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R&D outsourcing goes strategic

Pharma outsourcing typically consists of one-off, project-based deals, while the overall R&D process is excluded in order to preserve innovation. But this approach makes the wrong assumption that outsourcing cannot be used to address the R&D productivity gap, argues Arjun Bedi

Relative to other sectors, the pharma industry has been slow to adopt outsourcing. However, a survey undertaken at the end of 2004¹ shows that within the 12 large and medium-sized companies questioned, 83% of senior R&D executives are now exploring outsourcing to some extent. And according to a report by the International Data Corporation,² US healthcare outsourcing represents the biggest revenue growth sector relative to other industries, at around 12% per annum.

Unsurprisingly, the survey showed the primary drivers behind outsourcing are the search for cost reduction and improved business focus. Secondary factors include the need to free up resources for higher-value activities and to gain access to capabilities and resources not available internally.

Newcomers to outsourcing reported operational complexity, intellectual property protection and security issues as barriers to its adoption, while more experienced practitioners confirmed they had found means of overcoming or managing these issues. Like any attempt to innovate, outsourcing requires significant effort. It currently takes several years of experience and steady investment to develop operating models and trusting partnerships. Significantly, it is the experienced companies that reported the highest levels of satisfaction and the best returns from these initiatives.

What to outsource

R&D outsourcing can presently be categorised along a 'continuum' with transactional operations – typically one-off,

project-based deals for a specific point need – at one end and larger-scale, strategic projects, driven by an overall objective to increase value, at the other (see Figure 1).

Outsourcing can also be defined as either function-based, as in the case of IT and HR operations for example, or process-based, whereby several functions and departments are combined. As integration is a key driver within R&D, outsourcing projects, particularly at the strategic level, often fall into several of these categories.

Standard, transactional outsourcing projects are typically IT- and administration-based at the functional level, and R&D data collection/monitoring and statistical analysis at the process level (see Figure 2). As well as building, managing and deploying software applications, companies using 'technology infrastructure' and 'business applications' strategies outsource the management and

operation of their IT systems – the emphasis being on reducing costs and gaining access to specialist skills and resources that are potentially difficult to manage internally.

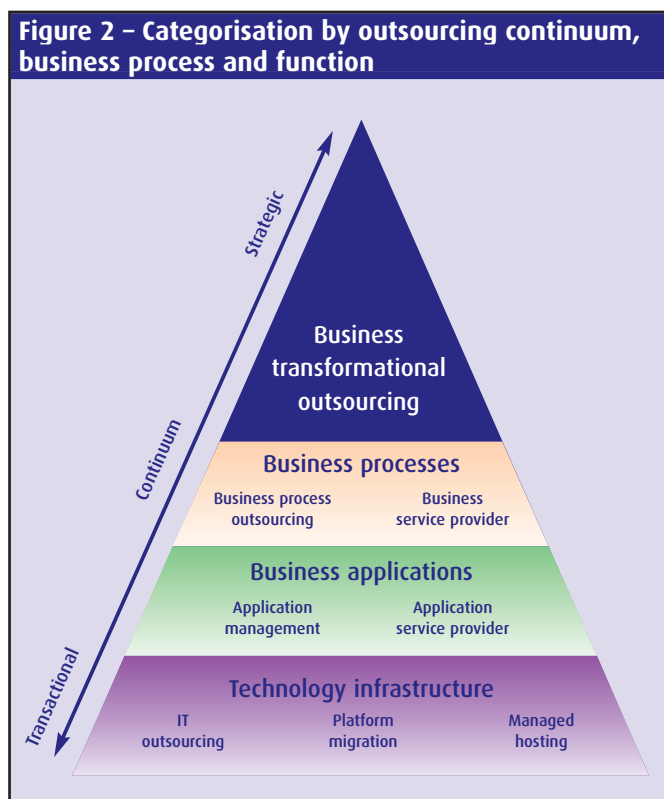
However, one of the problems with

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transactional outsourcing is that targets are set within individual parts of the R&D process, and although the resulting improvements may be statistically impressive at the micro level, they are often insignificant when considered across the total R&D budget. A 100% cost saving at one stage of the research cycle, for example, is hardly beneficial if it increases costs elsewhere, or if it is only a small part of the overall

Figure 1 – How transactional and strategic outsourcing measure up

Category	Objectives	Key attributes	Potential benefits
Transactional	<ul style="list-style-type: none"> • Short-term or specific point need • Learning/experimenting with one-off deals 	<ul style="list-style-type: none"> • Low effort, small-scale projects • Little organisational or political commitment 	<ul style="list-style-type: none"> • Cost reduction
Strategic	<ul style="list-style-type: none"> • Achievement of value • Improve overall R&D efficiency/effectiveness • Act as catalyst to initiate internal action 	<ul style="list-style-type: none"> • Higher effort, large-scale projects • More commitment 	<ul style="list-style-type: none"> • Cost reduction • Increased overall productivity • Speed to market



development process.

