



Topic: Outsourcing and Offshoring Trends in Pharmaceuticals – Preview Deck

Global Sourcing
Report: October 2011

Background, objective, and scope of the research

Description

Background

- This report analyzes key outsourcing and offshoring trends in the pharmaceuticals (pharma) vertical across multiple dimensions and examines how leading pharma majors maximized value from global sourcing
- We have considered pharma companies such as GlaxoSmithKline, Pfizer, J&J, Novartis, and Merck to be representative of the buyers in this industry

Objective

- Trace the evolution and adoption of global sourcing of services in the pharma industry
- Develop perspectives on potential themes and opportunities that may influence the outsourcing and offshoring landscape in the future
- Offer insights on service provider landscape for pharmaceutical companies

Scope

- **Outsourcing contracts:** All publicly announced third-party BPO and ITO deals in the pharmaceuticals vertical, signed during January 2006 to June 2011. In addition, the report includes analyses based on multi-/single-process outsourcing deals from Everest Group's proprietary account intelligence databases
- **Captives landscape:** Analyses on captive landscape of leading pharma companies
- **Services scope:** BPO (across FAO, HRO, PO, pharma-specific services), ITO (across Infrastructure Outsourcing – IO, and Applications Outsourcing – AO), R&D, supply chain, and sales and marketing
- **Geographic focus:** Global, including Americas (North America and Latin America), Western Europe, Central and Eastern Europe (CEE), Middle East, and Africa (MEA), and Asia Pacific (APAC)
- **Service provider landscape:** Key service providers that signed deals, which are in the public domain, with buyers in the pharmaceuticals vertical

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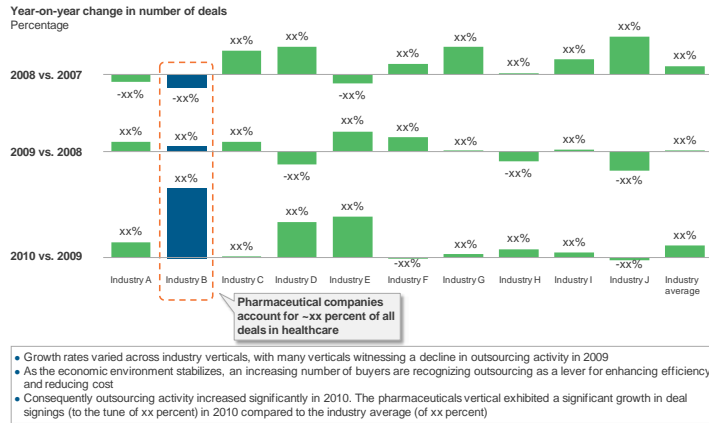
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This research report provides an in-depth analysis of the outsourcing market trends in the global pharmaceuticals vertical

Deal signings in the pharmaceuticals vertical increased at a faster pace than other verticals in 2010



The ACV has been steadily increasing since 2008, while the average deal duration has been reducing

Average contract value (ACV)¹
US\$ million

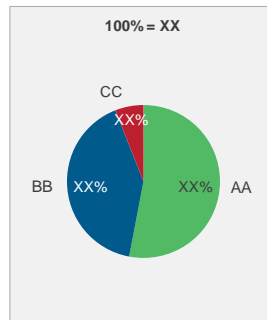


Average deal duration
Years; Number

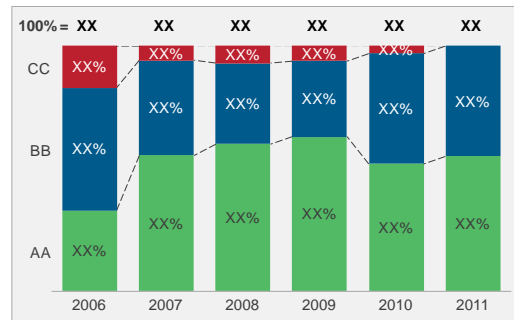


XX dominated deal signings over the past three years

Distribution by function
2006-1H 2011; Number of deals



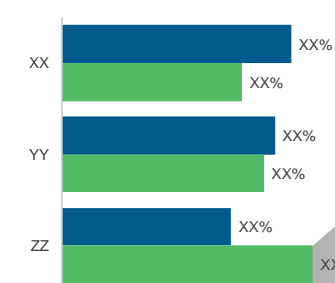
Distribution by function and year
2006-1H 2011; Number of deals



