Becoming a First Mover
How Managed Services Will Transform the Life Sciences Sales and Marketing Model
Defining Managed Services

Managed services involve the complete service delivery (people, processes and technology) of select functions. They provide consistent, predictable, high-quality services at a lower cost. They do so by consolidating, streamlining and redesigning transactional processes into manageable service centers that deliver high-caliber, cost-effective global services with economies of scale and skill. Managed services enable companies to standardize transactional processes across their business, supplement capabilities and increase resource flexibility to respond to changes in global demand.
The life sciences industry has reached an inflection point where the sales and marketing function is profoundly challenged to reduce operating costs while addressing a changing landscape of customers, a proliferation of content and a dirge of new channels. The demand for new capabilities in this environment continues to escalate while cost pressures go unabated. The industry’s finance, human resources and IT functions already have gone through varying degrees of rationalization. The sales and marketing transformation is being driven by the life sciences industry’s need to successfully deploy new commercial models to drive growth while delivering cost efficiencies.

Over the next three years, it is expected product patent expirations will result in $50 billion in lost revenues. This pressing issue is forcing pharmaceutical companies to reassess the scale and affordability of their sales and marketing organizations, which account for 25 percent of revenue versus 17 percent of revenue for R&D.1 The picture quickly becomes more complex when you add the move toward selling health solutions versus products, the digital revolution and the growth of emerging markets.

The impact? Life sciences sales and marketing executives are struggling to keep up with these changes while being asked to reduce as much as 30 percent of their sales and marketing operating costs. The solution? The answer to this challenge is a new customer-centered sales and marketing model featuring integrated, end-to-end business managed services for select functions with technology as the driving force.

New Model, New Rewards

The new managed services model is vastly different from past models where select areas such as advertising or promotions were given to an outside agency to support or run. Instead, the managed services model of the future is an integrated, end-to-end model where third-party providers operate a multitude of sales and marketing functions 24/7 around the globe. This new model offers benefits not yet seen or realized in life sciences sales and marketing—the ability to ramp up new capabilities quickly, flex with changing demands anywhere in the world and execute cost effectively with higher quality and greater control. Most importantly, the model allows companies to focus on the sales and marketing areas where they truly can differentiate and drive profitable growth.

Technology will be a key enabler of the end-to-end managed services model and transformation of the sales and marketing function globally. This transformation will not take place overnight. It will be a journey over the next few years—but one best made with a strategic view of the end game. A fragmented approach is fraught with increased complexity and redundancy—and can slow a company’s speed to realize value. Moreover, the synergies of an end-to-end sales and marketing managed services model are more likely to deliver the full range of cost savings.
The health care industry has faced unprecedented challenge and change over the last decade. Recent facts and statistics reinforce the magnitude of these changes and their impact on the sales and marketing function:

- **Decline of the sales force.** Sales forces for the top 40 pharmaceutical companies in the United States have shrunk 26 percent according to SDI. Europe saw a similar decline with a 10 percent reduction since 2006.

- **New ways to engage physicians.** Eight in 10 physicians rated digital detailing as the same or better than previous methods such as paper-based. More than one third had received tablet computer detail from their sales representative and 68 percent of those who did reported being extremely satisfied or very satisfied with the format.

- **Shifts in advertising spend.** A Congressional Budget Office study found that pharmaceutical direct-to-consumer advertising by brand reached its height of $41.8 million in 2006. By 2009, the majority of top industry direct-to-consumer advertisers had reduced spending by double digits. Meanwhile, industry spending associated with online advertising rose 30 percent in the same year, reaching $117 million.

These seismic changes point to the growing complexity of the life sciences sales and marketing function. Although it has come down in the past five years, industry selling, general and administrative (SG&A) spend accounts for nearly double R&D investments and is among the highest level of SG&A spend compared to other industries such as food, retail, agriculture, auto and travel among others. In this environment, it is essential to make investments that will drive improved outcomes. Yet while the need for a new operating model and capabilities is clear and widely accepted, it remains significantly under-pursued.

