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## Managing the Middle

By outsourcing the sales representative function,  
pharma companies can maximize bottom-line benefits

BY NANCY LURKER

It's well known that cost pressures and changes in the customer base are forcing a rethink of pharma's reliance on the in-house sales force to build revenue and market share. What's less evident is the direction companies are taking to cope with this turbulence—especially the impact of emerging strategies such as outsourcing on the bottom line. The following survey of current trends in sales promotion re-deployment suggests that the payoff from outsourcing is significant, with ROI improvements of 25 to 30 percent on direct sales force costs, which for most companies remains their single biggest promotional spend commitment.

The sales function is under close scrutiny because its key partner has left the dance floor: There are fewer “blockbuster” Rx drugs coming to market, and thus less need for the large, mirrored sales teams that previously saturated the provider community with basically the same message. An increasingly difficult operating environment that demands differentiation adds to the problem. Federal healthcare legislation is already having a major impact, with the industry being squeezed on pricing by an increase in Medicaid rebates from 15.1 to 22.1 percent, and the upcoming 2011 requirement to provide 50 percent discounts on Rx drugs to Medicare patients. Another factor is an uptick in FDA regulations around risk, which requires more diverse clinical evidence and slows the approval of drugs in the pipeline.

As a result, the industry is addressing its cost drivers by shifting focus away from revenues towards driving profits, and moving to manage the middle of its P&L ledger, thus boosting ROI. For some, this strategy has led to mergers—and for almost all, a commitment to seek cuts in the largest contributor to their product commercialization cost base: the sales force.

### **In-house Sales Reps: A Shrinking Force**

According to survey firm SDI, the total number of U.S. biopharmaceutical sales representatives peaked at 102,000 in 2005. As of the first quarter of 2010, it stood at 80,000—a 21 percent decrease in less than five years. While an effective short-term cost-cutting measure, this reduction in field force is merely a precursor to the focused strategic plan necessary to capitalize on the shifting payer landscape.

Historically, the industry's SG&A has averaged 30 percent of sales, according to reports by Verispan, JP Morgan, and SDI. A recent report by the Congressional Budget Office put the total field force portion cost at \$12 billion in 2008. However, projections by JP Morgan show the SG&A number declining to 26 percent by 2013. This will most likely come from a reduced spend on the field force, cost improvements through more tightly managed marketing spend, and a move to cost-effective strategic outsourcing. Targeted austerity is the theme.

### **The Evolving Sales Model**

What's happening in the biopharmaceutical industry today is not dissimilar to what has occurred in other industries such as financial services. If you look back 20 years, the financial services industry was driven by high-priced, high-commission retail brokers. The customer always spoke or met live with the broker to place stock orders and to manage their account. This approach was expensive, inflexible, and time consuming.

Fast forward to today, and the vast majority of brokered transactions are conducted online or triaged to different types of brokers based on the level of sophistication of the client, along with their net worth and potential return (ROI) to the investment advisor. Technology and regulatory changes have been the primary drivers for this transformation.

A similar dynamic is now playing out in the biopharmaceutical industry. With an unprecedented number of representatives taken out of the field in the last five years and the prospect of ever-decreasing physician access time, finding a new model that improves flexibility and information delivery is of paramount importance. This is true from both a cost-contribution standpoint and as a way to meet the needs of an evolving customer base, which now includes not only physicians, but also patients, payers, pharmacists, and various government entities.

The new field deployment model results in greater “white space” and reduced sales call frequency as some targets lose priority. Meanwhile, internal field forces become smaller, more specialized, and increasingly regionally deployed. Although more cost-effective, this reduced internal bandwidth negatively impacts a company's ability to focus on secondary brands, maximize portfolio potential, or respond quickly to market conditions. As a result, many companies are turning to outsourcing to build flexibility into their sales organization while retaining smaller, specialized internal forces.