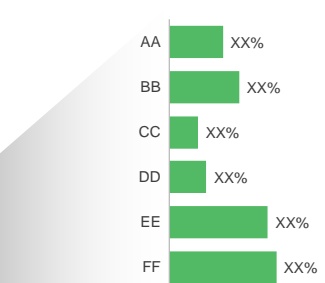
The pharmaceuticals vertical is an active outsourcer of IT services, with most companies leveraging third parties for development, maintenance, and systems integration needs. In the past five years, buyer adoption of third-party infrastructure services increased. On the BPO side, a majority of the deals were in the XX, YY, and ZZ services

XX dominated activity within ITO and YY dominated activity within BPO

Frequency of inclusion for function
2006-1H 2011; Percentage



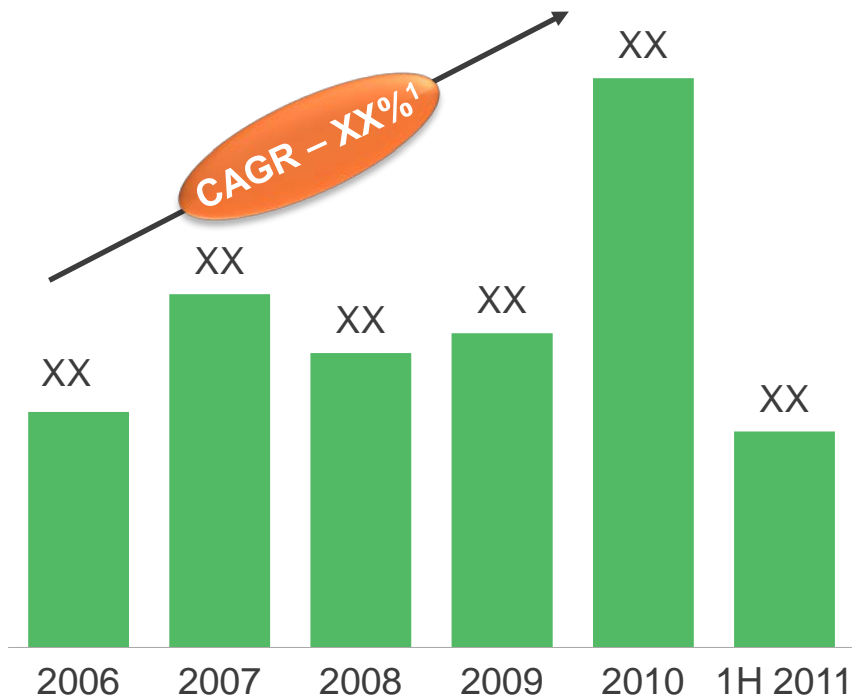
Frequency of inclusion for functions within BPO
2006-1H 2011; Percentage



The pharma vertical witnessed a significant increase in transactions in 2010

Deal signings in the pharmaceuticals vertical

Number of deals



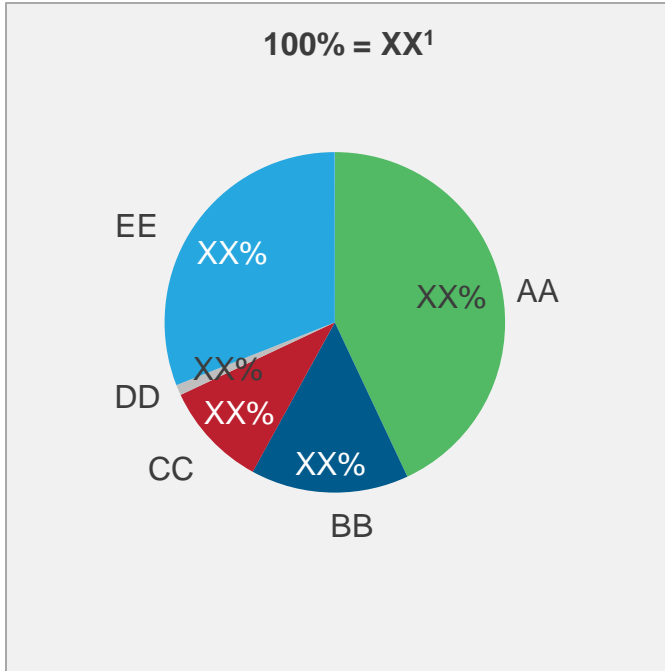
- The need for cost containment and the focus on increasing efficiencies drove adoption of outsourcing in the pharmaceutical space in 2010. The spike in transactions was also due to pent-up demand from the previous two years. This led to a larger number of transactions being signed in 2010
- Some notable transactions signed in 2010 include:
 - Buyer 1's US\$XX billion R&D deal signed with YY in 2010
 - Buyer 2's US\$XX million IT-BPO deal with YY
 - Buyer 3's IT deal with XX (deal value not publicly disclosed)
- 1H 2011 has been somewhat slower compared to 1H 2010 (which witnessed ~XX transactions) with no significant deal signed by any pharma major

