

Seizing the potential of commercial outsourcing in the pharmaceutical sector

A white paper from QuintilesIMS, in partnership with pharmaphorum

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Executive Summary

The power and potential of outsourcing has long been recognized as a core enabler of business growth. Yet while the pharmaceutical industry has been making strides in this area, there is still some way to go to realize the full potential; only in the past decade has the industry started to use outsourcing in downstream commercial functions – an area poised to reap the most benefit.

However, it is not too late to embrace commercial outsourcing across functions and throughout the product lifecycle. The rewards are significant. Most notably, the opportunity to realize cost-efficiencies combined with the ability to rapidly scale and tap into immediate external knowledge.

To assess the current and future direction of commercial outsourcing in this sector, QuintilesIMS, in partnership with pharmaphorum, conducted both quantitative and qualitative research with pharmaceutical industry leaders to provide benchmarks for current levels of outsourcing and unique insights into its future direction.

The results show that the industry is highly diverse in its adoption of outsourcing and that there is no 'one-size-fits-all' model for commercial operations. Flexible models that blend a mix of internal and external resources, combining long-term shared knowledge with a more liquid short-term workforce, are emerging as the best solutions for the pharmaceutical industry.

Introduction

KEY TAKEAWAYS

- The pharmaceutical industry is under intense pressure from payers and healthcare systems to deliver value-based medicines
- There is a need to cut operating costs by \$billions to maintain research and development levels
- The benefits of commercial outsourcing extend beyond the financial advantages
- The pace of disruptive change is a key driver in the adoption of commercial outsourcing
- A variety of outsourcing models have evolved to meet the needs of different business segments – but the pharmaceutical industry is not keeping pace with other sectors

Outsourcing of pharmaceutical services started in more systematic areas like clinical development and manufacturing, later expanding to support functions like information technology or business processes and core commercial activities such as sales and marketing. It now extends across a broad range of commercial operations, including analytics, business intelligence, forecasting, market research, sales force effectiveness, and marketing services. However, the fact remains that the pharmaceutical industry has been slow to adopt outsourcing versus many other sectors.

As drug pricing has come under growing pressure from payers and policy makers, the need to realize cost efficiencies across the industry has intensified. A study released by the IMS Institute in 2014 warned that the 17 largest pharmaceutical multinationals would have to reduce their annual operating costs by around \$36 billion from 2012 levels if they wanted to maintain the existing pace of research and development activity and operating margins.¹

But the financial advantages of outsourcing are only one factor. As the strong growth of contract manufacturing (CMOs), contract research (CROs) and contract sales organizations (CSOs) demonstrates, the ability to rapidly scale resources up or down as needed and offer immediate access to specialist knowledge – without a long ramp-up or expensive ramp-down – is a critical factor in their success. This flexibility is particularly important where internal restrictions on headcount or external factors, such as labor laws, are rate-limiting.

Rapidly evolving market dynamics have recently encouraged pharmaceutical companies to broaden the scope of outsourcing across their commercial activities – a shift given further momentum and urgency by the explosion of big data emerging from an almost endless stream of sources, such as electronic medical records, insurance records, healthcare providers, and social media.

Now pharmaceutical companies are recognizing the potential impact of this disruptive change in a traditionally slow-moving sector and waking up to the realization that doing everything alone is no longer a viable response.

This is the time for the pharmaceutical industry to accelerate outsourcing activities and learn from the experience of other industries. However, just as the CMOs, CROs, and CSOs answer not only the issue of cost but the need for multiple resources, commercial outsourcing must now address this same challenge: agility in scaling and staying ahead of market developments and unique expertise in this new data-rich environment will be key.

ADVANTAGES OF COMMERCIAL OUTSOURCING FOR THE PHARMACEUTICAL INDUSTRY

-  Substantial gains in cost efficiency
-  Ability to rapidly scale up/down
-  Ability to flex resources as required
-  Immediate access to specialist knowledge and best practice
-  Access to transformative skills and technologies
-  Access to unique expertise in a data-rich environment
-  Opportunity to meet strategic, financial, cultural, and operating needs
-  Ability to enhance operational effectiveness

WHAT IS ‘COMMERCIAL OUTSOURCING’?

A variety of outsourcing models have evolved to meet the needs of the pharmaceutical industry, their strategic priorities, financial imperatives, and the changing operating environment.

For the purposes of this white paper, and the underlying research, commercial outsourcing is defined as a “long-term” and “results-oriented” business relationship with a third party who provides support in the form of personnel (not just technology). The commercial services contracted may encompass a single commercial activity (such as forecasting or competitive intelligence), a set of commercial activities (such as business analytics/market research), or an entire end-to-end business process (such as multichannel marketing).

The models that have evolved in commercial outsourcing may involve single or multiple partners, with varying levels of centralized management and coordination, and may subsequently offer advantages either at the tactical or strategic level. The typical models deployed for outsourcing operations are:

- **Captive**, where the pharmaceutical company builds, owns, and operates the outsourced components. Captives are typically created in lower-cost but higher-quality locations, where they may also serve as a point of market entry, are shared-service centers, established as wholly owned subsidiaries of the parent organization and staffed entirely by legal employees of that organization while benefiting from the cost-efficiencies of offshored resourcing as part of the trend towards globalization
- **Joint-venture**, where ownership and contribution of resources is shared between the pharmaceutical company and the outsourcing partner
- **Build-operate-transfer/turnkey**, where the outsourcing partner owns, builds, staffs, and operates the outsourced components on behalf of the pharmaceutical company, but ownership of assets and staff transfers across on completion
- **Fee-for-service**, where the pharmaceutical company signs a contract for services in exchange for fees paid to the outsourcing partner

To meet fast changing market dynamics, models have moved from fixed, fee-for-service contracts to multiple, diversified providers working on flexible contract terms, or through joint partnerships on a pay-per-output basis. Moreover, new models are emerging that favor networks of providers paid on outcomes rather than outputs, with sharing of risks and responsibilities through partnerships or strategic alliances.