**Figure 1. An Industry under Pressure: Challenges to Life Sciences Performance**

<table>
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<th>Today's Life Sciences Sales and Marketing Model</th>
<th>Life Sciences Industry Challenges</th>
<th>Tomorrow's Life Sciences Sales and Marketing Model</th>
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<td>Mega Brand Focus</td>
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<td>Political Pressure</td>
<td>Lower Spend</td>
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**Sales and Marketing Model Transformation**

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Doing Something, But Not Enough

Several leading global pharmaceutical companies have announced their intent to develop centralized global sales and marketing organizations. Such announcements indicate a shared recognition of the need for transformational change and the trend toward the centralization of the sales and marketing function.

According to a report from TGaS Advisors, however, a systematic review of changes undertaken or planned by industry in the United States shows that only three of the 21 companies have recently reorganized their strategy, structure or process substantially. While approximately half anticipate a change in their commercial model approaches or ways of working in 2012, just one third foresee a completely reworked organization in 2012.2

Thus far, the industry’s approach to cost reduction has been in select, often isolated, areas. The sales force is an example of this kind of selective approach to cost reduction. As sales and marketing organizations have accelerated activities to reach customers through new digital channels and inside call centers, sales jobs have been steadily cut. The last four years have seen the United States pharmaceutical field force fall from its peak of 101,734 in 2005 to 75,278 in 2010 according to SDI.2

Sales and marketing organizations have made other selective changes to reduce costs including using contract sales organizations and select niche providers for things such as remote detailing and mature product promotion. These approaches have provided some short-term cost relief in many cases.

At a global level, life sciences organizations are funneling resources to growth areas. This involves learning how to deploy resources effectively in emerging markets to capture the growth as it is happening. While sales forces are being reduced in the United States and Europe, in the BRIC markets pharmaceutical companies are struggling to expand their sales forces fast enough to capture the market growth, especially in geographically vast countries like China.3 This is driving a need to deploy multichannel strategies for a different goal—focusing on reach rather than sales force replacement. So, on a global basis, the key to success is agility and the ability to deploy new capabilities in different ways across markets.

None of the efforts to date, however, have materially changed the sales and marketing model or delivered needed groundbreaking cost reductions. They also have not done much to identify the most valuable and profitable customer segments for each company—an essential component of the future sales and marketing model in life sciences—or fundamentally improve the customer experience.

Answering Tough Challenges

An end-to-end sales and marketing managed services model can help life sciences leaders answer pressing questions including:

- How can we reuse content across geographies and channels and avoid duplicating development and execution costs?
- How do we ensure business process harmonization across geographies, brands and functions so we do not have to reinvent them in each area?
- How do we reduce the number of handoffs among internal functions and external service providers to increase speed to value and reduce the cost of executing marketing and sales campaigns?
Thinking Big, Acting Bold

Future sales and marketing success requires a significant break from the status quo; it will take the ability to see the potential of bold change and the commitment to make it a reality.

First mover advantage will come to those companies that pursue integrated end-to-end managed services across their sales and marketing functions. Those companies that are moving toward a global sales and marketing operating model are already laying the groundwork for future high performance. The next step is to infuse the model with the right managed services partnerships to maximize business outcomes.

By developing and executing an integrated, end-to-end sales and marketing services model that relies on third parties to execute sales and marketing functions, life sciences companies can significantly improve brand and portfolio performance and reduce costs (see figure 2). The value of an integrated approach cannot be underestimated:

- **Cost Reduction.** Realize up to 30 percent cost reductions by reducing promotional spend, through vendor and platform consolidation
- **New Capabilities.** Accelerate innovation and capability at global scale and take advantage of emerging technologies without investing in internal resources
- **Competitive Differentiation.** Improve business outcomes while enabling high quality, differentiation, with customers driving growth across brands and markets
- **Process Efficiency.** Improve and integrate content production and management across channels and markets to promote global consistency, local relevance and collaboration among brand and sales teams
- **Customer Service.** Improve quality, cost and speed of delivery for disease and product content for physicians and patients
- **Resource Optimization.** Focus skilled internal resources on building out core capabilities that align with strategic priorities and leverage strategic partnerships to address the operational needs of sales and marketing more cost efficiently
- **Accountability and Transparency.** Achieve single accountability through strategic partnerships that is often impossible with multiple vendors across brands and geographies

