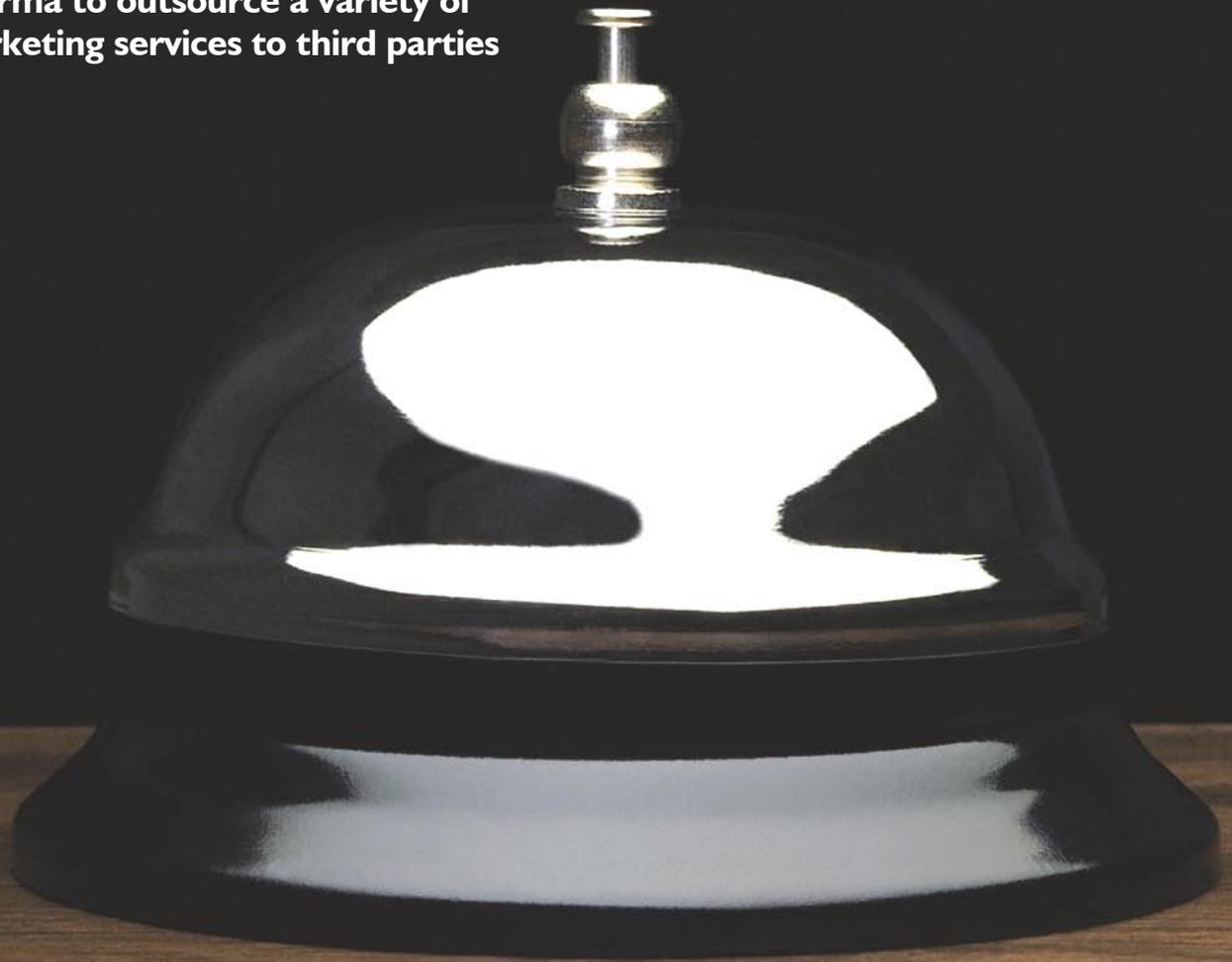


# ON DEMAND

Pressure to cut costs is prompting pharma to outsource a variety of marketing services to third parties