It is notable, for example, that other sectors have moved away from captives in favor of more flexible models and the pharmaceutical industry should take heed of this shift as it embarks on its own journey.

Historic drivers of commercial outsourcing

While cost savings and flexibility are undeniable factors in the spread of outsourcing to commercial functions for the pharmaceutical industry (see Figure 1), the best use of these capabilities is likely to come from a blend of tactical (reducing costs or increasing cost-flexibility), transactional (selecting a vendor), and strategic (long-term thinking to build capability in novel areas and functions) considerations.

Accessing external capabilities without having to manage turnover and variability makes resources easier to maintain or scale up and down, particularly when there are restraints on internal headcount or in markets where tighter labor laws, social responsibility, or other factors make this harder to do internally.

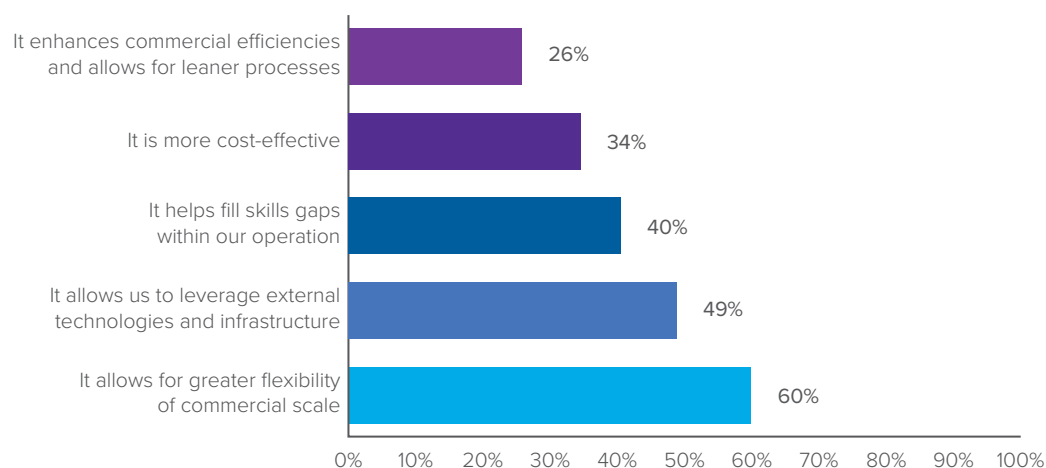


Figure 1: Drivers of commercial outsourcing for all survey respondents

Access to more advanced knowledge or skills – as well as breadth of experience, established processes, and best practices evolved in serving multiple clients – can enhance operational effectiveness, particularly in specialized areas of commercial operations such as analytics or ongoing reporting and insights generation.

Although cost-efficiency remains a key consideration – and despite the range of commercial outsourcing models that offer benefits far beyond cost savings – pharmaceutical companies continue to resist outsourcing investments in favor of near-term objectives and outcomes, especially at times when the business or brands are comfortably cash-rich.

The Current Situation for Commercial Outsourcing in Pharmaceuticals

KEY TAKEAWAYS

- The pharmaceutical industry lags behind other sectors in proactive, strategic outsourcing
- There is a tendency to favor near-term objectives and outcomes
- Industry is highly divided in its adoption of commercial outsourcing
- The concerns over outsourcing range from the ability to maintain control to data privacy and security
- Primary market research is the most frequently outsourced function, with forecasting bringing up the rear
- More than half of respondents did not expect to outsource any commercial function in the future
- There remains a clear divide in industry between those who believe in the power of commercial outsourcing and those who are reluctant to engage

As the QuintilesIMS/pharmaphorum survey demonstrated, outsourcing of commercial functions in pharmaceutical organizations is picking up pace but has a way to go before it reaches the established level seen in other industries. The results show that industry is highly diverse in its adoption of commercial outsourcing. Indeed, some companies remain reluctant to outsource high value-added commercial functions that sit close to the strategic core of the business or involve critical intellectual property.

For example, many companies are still not outsourcing commercial functions at all or are doing so only very conservatively (see Figure 2). Among the survey respondents, 22% were not currently outsourcing commercial functions, had not done so in the past, and had no plans to do so in the future.

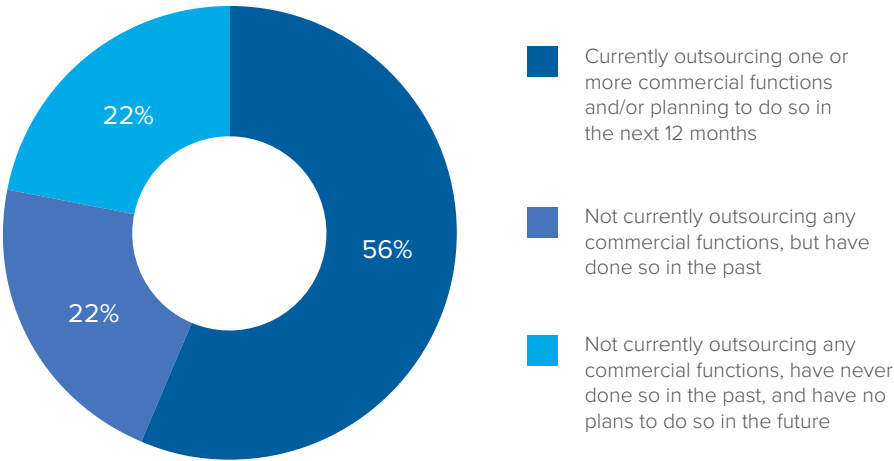


Figure 2: Current status of commercial outsourcing for all survey respondents

In addition, the least cited reason (by 26% of respondents) for outsourcing selected commercial functions, among those currently outsourcing, was to enhance commercial efficiencies while allowing for leaner processes. Maintaining control and quality standards is a key disincentive, cited by 54% of survey respondents who had historically outsourced commercial functions but were not doing so, and by 71% of respondents who had never outsourced.