1 Does not include deals signed in 2011

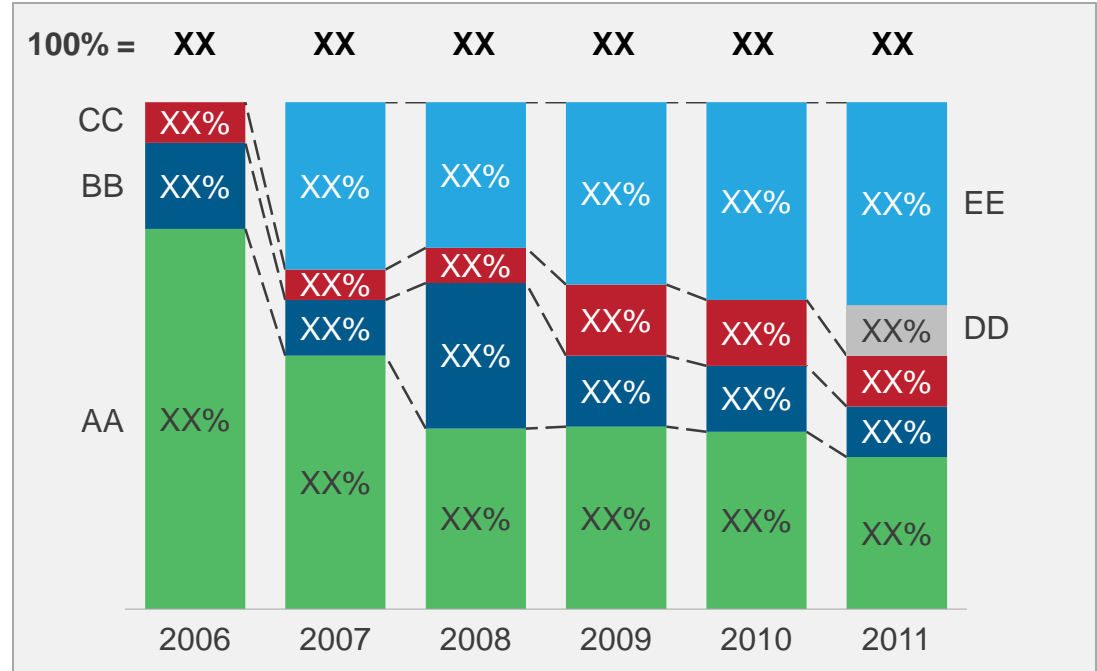
Source: Everest Group

XX dominated deal signings over the past three years

Distribution by signing region
2006-1H 2011; Number of deals



Distribution by signing region and year
2006-1H 2011; Number of deals



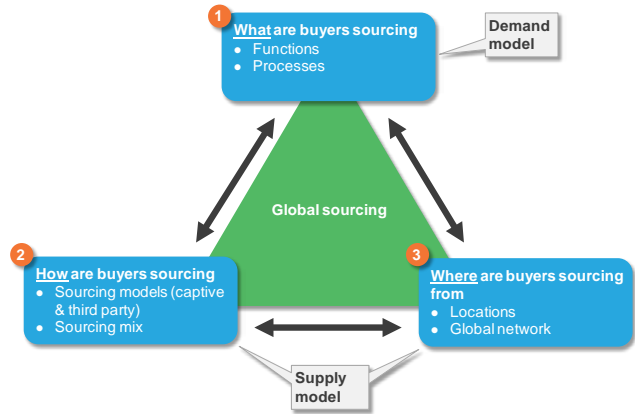
Historically, the U.S.-based pharmaceuticals majors drove the demand for outsourced services. However, the past three years witnessed several XX pharmaceuticals adopt third-party outsourcing services. Examples of key contracts include those signed between AA and BB, CC and DD, and EE and FF

1 Buyer geography unknown for XX deals out of the total YY deals signed in the pharmaceutical vertical during 2006-1H 2011