Increasing price pressure across Europe is pushing pharma companies to cut costs. In the UK, for instance, payers are calling for a reduction in list prices based on the ex ante value-based pricing model proposed in February 2007. With marketing and sales accounting for about one-third of the average pharmaceutical company's total costs, CEOs have cut budgets and will continue to do so in the coming years. In addition to improved cost efficiency, global and national marketing departments need more flexible cost structures to respond swiftly to unforeseen events. Project failures during late stage clinical development or unexpected market withdrawals – such as Vioxx – have an immediate impact on marketing capacity requirements. For this reason, the industry has traditionally outsourced marketing services to agencies and leveraged contract sales organisations. The success of traditional (onshore) outsourcing and, more recently, offshoring repetitive and labor-intensive processes has encouraged pharma to pursue new opportunities for business process outsourcing (BPO). These include knowledge process outsourcing (KPO), which essentially means offshoring higher-end services.

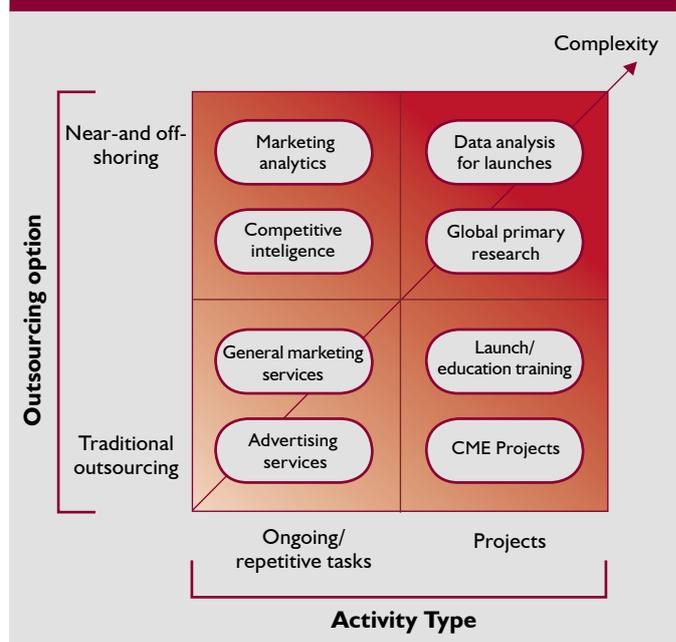
### RECENT TRENDS IN OUTSOURCING

Pharmaceutical companies began outsourcing manufacturing in the 1980s. In the decade that followed, the industry started contracting third parties in areas such as R&D, clinical trials, packaging as well as marketing and sales. The outsourcing trend has persisted and is expected to continue in many industries. Evalueserve estimates that the global, cross-industrial BPO market will grow to \$39.9bn by 2010, up from \$7.7bn in 2003. During the same period, the global KPO volume is expected to increase from \$1.2bn to \$17 bn. In India alone 75,000 employees worked for both captives (dedicated to individual companies) and vendors in 2006, generating about \$3bn in revenues.

One of the major advantages of outsourcing is flexibility. If stepping up marketing capacity is suddenly required, contracting an outsourcing service firm avoids tedious recruiting processes and initial investments in marketing infrastructure. In addition, when project failures or product withdrawals mean that certain activities must be stopped, cancelling outsourcing contracts typically cost much less than staff layoffs. Pharma can also benefit from the professional expertise available at outsourcing firms and access a broad network of relevant industry thought leaders. Finally, an objective outside-in view that is free of internal bias can contribute to more creative marketing activities, resulting in a better outcome.

