



SECTOR ANALYSIS

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WHAT THE DOCTOR ORDERED?

The preconception of major pharmaceutical firms as the closed-shop of drug production is on the road to change as research and development outsourcing continues to grow, argues Toby Brown

Pharmaceutical companies are often thought of as the epitome of big business; the shadowy purveyor of new drugs to a waiting world. Whether this image is deserved is open to debate, but it's certainly a misconception.

Most large and medium-sized pharmaceutical companies operate in a complex, multi-faceted supply chain. The process of bringing scientific discovery through clinical trials and out into the medical market necessitates the involvement of numerous different parties. As competition increased and the recession hit, the concept of outsourcing returned to the fore to play an important part in the pharmaceutical industry – and it looks set for further growth.

According to a recent statement from PriceWaterhouseCoopers: "Pharmaceutical companies are

now supporting a thriving services sector by outsourcing a broad range of skills and technologies required for drug discovery, development and manufacturing."

The pharmaceutical outsourcing or Contract Research Outsourcing (CRO) industry is now estimated to be worth over \$177bn globally, with providers ranging from specialists to BPO providers that have expanded their services. The reasons for looking to outsource may include building scale, increasing geographic coverage and augmenting specific skills and capabilities.

"Large pharma companies also often outsource parts of their R&D value chain to improve productivity – to increase speed and reduce costs while meeting quality requirements," says Adwait Bhagwat, of AT Kearney management consultants.

CRO has seen significant growth through 2008-09 as the recession ran its course. Though in previous years outsourcing has focused mainly on non-core processes, sophisticated providers are quickly taking on increasingly high-value tasks.

In 2010 and beyond, industry watchers expect to see this sophistication of services continue. Areas such as chemistry research, pre-clinical animal studies, clinical trials, document management, safety assessment and regulatory support are all predicted to grow. India has emerged as one of the leading providers in the area, but China has also seen growth of 16-18 per cent and values its industry at almost \$1.70bn.

Going forward, growth is expected in almost all areas of CRO, painting a bright picture for the industry. However, while suppliers will continue to climb the 'value chain', more change is expected in the way outsourcing is carried out. Increasing outsourcing skill from end-users will see them streamline their models to further cut costs, work to reduce risk in the supply chain and improve their overall processes. Large pharma companies are also likely to consolidate their outsourcing supplier rosters to reduce governance impact and improve overall manageability of relationships.

READ ALL ABOUT IT!

Here is a look at some of the stories making the headlines in pharma outsourcing over the past few months

- **Contract manufacturing worth \$299bn by 2014**
The global pharmaceutical contract manufacturing sector is growing at 11 per cent per year and could generate \$299bn by 2014, says BCC Research.
- **Few pharma plants will be sold**
The recent wave of M&A will lead to manufacturing over-capacity at pharma companies, according to a report.
- **Pharma "must change how it sells products"**
The drug industry must "fundamentally change" how it sells products, according to a report by Deloitte Consulting.
- **Postmarketing outsourcing worth over \$1bn**
Quintiles and Cerner combined their "unique sets of experience and expertise" to improve the efficiency of late phase research.