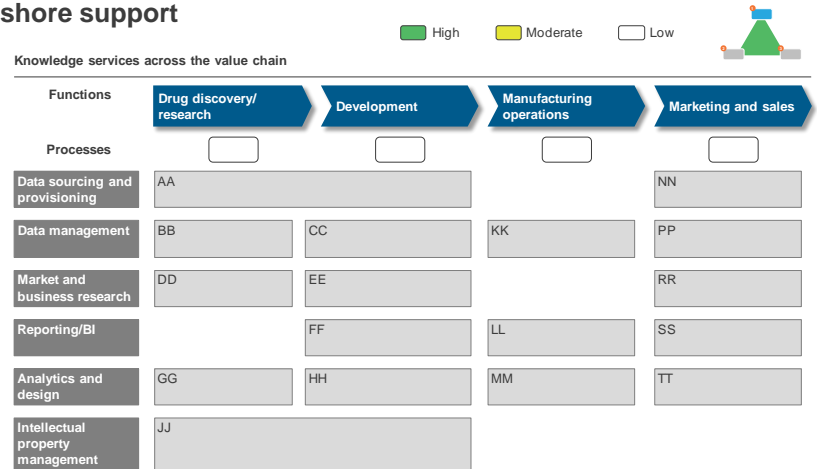
Source: Everest Group

The report analyzes trends in buyer adoption of outsourcing and sourcing models used

These are the three primary dimensions of buyer adoption of global sourcing



Knowledge services are also emerging as a high-potential area for offshore support



Buyers leverage hybrid sourcing models, although the extent of XX varies

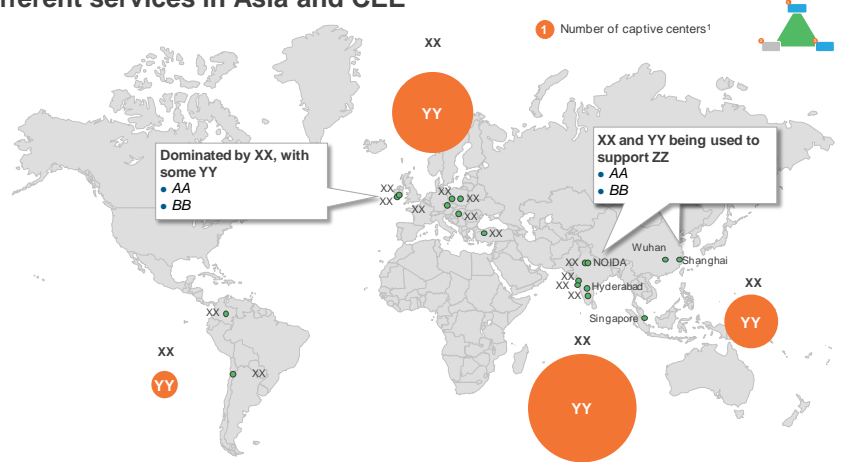


Adoption of global sourcing by pharma majors across functions

Buyer	XX		XX			XX	XX
	XX	XX	XX	XX	XX		
Buyer 1	Green	Green	Green	Green	Green	Green	Yellow
Buyer 2	Green	Green	Green	Green	Green	Green	Yellow
Buyer 3	Green	Green	Green	Green	Green	Green	Yellow
Buyer 4	Green	Green	Green	Green	Green	Green	Yellow
Buyer 5	Green	Green	Green	Green	Green	Green	Yellow

Most processes sourced through a hybrid model (captive and third-party); only XX, XX, and (to some extent) XX are sourced through either model

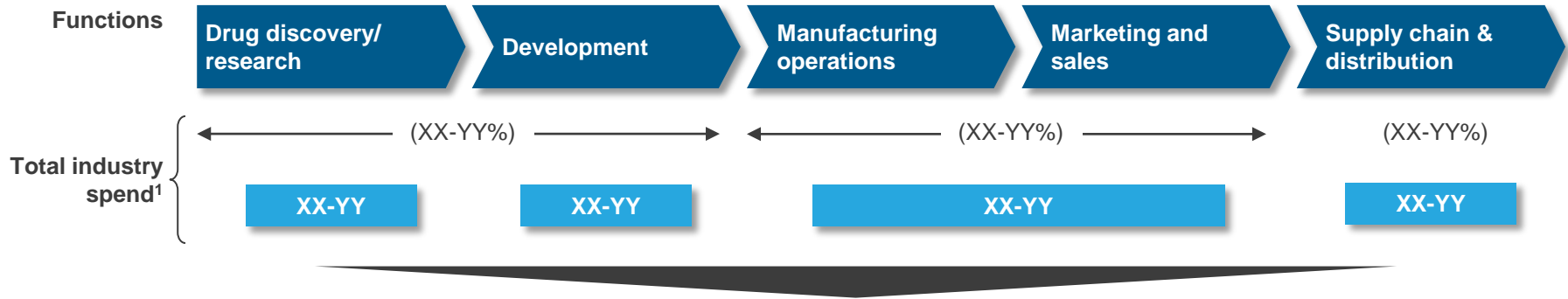
Most offshore captives are located in XX; captives are leveraged for different services in Asia and CEE