Despite the volume of data now involved in commercial operations, concerns about data privacy and security are inversely related to experience with outsourcing. Only 7% of survey respondents who had historically outsourced cited this as a disincentive to continue outsourcing, whereas 24% of those who had never outsourced commercial functions saw it as a barrier.

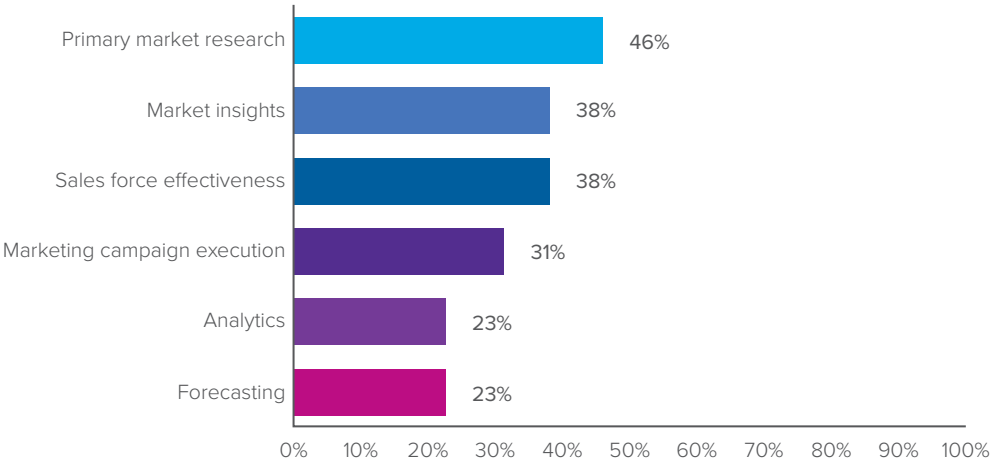
Levels of outsourcing by commercial function

Outsourcing specific commercial functions is by no means an all-or-nothing decision. Some pharmaceutical companies are adopting mixed models, which may include outsourcing most, half, or a minority of activities in a particular field while keeping the rest in-house. These can still work as an inherently integrated strategy, with internal and external resources working closely together.

Reluctance to outsource commercial operations has persisted even in ideally suited areas such as analytics and business insights. Survey respondents currently outsourcing commercial functions were most inclined to outsource primary market research entirely or mostly (59%), followed by analytics (40%).

A similar pattern was seen among respondents who had historically outsourced commercial functions, but subsequently brought activities completely back in-house (see Figure 3), citing primary market research as the most frequently outsourced function (46%). Other function-oriented insights included:

- Sales force effectiveness and market insights tied for second most historically outsourced function (38%)
- 31% of respondents had historically outsourced marketing campaign execution
- Only 23% of these respondents mentioned forecasting or analytics, perhaps reflecting the more recent emphasis on these activities as core components of commercial operations



➤ Just 23% of these respondents mentioned forecasting or analytics

Figure 3: Level of current outsourcing for commercial functions for survey respondents who had historically outsourced

The picture changed markedly when respondents not currently outsourcing commercial functions considered what they might outsource in the future with just 19% of respondents considering outsourcing their primary market research activities.

However, 50% said they did not expect to outsource any of the commercial functions mentioned, including market insights, sales force effectiveness, forecasting, or marketing campaign execution.

The potential for outsourcing commercial operations goes far beyond its current application within most pharmaceutical companies. Nonetheless, some companies are still reluctant to outsource high value commercial activities.

For example, while analytics in general may be an obvious area for outsourcing, the insights gleaned from big data may be less so, particularly if they are driving strategic decision-making. Moreover, where commercial expertise (for example in marketing) is specific to a product or therapeutic area, companies may prefer to keep it in-house.

On the other hand, forecasting and commercial functions involving large volumes of data – as well as the work involved in finding and elucidating relationships between these datasets – can be more readily outsourced to release internal capacity for strategic insights.

Yet there remains a clear divide within the industry between those who believe in the power of commercial outsourcing and those who are reluctant to engage (see Figure 4). This ultimately limits the potential to optimize outcomes from proactive outsourcing strategies.