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**Figure 2. Seizing the Value of an End-to-End Sales and Marketing Service Model**

- **Grow Top-Line Revenue**
  - **Revenue Targets – “Prepare for the Future”**
    Design, build and run select new channel capabilities to drive brand and portfolio performance
  - **Next Generation Sales and Marketing Support Model**
    Focus on the Future - Define the new model, investment in and management of the transition (migrating people, processes, new technology enablement)
  - **Cost Reduction Targets – “Do More with Less”**
    Design, build and run SLA/OLA focused “managed service” across Sales and Marketing Support Operations

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To realize the benefits of an integrated, end-to-end sales and marketing services model, life sciences companies must tackle some key issues.

The Ownership Dilemma

While the need for sales and marketing transformation is clearly an industry-wide problem, what is not so clear is what part of the business truly owns this dilemma—and therefore, can and should take the lead on solving it. The executive level, specific business units, and sales and marketing operations all have a stake in the issue.

Not surprisingly, each of these groups has unique needs, motivations and ways of working. Executives have a big picture business perspective focused on profitability, market access and competitive differentiation. Business units and brands must grow revenue with a lower cost base and continually add capabilities. Commercial operations must meet the demands of delivering new services in a budget-strapped environment.

The stakeholder dynamics complicate governance, funding and roles and responsibilities associated with sales and marketing transformation. Siloed interests among geographies and brands create additional fragmentation and further complicate the ownership dilemma.

Another problem that arises from multiple owners is that companies cannot clearly see the current state across functions, and as a result, they struggle to define a clear case for change. The continual blurring and bleeding of roles, operations and priorities also makes it nearly impossible for life sciences companies to identify and define core and non-core activities, which is a critical foundation step in the managed services journey.

Fragmented Vendor Environment

Life sciences has seen an increased proliferation of niche sales and marketing service providers in recent years across a wide range of areas including contract sales, digital marketing, analytics, e-detailing and more. In fact, one industry resource listing includes 94 health care advertising agencies alone. Moreover, forecasts indicate that the pharmaceutical contract sales market will grow from $2.7 billion in 2009 to $5.6 billion by 2015.

In this environment, many life sciences companies have sought and employed a “best-of-breed” approach working under the assumption that specialized areas require specialized skills. In addition, they naturally want the “best” skills in the business.

As more and more areas evaluate and pursue managed service arrangements to align services with outcomes, the threat of having to manage multiple vendors and lack of continuity and cohesiveness looms large. Our experience has shown that while a best-of-breed approach often seems to work on the surface for each individual area, a broader look reveals inefficiencies, redundancies and unnecessary complexity. While these niche companies may be the best at what they do, they are often operated and measured independently. There is frequently very little transparency and understanding of how each area is contributing to delivering a desired business outcome.

This is because most services providers are only responsible for the results of their own particular area. Without shared accountability for common business goals and economic incentives aligned with overall business outcomes, there is no effective mechanism for driving improved outcomes for the company or for its customers.

Lack of Outsourcing Maturity

While life sciences companies have been ambitious in some areas of outsourcing non-core functions, they have been slow in others. Consider the industry’s approach to clinical data management—a critical component of the R&D process, which is fundamental to most life sciences companies. In less than a decade, the industry has gone from risk aversion and trepidation around outsourcing non-core R&D functions like clinical data management to channeling 25 percent of R&D spend to clinical research organizations.

While there are many non-core functions in R&D that have yet to be rationalized in such a manner, it shows that what was once an intimidating prospect—structuring clinical data management as a managed service—is now an accepted standard.