### **Demand for Specialized Expertise**

This move towards more specialized field forces replaces the “one-size-fits-all” model that was so popular until the recent

downturn. A more robust sales model is evolving; it blends a variety of field representative types having different levels of training and skills and commensurate pay levels, including tele-representatives linked to call centers and even “virtual” representatives. In that way, non-personal information delivery channels, including web portals, e-sampling, mobile messaging, video consultations, and e-detailing, are playing a significant role. In fact, in 2009 one company engineered the replacement of an entire 400-person rep field force detailing a major brand with a 300-seat call center. It is clear an industry mind shift has occurred.

Essentially, the industry is acting upon the fact that product loyalties are driven not by the brand or its promotion. Rather, physicians prescribe a brand based on what is best for the patient, not which brand has the best promotion. Their loyalty to the company and its representation are of secondary importance—though it certainly cannot be overlooked. For that reason, in-person detailing will never disappear; there will always be physicians and physician offices that will require scientific information, and updates on reimbursement and local disease conditions, which are best delivered in person.

The new representative types better align with the varying promotional needs within the brand life cycle, and are therefore more cost-effective, providing values commensurate with revenue potential. For instance, for mature brands, maintaining visibility—and in turn maintaining sales volume—is often the primary promotional objective. When a product is already well understood by physicians, customer service, mature market, or virtual representatives can often achieve a more favorable promotional impact-to-cost ratio than traditional representatives. This type of representation is tasked with dropping off samples and/or reinforcing core messages, and providing updates on managed care coverage to maintain market share and potentially to enhance share of voice as a back up to a more traditional field force. Because they do not require the same experience and/or educational background typical of traditional representatives, these next-generation representatives offer a lower cost, but equally effective alternative. By the same token, virtual representation also offers a lower cost alternative for the promotion of mature or secondary brands, and many non-personal strategies are also flourishing today as a result.

### **Integrated Account Teams**

Other cost-effective approaches to field coverage encompass

an account team focused on group practices, representing a complete portfolio of appropriate brands from their company rather than one or two lead brands. This team could include a customer service representative, a primary or specialty representative, and a clinical nurse educator. With this approach, the team is able to leverage existing relationships within various practices, and integrate brands where appropriate for a treatment protocol.

Regional teams have also made a comeback, with several large biopharmaceutical companies taking the lead. The industry is recognizing that regionally focused teams are better able to address the managed-care environment, differences in disease prevalence and incidence, and patient and provider demographics within their region. Yet being flexible enough

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to deploy the different rep requirements now necessary at a regional level is difficult with only an in-house team.

Pulsing/seasonal representatives and syndicated or shared teams are two popular models often supplied by outsourcing partners due to the need to rapidly respond to market conditions, or minimize the disruption of the internal team, particularly when short-term engagements are needed or maintaining cost efficiencies is a priority.

### **The Strategic Move to Outsourcing**

While this internal restructuring is important, it is a stop-gap. Creating a permanently flexible and scalable sales organization that can withstand the strain of changing market conditions is the true challenge. Most of the industry is now responding with an emphasis on outsourced promotional services providers, which can build in this flexibility at a more favorable cost profile, while maintaining high standards for quality and impact.

Outsourced promotional service providers have undergone a shift in perception by the industry since their in-



ception, when they were viewed simply as Contract Sales Organizations (CSOs) or “rent-a-reps.” Five years ago, outsourced sales representatives accounted for a respectable percentage of the total industry-wide biopharmaceutical sales force. By 2007, their numbers were reduced significantly as the industry cut outsourced representatives first, when they had to address falling margins. However, in light of the various pressures now faced by the industry, outsourced promotional services providers have evolved from a simple vendor-based solution into long term strategic partners. As a result, the numbers of outsourced sales representatives are again climbing, and their role is now more integral to the promotional mix. Expectations are that the number of outsourced representatives will continue to grow, overtaking earlier highs by 2013, as the industry further reduces its internal teams.

Why this dramatic shift? When sales outsourcing first came to the marketplace to meet the growing need of the industry, outsourced reps were deployed mostly in bolted-on, mirrored team situations to support a launch or growth brand. Teams were self-standing, using outsourcer-provided or client management, or both. Performance expectations were set strictly on the number of details made—reach and frequency—rather than the impact of those efforts on sales. Despite the demand for outsourced sales personnel, many in the industry viewed the CSO representative as inferior to the company’s own personnel. Although results often proved contrary to this belief, it was a hard impression to shake, and utilization of sales outsourcing lagged way behind the industry’s outsourcing of research, development and manufacturing.