> 50%
said they did not expect to outsource any of the commercial functions mentioned

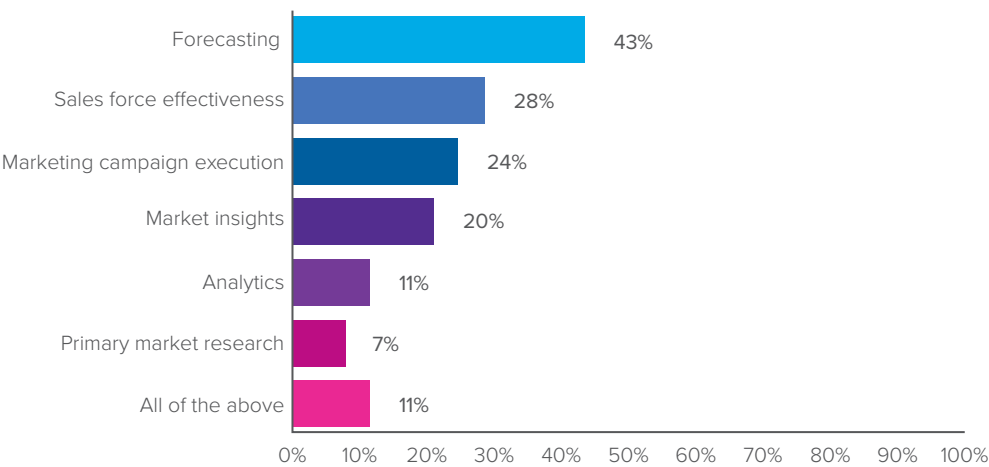


Figure 4: Commercial business functions considered completely unsuitable for outsourcing by all survey respondents

Mixed models emerge

Before selecting among the various operating models available for outsourcing, pharmaceutical companies typically undertake a detailed internal needs assessment, which can include:

- The extent and depth of internal resources and capabilities
- Whether these are being used with optimal efficiency and effectiveness
- Whether they need supplementing or replacing with capacity that is better, or more cost-effectively, sourced from outside

- The implications of each model such as overseeing the outsourced function, reconciling internal and external systems, technologies and standards, the cultural fit, and how outsourcing can be squared with commercial strategy

With those considerations in mind, Figure 5 shows most survey respondents favored a traditional fee-for-service model, followed by a joint venture. This cohort also appears to be mirroring the trend in other sectors, where players are moving away from captive models driven by fears of permanently losing in-house resources, the complexities of establishing captive centers, and the subsequent limitations on working with alternative vendors.

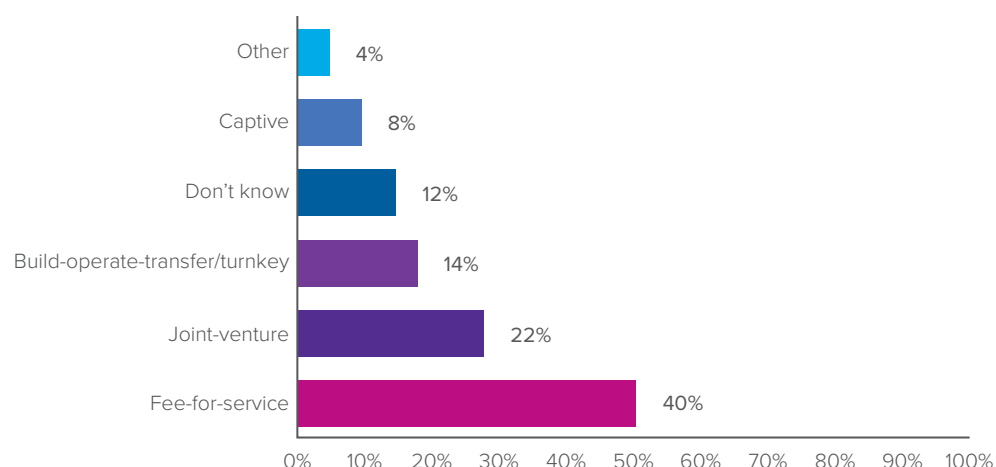


Figure 5: Favored commercial outsourcing models for all survey respondents

One interviewee preferred a mixed model for forecasting to raise the quality of internal engagement while outsourcing activities that are inherently time-consuming (for example, capturing and formatting data) or require higher-level forecasting expertise.

This also avoids coordination problems with different tools used internally across functional segments, resulting in multiple inputs into forecasting assumptions. Instead, explains one executive, “the finance person, therapeutic-area head of sales and the marketing head for each country would sit down with the offshore or outsource person who built the model and review the assumptions.”

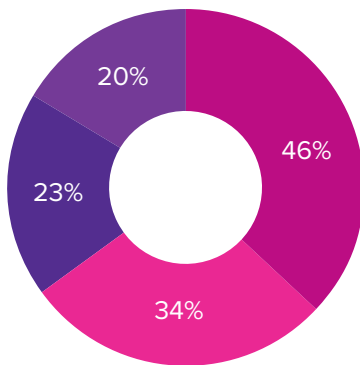
Moreover, outsourcing may be a blend of transactional and strategic partnerships. One interviewee at a large pharmaceutical company described the current outsourcing model for commercial services as largely transactional. However, one component of those services was considered strategic enough for the company to put one of its own employees in charge of an offshore operation in India.

Human factors are also crucial. One interviewee stressed the importance of outsourcing partners having dedicated resources that help to build a genuine long-term relationship with the client. This also contributes to trust around potentially sensitive issues such as data access, especially in a context where much of the relationship is likely to be virtual.

These insights reinforce the need for more flexible models of commercial outsourcing that cater to different needs by client, by function, and over time.



Within your current outsourcing, which model do you think is most effective?



46%

Fee-for-service – your organization signs a contract for services



23%

Build-operate-transfer/turnkey



34%

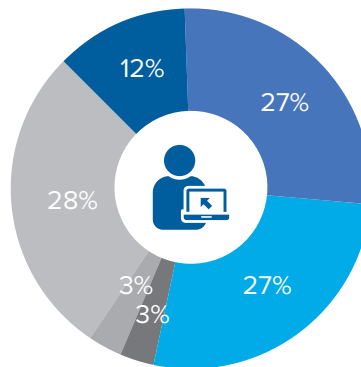
Joint-venture – your organization and outsourcing partner share ownership



20%

Other/Don't know

Approximately what percentage of your commercial spend do you outsource?