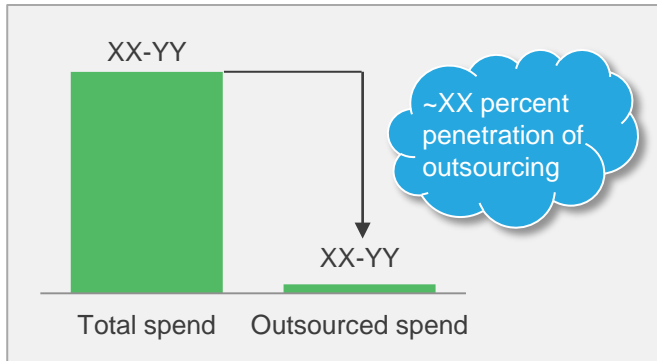
Outsourced spend is ~XX percent of total industry expenses; XX services dominate outsourced spend

Split of services spend

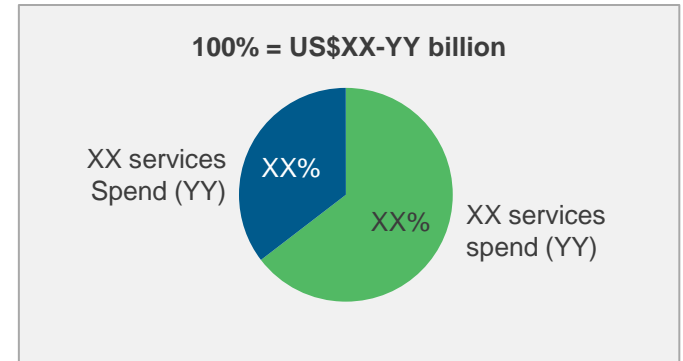
XX Size (US\$ billion) (x%) = Percent of total



Total vs. outsourced spend
US\$ billion, 2011



Break-up of total outsourced spend
Percentage and US\$ billion, 2011

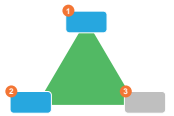


1 Excludes one-time spend, includes spend on materials

Source: Everest Group analysis

Big pharma companies display various approaches of sourcing work; all of them use a XX model

ESTIMATES



Comparison of various sourcing approaches

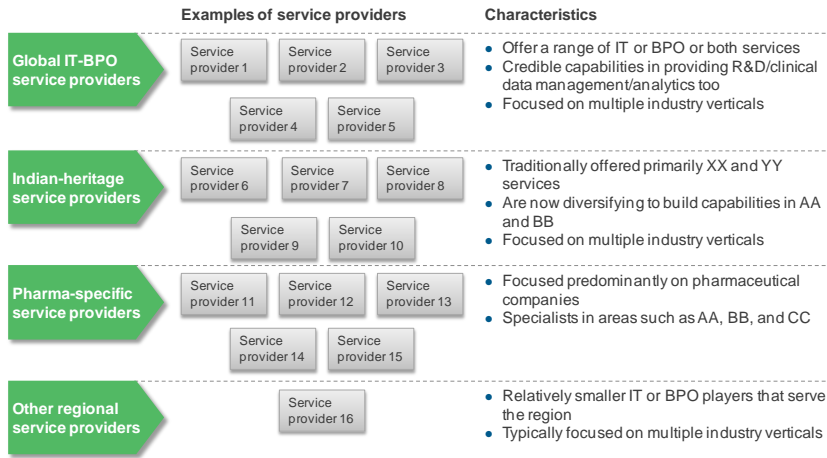
Buyer	Extent of outsourcing	Highlights of sourcing model
	<i>Captive/in-house</i> ← → <i>Third party</i>	
Buyer 1		<ul style="list-style-type: none"> • Captives provide primarily XX and YY • XX, YY, and ZZ are sourced from third parties
Buyer 2		<ul style="list-style-type: none"> • Captives provide primarily XX and YY • XX, YY, and ZZ are sourced from third parties
Buyer 3		<ul style="list-style-type: none"> • XX and YY are outsourced to third parties • Shared services centers are leveraged to deliver other services
Buyer 4		<ul style="list-style-type: none"> • Captives provide primarily XX and YY • XX, YY, and ZZ are sourced from third parties
Buyer 5		<ul style="list-style-type: none"> • Captives provide primarily XX and YY • XX, YY, and ZZ are sourced from third parties • Some parts of XX and YY, and a significant part of ZZ is outsourced to third-party providers