The matrix depicted in Figure 1 structures the offerings of outsourcing firms along the activity type and outsourcing options axes. It also provides some examples of outsourced/offshored activities in pharmaceutical marketing. The lower left quadrant represents services that pharmaceutical companies have traditionally outsourced to (onshore) advertising agencies and marketing services companies. These services include advertising, organising promotional activities, developing sales material, organising conferences, etc. Outsourcing such tasks creates high value since they are recurring and highly labour-intensive. Pharma also outsources the more complex and project-like activities shown in the lower right quadrant of the matrix, including physician and patient training, developing marketing plans, designing websites, etc. Such activities are characterised by high peak load requirements and strong time pressure, which makes them suitable for outsourcing. Many of the offerings discussed have been provided since the 1990s. They were first outlined in an article published in 1999 that described outsourcing pharma marketing as an emerging industry practice. Today's value propositions provide companies the opportunity to cut costs while increasing their flexibility. Recent economic developments in some low cost countries have enabled BPO/KPO firms to deliver

FIGURE 1. OUTSOURCING SERVICES MATRIX



high value and customised solutions at offshore destinations as well. For instance, pharma increasingly benefits from near-shoring to Central and Eastern Europe (CEE) or offshoring to low cost countries such as India and China. As in the case of traditional outsourcing, the offerings of BPO/KPO firms range from ongoing, repetitive tasks (see the the upper left quadrant of Figure 1) to project-like activities (in the upper right quadrant of Figure 1).

Various factors make India stand out as a highly attractive offshore destination. According to Evalueserve, firms can cut costs by 40 to 70 per cent by outsourcing work to India. The country's biggest advantage is an almost unlimited talent pool of highly qualified, educated and motivated experts with good language skills. They make it possible for Indian firms to deliver a wide range of top-quality high-end services. Evalueserve expects India to increase its share in the global KPO sector from 56 per cent in 2003 to 71 per cent by 2010.

Outsourcing is no easy endeavour. Pharma companies and their outsourcing partners have to make equal contributions to its success. Clear, two-way communication is essential to build a trust-based relationship. A gradual, incremental approach from project-based/pilot agreements to longer term large-scale contracts reduces the perceived risk of losing control. Pharma companies must align their processes and place full responsibility for successful operations in the hands of an experienced executive with marketing know-how.

In the following case studies two BPO/KPO firms present examples of successful pharma marketing outsourcing. Evalueserve discusses its competitive intelligence offerings corresponding to the upper left quadrant of Figure 1. Raytheon describes its experience with an education and training project for a launch, an example from the lower right quadrant of Figure 1.

### CASE STUDY I: MARKETING SUPPORT

Most decision-makers are overworked and simply do not have the time to collect and properly analyse data that can support their decisions. Increasing complexity and uncertainty in terms of markets and competition have led to a greater need for analysis. Indeed, marketing & sales, R&D and operations must have more detailed data on diseases, patients, doctors, pharmacies, payers, providers, regulators, competitors and licensing partners. Especially in marketing and sales, many of these areas come

together to take up too much of product and sales managers' time, resulting in less time to dedicate to their day-to-day business. Research support can include continuous and one-off analysis in a number of areas. These include disease and therapeutic area sales, market share, prescriptions, compliance and adherence and treatment methods for in-market and pipeline products. It can take a country-based or a global perspective. Sales force support for reporting, logistics, debriefings etc is also possible.

In addition to the cost of spending time on low-level research, analytics and reporting, external databases – such as CAM (Cegedim) and IMS Health – also incur costs of up to \$500,000 per year.

Outsourcing can leverage cost arbitrage, shorten time-to-market and free up valuable time for managers by providing offshore junior analytic capacity. It provides thorough, professional, long-term support for data use and frees up time and space for innovative strategic planning and more informed and accurate decisions based on hard facts. Outsourcing can also be used to generate customised and specific data through primary or secondary research and market surveys. This data may or may not be offered by the existing vendors. Typically, such a partnership involves establishing a dedicated team trained in various processes and methodologies. These include tools and multiple databases with the necessary capabilities to provide full-time research support. The support is both 'on-demand' and continuous, and it expands to database services that are beyond analytical support. Typical rates are between €25 and €35 per hour, depending on the complexity of the work.