12%

Less than 10%

3%

50–75%

27%

10–20%

3%

75–100%

27%

20–50%

28%

Don't know

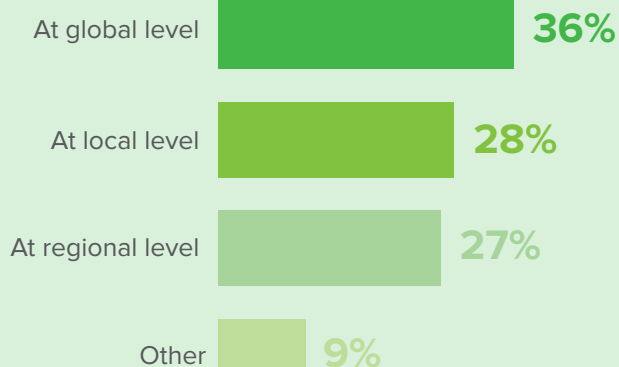


How soon after outsourcing do you expect to see efficiencies realized?

64%

Within 1 year

At what geographic level are decisions made in your organization with regards to commercial outsourcing?



Measuring and Delivering Success

KEY TAKEAWAYS

- Outsourcing is not just about short-term cost savings
- The pharmaceutical industry wants an almost immediate return on investment
- In contrast, substantial benefits are unlikely to be seen until year two or three
- The financial success of commercial outsourcing is measured in different ways
- Measuring only direct costs underestimates the true cost of internal versus external resource
- Whatever metrics are used to measure success, it will only be delivered by adopting the right strategic approach from the start

As commercial outsourcing has grown within the pharmaceutical industry, so has the need to measure its success and justify investment in external versus internal resources.

This will not happen overnight. Outsourcing is not just about short-term cost and/or efficiency savings and therefore represents both journey and destination. Indeed, the ability to rapidly scale expert resources in response to quickly moving markets and to take a longer-term view that substantial benefits are unlikely to be seen until year two or three of the partnership are critical drivers of success in this market.

However, despite this need to temper expectations, the QuintilesIMS/pharmaphorum survey shows that pharmaceutical companies want to see an almost immediate return on commercial outsourcing.

As illustrated in Figure 6, a large majority (64%) of respondents who were currently outsourcing said they had seen or expected to see efficiencies realized from outsourcing commercial functions within one year, while 18% expected these benefits to be realized within two years. Only 12% and 3%, respectively, envisaged a return from outsourcing immediately or in more than three years.

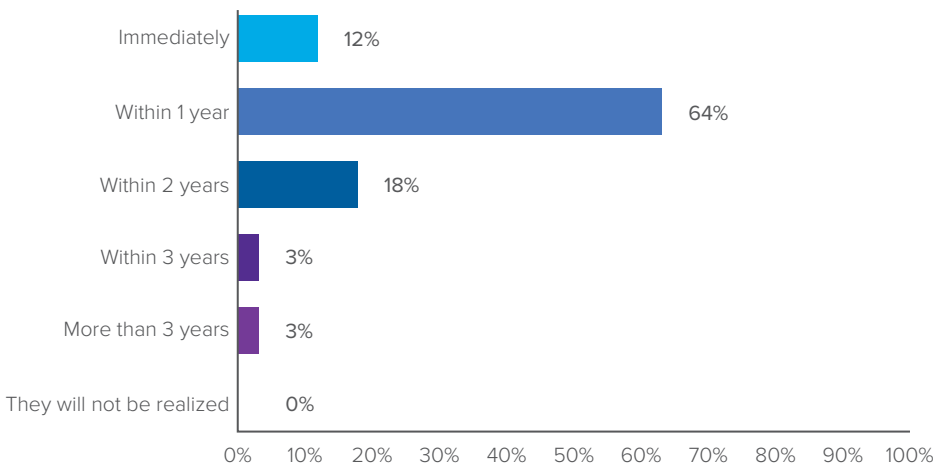


Figure 6: Time to expected efficiencies realized (all respondents)



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These same respondents said current outsourcing of commercial functions was largely meeting, or slightly exceeding, expectations. Specifically, they were asked to grade their success in commercial outsourcing based on three key measures:

- Effectiveness (delivering results as expected)
- Efficiency (results delivered in the way expected)
- ‘Health’ (creating the sustainability needed to accomplish strategic goals)

A complex equation

Measuring the benefit of commercial outsourcing is a complex equation that involves the analysis of quantitative data to compare elements such as costs, revenues, return on investment, efficiency, and scalability, alongside more elusive qualitative factors such as feedback from working partners on how the relationship is progressing.

Costs may be estimated for specific functions or processes with or without outsourcing. A more comprehensive assessment, though, might be the ‘total cost of ownership’, taking into account any other parts of the business affected by outsourcing.

Comparative quality is another way to measure the success of commercial outsourcing. For example, a comparative-quality metric for sales force effectiveness might be whether incentive-compensation reports are delivered on time, how accurate they are, and how satisfied customers are with the end products.

Tracking outsourcing impact for analytics might involve looking at how many ideas or projects are generated from this activity in a given year; whether these were run by the internal analytics team, by the outsourced team, or a combination of both; and whether they resulted in a strategic decision such as investing in a new drug indication.

The way in which outsourcing impact is monitored and measured also depends on the model chosen, the degree of outsourcing, and the function to which it was leveraged.

With an active, integrated partnership between internal and external partners, the key deliverables may not be ‘hard’ metrics, key performance indicators, or return on investment, but rather whether functional heads or budget holders feel the arrangement is achieving relevant objectives more efficiently or cost-effectively than with an alternative strategy.