- Buyers display a mix of approaches; models differ even at the function level in some cases
- Overall, the market is skewed towards XX; a mix of YY and ZZ is leveraged

Source: Everest Group analysis

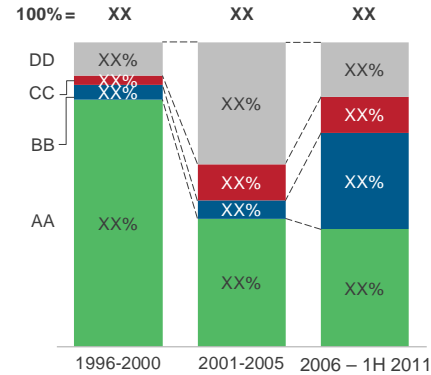
The report also provides an overview of the service provider landscape and their capabilities

Service providers in the pharmaceuticals space – overall landscape



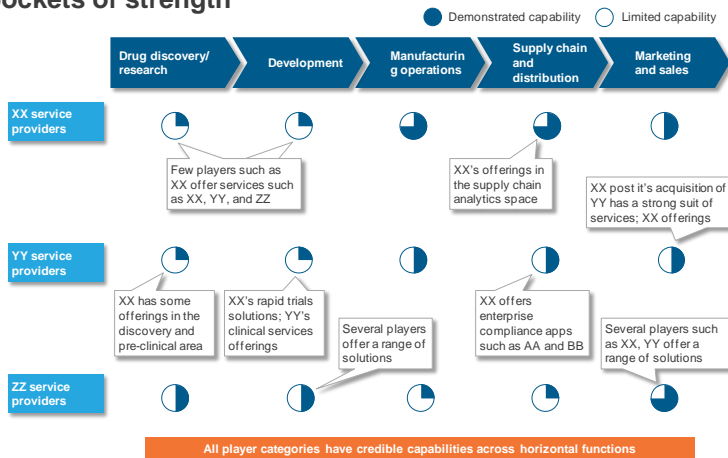
XX service providers have created their space in the pharmaceuticals vertical

Distribution by category by year
1996-1H 2011; Number of deals

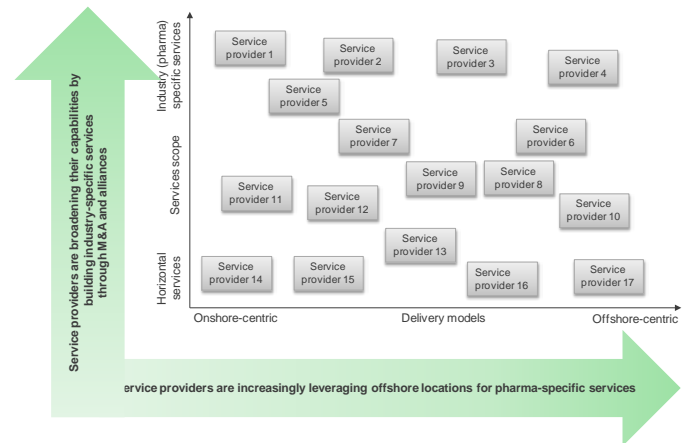


- While XX service providers have accounted for the largest share of transactions in the past, Indian-heritage service providers have been able to create their own market
- Though specialists and other regional players have accounted for a significant share of transactions, the ACV for them remains significantly smaller than the global and Indian-heritage service providers

Capability across service provider categories differs; each has its own pockets of strength