Today, that has all changed. Due to the availability of downsized, highly skilled sales professionals in virtually every therapeutic category, the quality and ability of an outsourced representative to drive impact are now on par with internal reps. Major biopharmaceutical companies hesitant to use CSO teams before the downturn have now found reason to strategically partner with outsourced promotional service providers. In fact, most of the major biopharmaceutical companies are now working with at least two different outsourced providers to meet their varied field requirements. Many smaller, emerging companies almost exclusively use outsourced sales reps, not having the resources or risk-tolerance to support the infrastructure necessary to field an in-house team.

### **Outsourcing’s Inner Logic**

Why is the industry finding outsourcing such a viable strategy as they re-engineer their sales approach? There are a number of reasons, but four factors stand out.

First, many companies are finding that outsourcing increases the flexibility of field promotion to meet changing

market dynamics. A company can adjust up or down rapidly to meet brand, season, region, or territory needs without impact on internal morale, and they can do so cost-effectively. Although outsourced sales professionals are hired at market rates, the fact that there is a surplus of talent on the market is tending to drive that rate down.

Second, outsourced promotional services providers are able to offer a more permanent cost advantage over internal reps. This is due to the fact that outsource providers are able to leverage the infrastructure of fielding a team—recruitment, hiring, onboarding, training, SFA, fleet management, etc.—across multiple companies.

The result is a 25 to 30 percent reduction in sales force costs. That goes right to the bottom line because as a vari-

able cost, outsourcing will drive top-line revenues while allowing better management of the middle of the P&L, thereby delivering improved ROI. Outsourcing allows the biopharma industry to further manage the middle of their P&L in maintaining strong promotional support for key products and increasing support for promotionally-sensitive but under-promoted products, while reducing fixed field force investments and streamlining related overhead as products begin to near patent expiration.

Third, many outsourcing contracts today offer a risk-share option, which ensures that the financial interests of the outsourced promotional services provider are aligned with the company's. With market and regulatory pressures bearing down, and the need to be more judicious with resources, the industry is more wary than ever of the risk in field deployments, particularly for drugs awaiting FDA approval. By taking on a risk-share assignment, outsourced providers have skin in the game, leading to a more strategic partnership with the biopharmaceutical company versus a simple contract engagement.

Finally, the model itself is evolving, giving companies more options in how they use it. Currently, there are a few dominant deployment strategies of outsourced representatives over the brand's life cycle. They are designed to more directly match the industry's field promotional investment to the most relevant promotional drivers for each product in the portfolio, to test and pilot tactics, and to optimize selling effectiveness without disrupting ongoing promotional efforts. These can be in the form of syndicated/shared, flex-time, dedicated, and embedded teams.

The "embedded deployment" model (positioning outsourced sales representatives within rather than alongside company teams where coverage is needed) has gained momentum because it offers industry a way to balance reduced headcounts while maintaining effective control of field coverage and achieve flexibility by building in a fluid layer within their sales force, thereby acting as a product commercialization risk-mitigation strategy against future unexpected events such as pipeline disappointments, negative FDA action and competitive threats.

As evidenced by SDI's recent report on promotional spending, which showed a 32 percent increase in e-promotion spending by the industry in 2009 as compared to 2007, the use of non-personal outreach tactics is rapidly increasing. In turn, the outsourced promotional services industry has increased their offerings to include many of these tactics including call centers, direct mail and e-promotions, to name a few. And the ability to leverage the overhead costs of these services over multiple contracts makes the outsourced providers a very attractive alternative to the in-house only model.

So where is the relationship going? Simply put, outsourcing is here to stay. With this continuing evolution of services to deliver value to the biopharmaceutical industry and their customers, the outsourced promotional services industry has moved strategically into being a central element of the sales and marketing mix. Relationships are being built for the long haul. Although particular contracts may be in force for one to two years, outsourced providers are finding when the engagement is over their team is being moved to support another initiative within the same company. **PE**

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