Participants in the QuintilesIMS/pharmaphorum survey were also asked which selected cost components they were measuring to assess the relative success of commercial outsourcing versus retaining those resources in-house.

Ultimately, though, the component most measured, by 61% of respondents, was the direct cost of external outsourcing, followed by internal remuneration (cost of staff salaries plus incentives: 55%) and internal costs beyond remuneration, such as recruitment, overheads, and training (33%) (see Figure 7).

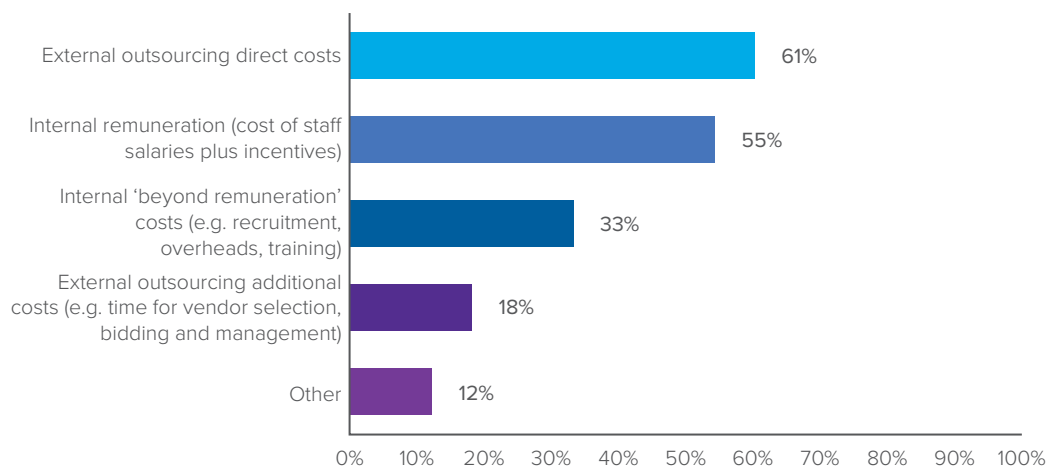


Figure 7: Costs used to measure the relative success of commercial outsourcing versus in-house for all survey respondents

Clearly, only the financial success of commercial outsourcing is measured in different ways, while measuring direct costs may underestimate the true costs of internal versus external resource. Moreover, an ‘apples to pears’ comparison may be misleading if, for example, leeway to add headcount internally is more constrained than the availability of budget to supplement the internal team.

Critical success factors

What is clear is that whatever metrics are used to measure success, it is essential to adopt the right strategic approach at the start. More flexible approaches, incorporating hybrid models, a range of partners and blending internal and external resources, are rapidly emerging as a best-practice approach to outsourcing of commercial functions.

Within this strategic framework, the critical success factors for commercial outsourcing will be skills, technology, and processes. Delivering the right mix of skills and technology depends on the following:

- Recognizing the parent organization’s core in-house competencies
- Understanding on that basis what is the optimal blend of outsourcing and in-house capabilities
- Acknowledging that a binary approach to outsourcing – being tied to a single provider – is far less likely to generate reciprocal value than working with multiple, flexible providers reflecting the complexities and specificities of differing commercial functions
- Considering whether the requisite technical skills (for example in forecasting, data science) are contextualized by elements such as regional and local market knowledge or understanding of the patient journey

A recent QuintilesIMS senior executive briefing on *Delivering Next-Generation Commercial Capabilities within the Pharmaceutical Industry* offered a blueprint for a new collaborative model whereby next-generation commercial capabilities can be built by leveraging the analytical, technological, and intellectual expertise of external partners alongside a company's internal assets.²

Transparent, integrated, and standardized processes are key to making such relationships work. The danger is that either partner may overcomplicate processes by building them into every level of operational activity.

Stripping out unnecessary processes may be a condition of a lean, efficient, mutually beneficial partnership. At the same time, though, there should also be some acceptance of organizational, operational, and cultural differences.

There must also be acknowledgment that one partner cannot immediately acquire expertise in the other's business. This again brings interpersonal skills to the fore. The right chemistry and cultural fit are paramount, especially as outsourcing is often a virtual partnership, with sometimes conflicting agendas and limited time or opportunity to build close, intuitive relationships based on regular interaction and feedback.

"If you're setting up an analytics center offshore somewhere, but you want them to work with all of your markets, they're probably pretty good at running the data, but they're not very good at communicating between the markets and the offshore area," one executive commented.

Where a pharmaceutical company is too preoccupied with losing control in the relationship, it will never have a chance to develop productively. With outsourcing of commercial processes that may include elements of strategic thinking, building trust in the partner through transparency and long-term commitment must be central to process management.



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Building Trust and Transparency in Commercial Outsourcing

KEY TAKEAWAYS

- A third of decisions about commercial outsourcing are made at global level
- The right strategic vision requires a long-term view
- Both parties need a clear understanding of the objectives and competitor differences
- The parent organization must have a clear perspective of its core competencies and those it wants to outsource
- Transparency and demonstrable return on investment will drive future commercial outsourcing decisions
- Broad, inflexible models of outsourcing will be increasingly challenged as greater emphasis is placed on justifying outsourcing costs and capabilities

A strong strategic vision is grounded by long-term objectives, rather than short-term projects that build external resources and then determine what to do with them. There needs to be a clear understanding of what outsourcing is designed to achieve and how it will differentiate a company from its competitors.

This will not only ensure that outsourcing is aligned with strategic imperatives, but that the external provider understands what the objectives are and believes in the client organization's commitment – an important consideration if key staff are to be retained and quality maintained over the course of the relationship.