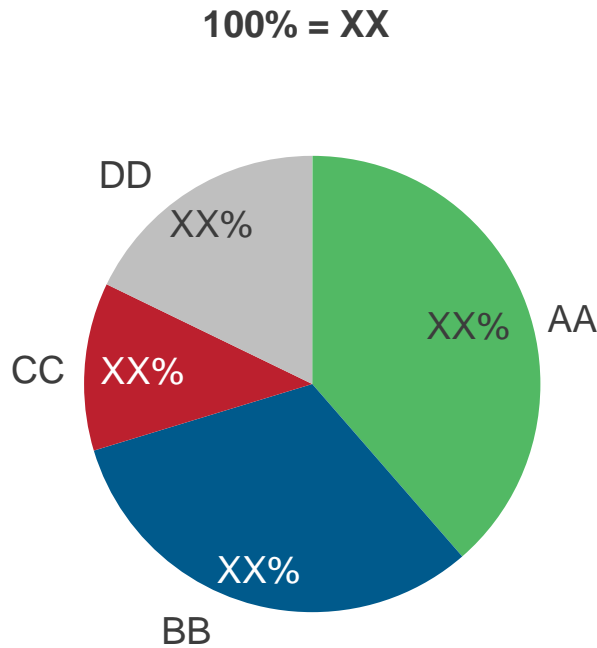
Service providers are moving towards greater offshore adoption and expanding pharma-specific capabilities



XX account for the largest share in terms of number of transactions

Distribution by service provider category

2006-1H 2011; Number of deals

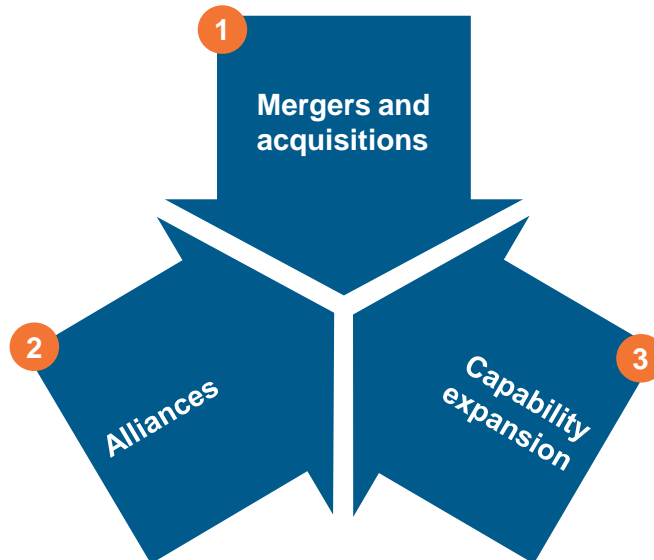


- Global service providers such as AA, BB, CC, DD account for the largest share in the pharmaceuticals space in terms of number of transactions over the past five years
- Indian-heritage service providers such as AA, BB, and CC account for XX percent of the market based on number of transactions. A large number of the Indian-heritage service providers increased focus on the pharmaceuticals space over the last decade and firmed up their capabilities through organic, as well as, inorganic means
- Pharma-specific service providers such as pharma sales and marketing specialists like AA, and clinical data management specialists such as BB account for XX percent of all deals. Pharma sales and marketing is one of the most outsourced functions in the pharma space

Source: Everest Group analysis

Service providers are extending capabilities to move up the pharma value chain

- Several service providers have taken the inorganic route to build capabilities across the value chain – especially in XX, YY, and ZZ
- Examples include XX's acquisition of YY in ZZ and XX's acquisition of YY, in ZZ



- Alliances also contributed to capability expansion
- Examples include AA's alliance with BB, CC's alliance with DD, EE's alliance with FF

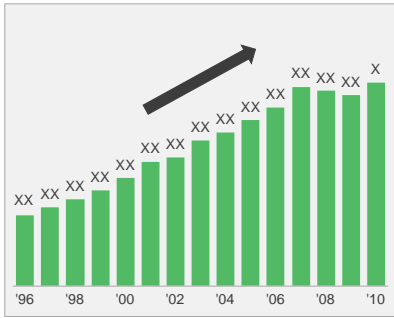
- Capability expansion through establishment of centers of excellence, new service offerings etc. further show service providers' increasing focus on the pharmaceuticals space
- Examples include XX's planned investments to grow its pharma capabilities in YY, AA's planned BB in CC

Source: Everest Group analysis

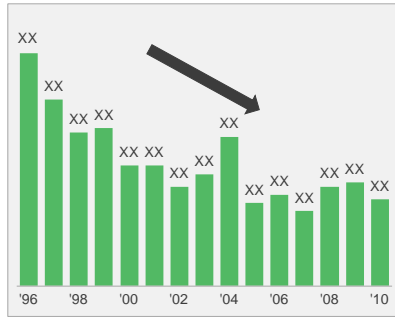
The report discusses the key future trends to watch

