0.216825	0.130095	0.043365	0.043365
3rd year	20%	0.85995	0.2205	0.1323	0.0441	0.0441
4th year	25%	1.084125	0.224175	0.134505	0.044835	0.044835
5th year	30%	1.311975	0.22785	0.13671	0.04557	0.04557
		4.318125		0.53361	0.17787	0.17787
		Total Demand		**1.667715**		

	Option1	Option2	Option3	
Total Income	41.359332	58.13	124.745082	millions
ROI	-90.25%	-86.30%	-70.59%	

II. Based on CSP survey, focused on the data point out that 12% of the respondents were ready to immediately go to health care provider to request a prescription.

Respondents	0.12			4-week	12-week	one-time user
Method 2		Accumulated Demand	First-time user	60%	20%	20%
1st year	10%	9.66				
2nd year	15%	12.18	2.52	1.512	0.504	0.504
3rd year	20%	16.38	4.2	2.52	0.84	0.84
4th year	25%	20.65	4.27	2.562	0.854	0.854
5th year	30%	24.99	4.34	2.604	0.868	0.868
		83.86		9.198	3.066	3.066
		Total Demand		**31.122**		

	Option1	Option2	Option3	
Total Income	771.8256	1809.12186	2327.9256	millions
ROI	81.95%	326.48%	448.78%	

III. Focused on the ideal target consumer: educated females, 35-65 of age with BMI 25 and 30, was expected to capture a higher penetration (4.3 million potential users).

Educated females 35-65						
BMI (25-30)	4.3			4-week	12-week	one-time user
Method 3		Accumulated Demand	First-time user	60%	20%	20%
1st year	30%	1.29				
2nd year	35%	1.505	0.215	0.129	0.043	0.043
3rd year	40%	1.72	0.215	0.129	0.043	0.043
4th year	45%	1.935	0.215	0.129	0.043	0.043
5th year	50%	2.15	0.215	0.129	0.043	0.043
				0.516	0.172	0.172
		Total Demand		**2.494**		

	Option1	Option2	Option3	
Total Income	61.8512	144.97622	186.5512	millions
ROI	-85.42%	-65.82%	-56.02%	

The recommend of alternatives

After calculating, it could easily find that the amount of demand estimated by method 2 shows the largest number (31 millions), which include the total of first-time users, 60% of people who would like to buy continually, 20% of people who tend to finish out the entire Metabical program and 20% of people who classified for one-time user. The number of potential consumer is much higher than those calculated from method 1 (1.7 millions) and the number (2.5 millions) from method 3. Besides, after using the data from method 2 to calculate ROI, the outcomes (option 1 with manufacturer gross margin $24.80, ROI is 82%; option 2 with MGM $58.13, ROI is 326% and option 3 with MGM $74.80, ROI is 449%) were all achieved with CSP goal, attained a minimum 5% ROI within five years. In contrast, the ROI calculated from both method 1 and method 3 showed that it would not only cannot reach the CSP goal but also had crisis to lose money (the results of ROI are all negative).

However, in my opinion, the demand obtained from method 2 was over estimated, because it considered that the 12% of respondents who were ready to request a prescription will all be the Metabical users, which might be too optimistic. It should be further narrowed down by taking account the 15% of the respondents who were comfortable with weight-loss drugs. In addition, the marketing survey of overweight individuals commissioned by CSP in 2007 only included 1,000 men and 1,000 women in total. This sample was too small and could not represent most of population in 2007(estimated 222 million people base on Exhibit 1). Therefore, using the result of 12% of overweight individuals applied in the total of the number of overweight individuals could not be explained thoroughly. In conclusion, it is better for Printup to make a different survey with more amounts of sample included. Otherwise, although the predicted results of ROI from method 2 were positive and worth expecting, it might not have the expected outcomes in the real market.

References

John A. Quelch and Heather Beckham. “Metabical: Pricing, Packaging, and Demand Forecasting for a New Weight-Loss Drug”. HBS Brief Cases 4183, April 14, 2010.