In contrast, life sciences sales and marketing organizations are just starting to scratch the surface of outsourcing. As just mentioned, many, if not most or all, sales and marketing organizations are utilizing a best-of-breed approach to outsourcing in individual areas that are often managed independently. Many of these outsourcing arrangements involve offshoring and are billed on a cost-per-resource basis.

The implications of this approach cannot be underestimated. The fragmentation of multiple independent players can easily lead to redundancy, lack of control and lost opportunities to gain valuable new business insights.
As sales and marketing models mature in life sciences, however, so will the outsourcing model currently employed. To transform the sales and marketing model and realize sustainable cost reduction, companies’ approach to outsourcing will need to become much more strategic. The high performers of the future will move to a more integrated, end-to-end managed service model where strategic providers are accountable for ensuring a set of functions collectively contribute to delivering the defined business goals.

These strategic providers will manage and integrate a small pool of select best-of-breed experts for certain areas where they do not possess leading-edge expertise. This approach offers companies a best-of-both-worlds scenario where they get niche expertise with the oversight that connects the dots and the accountability to deliver the results. The cost for these services will move from a fee-for-transaction to fee-for-service model, which will create a new value paradigm where companies are paying for outcomes, not bodies, and providers are incented against measurable business results.

3. Transform and Execute. Move ahead from visioning and planning to scoping out the managed services program in finer detail; designing, building and testing all of the components; and deploying the program according to the roll-out strategy.

Across every phase of the process, it is essential—and perhaps most challenging—to continually align the managed services transformation with management’s vision and strategy; with organizational people, processes, technology and culture; and with the support organization’s roles, expectations, capabilities and ways of working. Moreover, the change process should be closely managed and measured to ensure transparency and accountability in delivering the expected business outcomes.

Life sciences sales and marketing organizations should think big as they consider their managed services transformation initiatives. They should maintain a strong focus on business outcomes, remembering that the intent of this kind of change is not just about cutting costs but about building new capabilities. Companies should strive to build a model that is flexible and scalable. The future of the industry is unknown, and the managed services model must anticipate change and proactively adapt to support the new business environment. While near-term pressures can be overwhelming, it is essential that leadership take a long-term view and invest thoroughly to create sustainable capabilities for the future.
Figure 3. Common Traits of Successful Transformation Initiatives

<table>
<thead>
<tr>
<th>Key Success Factors</th>
<th>Impact on Approach</th>
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<tbody>
<tr>
<td><strong>1. Leadership Alignment, Conviction and Ownership</strong></td>
<td>Leadership support for the project all the way up to the CEO and Board: Appointment of a dedicated executive to drive transformation signals commitment • Call to action is clear; &gt;75 percent management team is aligned to need for change and path forward</td>
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<tr>
<td><strong>2. Customer Wins!</strong></td>
<td>Focus on what is best for the customers; tradeoffs must be made for all else At every step, ask “How is this going to change the customer’s response?”</td>
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<tr>
<td><strong>3. Business Unit Leader Own and Execute</strong></td>
<td>Articulate a vision that has enough context to be actionable, obtainable and motivational Ensure business owners are willing to own and execute plans</td>
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<td><strong>4. Metrics, Metrics, Metrics</strong></td>
<td>Define clearly and quickly the financial business case and metrics to create accountability Screen initiatives for alignment to vision and financial metrics; constant pulse checks</td>
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<tr>
<td><strong>5. Achievable Scope, Fast Pace</strong></td>
<td>Pace capability releases aggressively but realistically, enabling absorption of change Refresh or cycle resources through as necessary to keep the energy high</td>
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<tr>
<td><strong>6. 3Cs – Communicate, Culture and Change</strong></td>
<td>Identify and manage all key constituencies – customers, employees, regulators, unions, etc. Actively and deliberately manage the change journey to ensure continuous alignment at all levels</td>
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<tr>
<td><strong>7. Transparent and Centralized Program</strong></td>
<td>Dedicated PMO creates common process and objectives, and provides discipline across the program Willingness and obligation to deliver a realistic and transparent view of progress to management</td>
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<tr>
<td><strong>8. Prudent “Quick Wins”</strong></td>
<td>Go for sprints, which create tangible value; beware of “quick hits” that don’t create value Highlight and celebrate these accomplishments to motivate teams for marathon ahead</td>
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Client Example