Pharma industry is battling rising R&D expenditure with declining new drug approvals

U.S. Pharma R&D Expenditure
US\$ billion



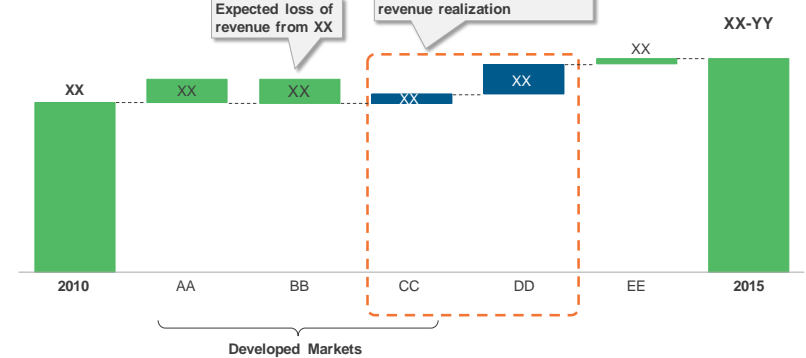
New drug approvals
New molecular entities and biologic license applications;
Number



Pharma industry R&D costs are rising while the number of new drug approvals is nearing an all-time low

XX markets offer growth opportunity, but also present unique challenges

Pharma industry revenues
2010-2015; US\$ billion

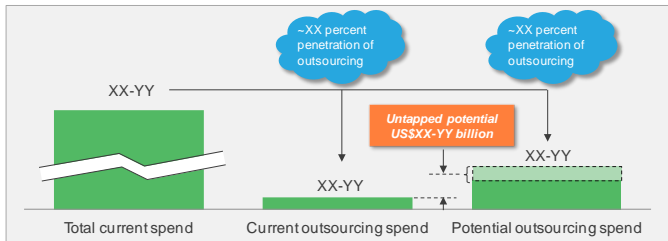


Growth opportunity primarily in XX and YY

A Opportunities for additional outsourcing continue to exist

Functions	AA	BB	CC	DD	EE	FF	GG	HH
XX								
YY								

Current versus potential outsourcing spend
US\$ billion, 2011

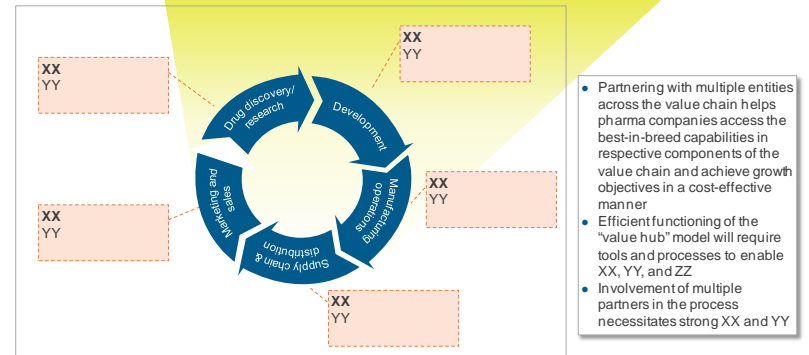


B The pharma value chain model is moving towards a "value hub" model...

Conventional value chain



"Value hub"



Additional research references

The following documents are recommended for additional insight on the topic covered in this Research Report. The recommended documents either provide additional details on the topic or complementary content that may be of interest

- 1. Outsourcing and Service Provider Landscape in Germany** (ERI-2011-2-R-0531); 2011. This report summarizes the key trends and developments for Q2 2010 in the global offshoring and outsourcing market
- 2. IT Application Outsourcing in Insurance – Trends and Future Outlook** (EGR-2011-11-R-0594); 2011. This report analyzes the trends and next generation imperatives for suppliers along some of the key components of global delivery – location portfolio, operating model, and talent management. The report presents the global delivery trends with pertinent examples, data analysis and observations, and draws important implications for suppliers as well as buyers of outsourcing services
- 3. IT Applications in Banking – Trends and Future Outlook** (ERI-2011-11-R-0566); 2011. Everest conducted a market survey to understand the current location footprint, expansion plans, and perceptions of risk in offshore locations. This whitepaper provides an overview of how buyers are thinking about their expansion plans, specifically with respect to scale and locations. The document also explores typical location risk perceptions of buyer organizations

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