A number of other industries, including financial services and technology, have taken bold steps to get more from outsourcing and have enjoyed up to 30% reductions in divisional costs and sizeable productivity improvements as a result of taking a strategic stance. The challenge now is for R&D leadership teams in pharma to examine similar possibilities and target aggressive savings and productivity improvements through outsourcing.

In particular, organisations currently experimenting with outsourcing at the transactional end of the continuum can leapfrog early adopters by implementing best practice from the outset, allowing them to

realise business value sooner, while significantly reducing the cost and associated business risks.

This will allow them to deliver the cost reductions and efficiency improvements needed to revamp the current business model. Given the billion dollar R&D budgets of big pharma, the potential returns could be quite substantial.

Location, location

The movement towards strategic outsourcing has already begun, driven by three factors:

- An efficiency imperative. With increasing pressure to improve

productivity, companies are re-examining every phase of drug discovery and development. Market pressure will make many organisations consolidate operations by outsourcing more.

- Access to global capabilities. Pharma companies have traditionally found it difficult to conduct trials outside the familiar US and European arenas and in response to this challenge, outsourcing organisations have developed diverse global delivery infrastructures. Given the cost to US and EU companies of developing these capabilities internally, they are increasingly seeking alliances to enjoy the cost savings offered by these global resources.

- Demand for specialised skills. Outsourcing firms have built up significant experience in therapeutic and functional areas as well as the infrastructures needed to support them. As these organisations become more efficient, the use of in-house pharma R&D units will become comparatively less attractive.

Peak practice

Early adopters of 'business process' outsourcing, for example, are already transforming their business models by outsourcing entire segments of study set-up/site initiation; patient recruitment and enrolment; trial management; data capture and cleaning; and analysis and reporting. They are also outsourcing the administration and management of critical and IT-intensive business processes. For these companies, the potential benefits include improved business focus, access to worldwide capabilities, risk-sharing and the potential to accelerate R&D process re-engineering efforts.

At the summit of the strategic continuum is, 'business transformational' outsourcing, a significant step up from 'business processes' with entire functions like IT and whole processes such as clinical data management outsourced. This allows a rapid, sustainable, step-change improvement in business performance.

The potential advantages gained from re-defining supplier relationships include greater portfolio flexibility, increased speed and efficiency of getting drugs to market and the ability to enter new therapy areas or markets faster and with less risk.

Industry opinion

A recent cross-industry survey that included key players from pharma revealed positive attitudes towards taking a broader view of outsourcing.³

"We feel that the time is right to outsource at a strategic level – the capabilities to support this opportunity are available, and the need to simultaneously curb costs and reduce the time it takes to get new medicines to market is paramount," says Dr Robert Ruffolo, president of R&D and senior vice-president at Wyeth. "To date, we have strategically outsourced the clinical data management portion of our R&D operation and are already starting to see the benefits, not only in terms of cost efficiencies but also in terms of quality and productivity improvements."

Best practice pointers

To make the most of outsourcing, R&D organisations need to:

- Set clear targets for cost savings and productivity improvements across the entire R&D process at the outset.
- Look for a partner with a wide set of capabilities and strengths and a long-term track record of delivering results, in addition to competitive pricing and commitment to cost reductions.
- Give as much attention to performance measurement and the quality of the relationship with the provider as to the contract.
- Use risk/reward provisions as incentives for higher-performance outsourcing.
- Use active governance to manage the outsourcing relationship for maximum performance.
- Assign senior and talented executives to take responsibility for, and to drive, the outsourcing process.
- Be clear about objectives, such as cost, process improvement and the ability to focus on the core business.

The survey identified seven key areas of best practice for R&D organisations (see box). In addition, initial target areas where pharma can start to apply strategic outsourcing to R&D have been identified, although it is important to balance the time investment needed before cost savings can be achieved with the level of savings that can be made. For example, consolidation of R&D sites can represent large savings but will take some time to achieve. Conversely, outsourcing contract chemistry may achieve savings quickly but will not deliver significant savings as a percentage of the overall cost of R&D.

A single provider is expected to service multiple companies

Outsourcing can deliver reasonable savings within a relatively short timeframe in the following areas: finance and administration shared services, IT, clinical data management,

strategic sourcing and procurement, R&D site management and operations, HR operations, clinical supply management and biostatistics.

Significant changes in the roles of outsourcing service suppliers have already begun, and the optimal outsourcing model will continue to evolve. In the future, the supplier-outsourcing client relationship is expected to move towards a 'one-to-many' model, where a single provider services multiple companies. Certain functional areas such as IT and HR as well as processes like clinical data management are expected to be among the first where this new relationship could develop.

In the same way that one supplier within the banking industry today supports a number of banks for their cheque processing requirements, one provider would act as a specialist for the pharma industry for all its data management needs. The fact that commercial and retail bank customers are seemingly unaware they are receiving an outsourced service is an

indication of the success of this type of strategic outsourcing. Additionally, as the regulatory approach becomes standardised, outsourcing in this field will grow, driving standardisation in pharmaceutical R&D overall, and even moving towards preferred suppliers for regulators and pharma companies alike.



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