Appointing a local 'champion' within the outsourcing partner to drive this strategic vision through dynamic, visible leadership is invaluable in this respect.

As one industry executive commented, "It can be difficult to manage an external organization to be as aligned and responsive to your objectives and goals as you are internally. Sometimes the promise is difficult to achieve in cost-effectiveness and efficiency, especially if there is an assumption internally that signing a contract and handing it over is going to take care of it."

First, though, the parent organization must have a clear perspective of its own core competencies and those it wants to supplement through outsourcing. These core competencies are much more than products or services; they are deeply rooted in an organization's culture, brand, and behavior.

The Future of Commercial Outsourcing in Pharmaceuticals

Looking to the future, respondents to the QuintilesIMS/pharmaphorum survey were asked specifically what top-three factors would be most likely to increase their level of commercial outsourcing (see Figure 8). A significant majority (69%) selected transparent pricing and demonstrable return on investment as key.

In the same vein, 48% of respondents wanted to see clear case studies and evidence of successful outsourcing projects, reinforcing the importance of measuring and justifying investment in outsourcing.

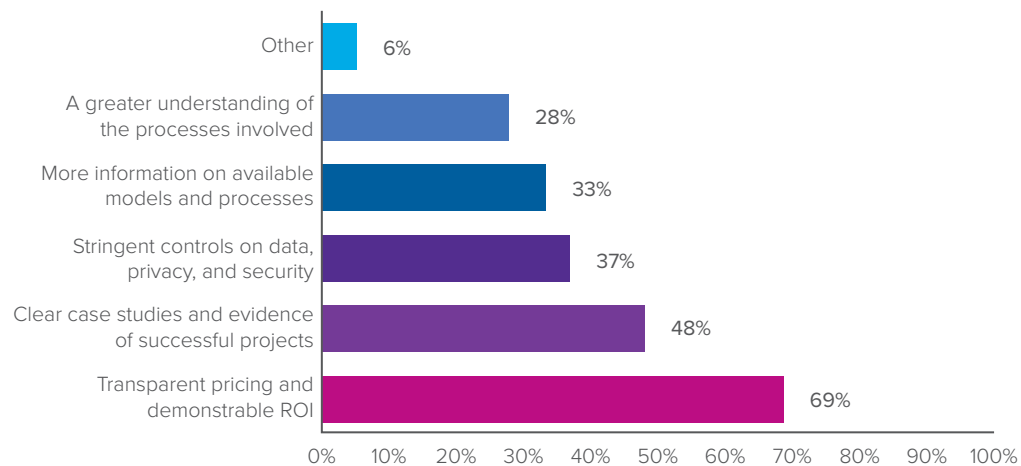


Figure 8: Factors most likely to increase the level of commercial outsourcing for all survey respondents (up to 3 most important factors)

Stringent controls on data, privacy, and security were a prerequisite for 37% of respondents, while 28% would outsource more if they had a greater understanding of the processes involved and 33% if they had more information on available models and processes.

However, as one interviewee commented, “I see the [importance of] data management – the application of data to business problems and analytics – racing away from pharma in comparison to other sectors.”

Pharmaceutical companies may indeed want to look at other sectors such as banking, insurance, manufacturing, automotive, or consumer goods, where outsourcing reflects businesses on closer terms with big data and analytics, networking and virtual customer relations.



69%

selected transparent pricing and demonstrable return on investment as key to decisions about future outsourcing



I see the importance of data management racing away from pharma

Predictions for the future of commercial outsourcing

Given the market dynamics and pressures outlined in this white paper, the scope and variety of outsourcing models is likely to continue evolving within pharmaceutical commercial operations. Even the laggards will face increasing pressure – both financial, and through the pace of technological change – to adopt commercial outsourcing to maintain competitive advantage.

This is not to say the progress of commercial outsourcing will necessarily be at pace. As already noted, some functions – and particularly those with strategic weight – may not be so amenable to outsourcing. Part of the developing expertise in this field will be the ability to recognize when outsourcing is inappropriate, ineffective, or even counterproductive.

Moreover, the build-up of homegrown expertise – potentially at significantly lower cost – in areas where commercial operations once relied on outsourcing to access talent, such as data analytics, means that in some cases the pendulum may actually swing back to insourcing.

“I’m sitting 10 feet from somebody who has a degree in business intelligence, so newly minted with all the latest technologies,” said one interviewee. “He’s creating visualizations from our data where we would have needed to go externally to get that capability, really not that long ago ... And he’s at a price point that’s significantly lower than my outsourced partners would charge ... The competitive marketplace for these services that we have the option to outsource has globalized, and there are very, very, low barriers to entry.”

Such seismic changes in data growth and availability, coupled with rapid advances in more powerful, portable technologies to support business-intelligence activities, have put in the hands of individuals resources that were unavailable, even unimaginable, just a decade ago. This complicates decisions over whether certain commercial processes are best handled internally or outsourced as before.

Conclusion

KEY TAKEAWAYS

- The pharmaceutical industry must embrace commercial outsourcing to keep pace with the shifting market dynamics in the broader healthcare environment
- The critical success factors include adoption of flexible, hybrid models using a range of partners, a blend of internal and external resources, and a mutual understanding of objectives
- This will ensure that the outsourcing of commercial operations makes the full transition to delivering commercial advantage in addition to cost efficiencies

This research shows that commercial outsourcing is rapidly becoming a strategic priority for business operations within the pharmaceutical industry. However, its application is highly diverse from one company to the next and offers an opportunity for the industry as a whole to improve business growth.