One client asked Evalueserve to assess the factors and drivers of product sales across regions, sales teams and product portfolios. The assessment aimed to identify sales trends and key drivers based on IMS and other data and competitive benchmarking across geographical segments. The solution involved a combination of research professionals and a tool using VBA macros developed to track product performance. A drill-down was provided on the analysis for different corporations and the analysts evaluated parameters such as drug composition, product portfolio and RX-bound/OTC.

**CASE STUDY 2: TRAINING**

In 2005, Raytheon Professional Services (RPS) was retained by one of the world's largest research-based pharma firms to deliver managed learning services for its more than 100,000 employees in over 50 countries.

At the programme's start, the client was in the process of restructuring its training management function to remain competitive in terms of cost. This coincided with the launch of a new learning management system (LMS) and an emerging governance structure. The client places a high degree of importance on training, as it needs to maintain compliance with international regulations and local regulatory policies for the countries in which it operates. The training function must ensure that employees are prepared to be audited at all times. In the worst case scenario, failure to comply could seriously delay product development processes or launches.

Together with the client, RPS assessed the organisation's training management, conducted a governance evaluation and designed an implementation strategy supported by a service-based, flexible pricing model for better cost control. RPS also advised the client on how to achieve greater consistency in training management. In order to help improve efficiency and lower costs, RPS is currently providing training management and information help desk services to the client's employees in 50 countries. This includes handling all administrative business processes related to training and monitoring results at defined standard levels.

In addition, RPS provides logistics support for instructor-led training events in Europe and the US. RPS service staff work

with designated client representatives to transform business training needs into configured structures within the LMS. They ensure that the correct features are triggered to allow for student registration, system notifications and compliance recording. To help the client manage class size and cancellations, RPS also assists with scheduling people into the right courses and provides reports. Learners are provided with information on training logistics and feedback. In addition, RPS works with instructors to facilitate any required prep work to ensure a successful training event. This proactive approach has led to new levels of performance analysis and reporting, enabling the client to initiate counteractions in good time and enhance the visibility of training efforts and their effects. Programme support to all client locations that do not have RPS resources on the ground is provided from a central contact centre. Centralising RPS services in a single location makes it easier to manage resources and leverage expert skills and the extensive knowledge base.

Overall, the client has successfully achieved its annualised cost savings goal associated with outsourcing training management. Today, there are 32 content administrators with a more balanced allocation of tasks, which indicates that the centralisation of services has reduced the need for training administrators to less than 10 per cent of the former level. As a result of the programme's success and the strong working relationship between both parties, RPS has been asked to continue playing a prominent role in helping the client determine the optimal solutions to achieve its strategic training goals. In order to effectively demonstrate success throughout the contract, RPS is in the process of setting up performance-based metrics and is currently reporting, devising and revising standards for the tactical day-to-day metrics that will become the foundation of future service-level agreements.

**STAYING COMPETITIVE**

Pharma can already choose from a wide variety of outsourced marketing services. Companies have begun to establish partnerships with various vendors offering traditional (onshore) or nearshore and offshore outsourcing services. The industry already outsources ongoing, repetitive tasks through offshore research centres. They have also begun to outsource large-scale programmes to vendors, such as international training and education during major product launches.

Rapidly escalating R&D costs, increased risks for approved products, cut-throat price competition, relentless threats from generics and biosimilars and potential intellectual property infringements mean that pharma must continue to increase efficiency and effectiveness. Companies will therefore continue to take advantage of all forms of outsourcing that help reduce costs and time and make better decisions.

Pharma needs to focus on the essential and core (marketing) activities and excel at their execution. All other areas can be outsourced – reducing vertical integration in the pharmaceutical (marketing) value chain. This has already occurred in many other manufacturing and services industries, such as automotive and information technology. However, in pharma industry, the observed trends emerged much later, as it has to overcome its traditional make (vs. buy) bias, especially for marketing activities that represent a major source of value creation.

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