Starting the Journey, Realizing the Benefits

Like many life sciences companies, this leading company recognized it needed to rethink its sales and marketing operating model as its product portfolios changed from a small number of blockbusters to a larger number of products. Having a large direct sales support team for this bigger portfolio of smaller drugs was no longer economically viable for this company. The company quickly recognized it required new capabilities to promote its products in new digital channels—ones not as familiar to the company—and do so with less money.

The company understood its existing sales and marketing model needed fundamental changes. Its new model would need to include managed services with global delivery centers for a majority of its non-core marketing and sales functions to be economically sustainable and competitive. But how much change could the organization sustain at once? The company decided to embark on its transformational journey by embracing managed services in a few key areas with the intent to reduce costs and complexity, streamline operations and improve capability.

Today, the company has turned three important areas—data management, incentive compensation and commercial application support—into a managed service arrangement with Accenture that is paying dividends.

Data Management

Accenture worked with the client to move all of its data management operational processes to the Accenture’s Global Delivery Center in Bangalore, India. As part of this transformational move, the operational team previously consisting of 10 on-shore, full-time client resources transitioned to a team of seven Accenture resources (one on-shore and six off-shore). All core business processes have experienced significant reductions in cycle times including:

- Monthly operations maintenance time reduced from an average of five days to less than 24 hours
- Product maintenance time reduced from three to five days to less than 24 hours
- Average response time for ad-hoc customer data requests from 24 days to approximately 24 hours

In additional to the core processing reduction, Accenture has worked with the client to identify SLAs and metrics that will result in quantifiable improvement in data quality to be measured on a quarterly basis.

Incentive Compensation

Service delivery and delivery metrics have improved for field sales incentive compensation while reducing headcount by more than 70 percent by utilizing Accenture’s Global Delivery Center in Chennai, India, to process incentive compensation claims. In addition, the managed services arrangement with Accenture has helped the company:

- Introduce a robust data governance process to better plan for changes and facilitate decision making and impact analysis
- Reduce all processing time for monthly reporting and payouts by 90 percent. The field force now receives compensation reports an average of 30 days sooner than they had historically. Monthly reports are now published to the sales representatives roughly three to five days after the source data is received.
- Address all field inquiries within 24 hours

Commercial Application Support

Accenture had taken over application support for all commercial operations applications. This has resulted in Accenture providing the end-to-end services for commercial business process outsourcing (BPO), along with the application support for data management and incentive compensation. As a result of having overall accountability for the end-to-end service, all teams work together as one team—enabling the team to reduce the number of handoffs, achieve the significant reduction in processing time and enable the team to respond to issues quicker.

Building on these successes, the company plans to manage the transition to a new way of working over a number of years as it realizes its longer-term vision of a holistic managed services operating model for sales and marketing.
Conclusion

Every major life sciences company is looking for a better and more efficient way to support and grow the business while reducing costs in a complex environment. Getting there demands bold transformation of the sales and marketing function with an end-to-end managed services operating model.

Moving toward this new reality will be a journey, not something that happens immediately. As companies realize an integrated managed services model, it will deliver and sustain results well beyond anything the industry has experienced prior with narrow and selective approaches to change.

Not too long ago, the pharmaceutical industry looked at outsourcing of clinical data management in R&D with great skepticism. Today, the practice is commonplace. Sales and marketing organizations are poised to make a similar journey as their peers in other functional areas have. Future high performers and first movers will launch into the managed services frontier and create cost-effective, efficient and agile sales and marketing organizations to propel them ahead of both the competition and the challenges of change.

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