Outsourcing evolved to give companies more flexible alternatives to capital investment, fixed costs, or staffing policies, particularly in areas where it could augment those advantages with specialist expertise and cost-efficiencies. With the range of activities and agendas gathered under the commercial umbrella, the same flexibility must extend to the way in which value-added outsourcing models adapt to the realities of today's pharmaceutical market.

As technologies and markets develop, a single 'one-size-fits-all' model for commercial outsourcing is unlikely to emerge. Rather, flexible mixed models of outsourcing are likely to prove not only the most adaptable to varying commercial demands but the most capable of delivering outcomes that validate changes in strategy and investment. This is critical in consideration of cost-efficiencies only being one aspect of successful outsourcing – equally key are access to expert external knowledge and rapid scalability in today's fast-moving markets.

Industry experts favor building an ecosystem of multiple external partners rather than working with one outsourced provider exclusively. The best option for commercial outsourcing is a 'blended' model where the external outsourcing partner is physically present both on- and off-premises. In this way, the partner "can play a lead role in managing its own offsite or offshore resources."

First, though, the pharmaceutical industry needs to be more proactive in embracing commercial outsourcing as a strategic priority to keep up with the pace of healthcare. In doing so, it must discard some of the rigid thinking associated with traditional business-to-business operating models and be prepared to try out new concepts. Partnering gives companies the agility to experiment with different business models and to move on if these models do not work out as planned.

The industry must also ensure it clearly defines its strategic vision for handing over commercial functions and capabilities from the very start and makes informed assessments of critical success factors such as skills, technology, and processes.

In addition, companies must be able to accurately measure, on an ongoing basis, both the financial and qualitative non-financial benefits of outsourcing specific functions, while maintaining realistic expectations about when those benefits will start to show.



the best option for commercial outsourcing is a 'blended' model where the external outsourcing partner is physically present both on- and off-premises

Pay-per-use for tailored capabilities is already well established as a business model in other sectors; it is not too late to embrace its potential for pharmaceutical companies, where it can build a commercially beneficial, reciprocal relationship over time. Only then will outsourcing of commercial operations make the full transition to delivering holistic commercial advantage, beyond just cost efficiencies.

Ultimately, the findings from the QuintilesIMS/pharmaphorum survey are that these perceived risks concerning longevity, intellectual capacity, and knowledge of outsourced resources can steer companies towards retaining operations in-house. However, identifying the benefits of commercial outsourcing and working with a partner in a trusted and transparent relationship will ensure both parties have full knowledge of and commit to achieving long-term objectives.

RESEARCH METHODOLOGY

QuintilesIMS, in partnership with pharmaphorum, developed a quantitative research questionnaire that probed the following main areas of commercial outsourcing:

- Current/historic use of outsourcing by commercial business function (subdivided into analytics, forecasting, marketing campaign execution, market insights, primary market research, and sales force effectiveness);
- Reasons for outsourcing/not outsourcing;
- Preferred models of outsourcing;
- Commercial outsourcing spend and return-on-investment;
- Critical factors driving future commercial outsourcing decisions.

Senior owners of commercial outsourcing (defined here as personnel and skills, not information technology) within pharmaceutical companies were targeted for responses and 78 individual responses (54 fully completed to the end of the survey, higher completion rates for earlier questions) were gathered online during September and October 2016, from individuals representing both small and large organizations (see Figure 9).

In addition, qualitative telephone interviews were conducted with five senior industry executives – in commercial, insights and outsourcing functions at global VP/director level – to gather deeper insight into current and future trends for commercial outsourcing within the pharmaceutical industry.

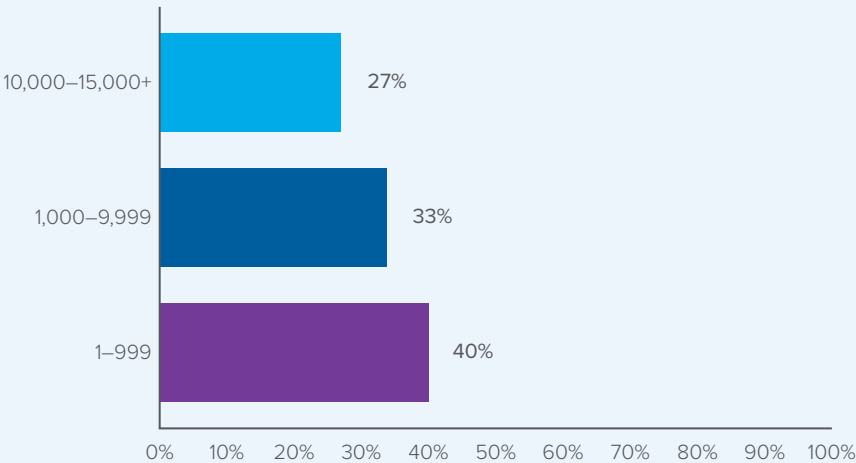


Figure 9: Company size for all pharmaceutical industry survey respondents

About the Author



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Vishal heads the Commercial Outsourcing Services business globally for QuintilesIMS. Vishal has been in the outsourcing services business for over two decades and was involved with the setup of the initial captive centers in India (1992–1994). He has expertise in managing large-scale outsourcing programs and in setting up shared service centers for customers. He has worked in a range of industry segments allowing him to bring the best of all worlds (from Telecommunications, Manufacturing, Logistics & Pharma) to his clients. He has worked with outsourcing players and has set up large offshore delivery centers for customers. Vishal has an MBA from TIAS Business School, Tilburg, The Netherlands, and a Bachelor's Degree in Computer Science from the University of Pune, India. He is a Certified Outsourcing Professional (COP) from the International Association of Outsourcing Professionals (www.iaop.org) and a COP for Governance and Business Development.

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