

## **The Preferred Provider Tug-of-War**

### **Why Most Pharma-CRO Partnerships Fail**

**Patricia Leuchten**  
**The Avoca Group**

The success of companies that rely on outsourcing for the development of new pharmaceutical (pharma) products for the healthcare industry can be intrinsically linked to the contract research organizations (CROs) that provide clinical research services. Likewise, the success of individual CROs depends on their ability to build and manage relationships with the sponsors they support. Over the past decade, I have watched and in some cases, participated in initiatives focused on the creation of “true partnerships” between big pharma companies and big CROs and without exception, these initiatives have not lived up to expectations, on either side. While strategic, preferred provider relationships would maximize value, many problems surrounding exclusive CRO/sponsor relationships still plague the industry. Opportunities for improvement exist in a wide range of areas.

The CRO and pharma industries have not yet developed consistently mature relationships. Given market conditions, however, the pursuit of these relationships is worthwhile. Intense competition, price pressure, focus on more complex diseases, and increasing compliance scrutiny are among the many market forces demanding that pharma companies find better, more efficient ways to conduct clinical trials. With increasing numbers of products in development, the creation of research capacity to deal with their pipelines by outsourcing some functions to CROs is critical.<sup>1</sup>

Despite the inherent need, there is a “tug-of-war” between pharmaceutical companies and CROs. Although pharma companies seek to develop one or more “preferred providers” in an effort to outsource strategically, this distinction does not necessarily indicate a strategic relationship. Increasingly, pharma companies are placing price pressure on CROs, and treat outsourcing as a transaction rather than a partnership. At the same time, some CROs are experiencing internal difficulties such as high turnover, employee burnout, and the lack of innovation, conditions which are not conducive to the development of long-term strategic relationships.

---

<sup>1</sup> Bill Hill, First Consulting, DIA Conference June 2003

Both pharma companies and CROs acknowledge the weaknesses in their approach to partnering, yet improving these relationships is a major challenge. While some companies have developed satisfying relationships, there are still issues of concern surrounding clinical outsourcing. In this report, the insights, issues and opportunities identified during the conduct of an industry benchmarking study conducted by The Avoca Group are described.

## Understanding the Tug-of-War

The Avoca Group investigated both the pharma and the CRO sides of the preferred provider relationship. We interviewed ten CROs and nine pharma/biotech companies. We studied the biggest obstacles, issues and problems; benefits and opportunities for better partnerships; current and future needs; and elements of true strategic relationships.

### Companies Interviewed

Pharma Companies	CROs
Abbott Labs	Covance
Centocor	ICON
Cordis	Inveresk
J&J PRD	Omnicare
McNeil Consumer and Specialty Pharmaceuticals	Parexel
Merck	PRA
Ortho Biotech	MRA
Wyeth (and Accenture)	PharmaNet
	Quintiles

A wide range of models for outsourced clinical research were described. Some pharma/biotech companies have no outsourcing departments and researchers source the services themselves. Some companies maintain short-lists based on previous use and success with CRO teams. Some pharma companies maintain that CROs must be pre-qualified for risk management, but latitude is given to the research staff about hiring a CRO. Some pharma companies have preferred provider lists, where CROs have been fully assessed and senior management endorses their use unless a business case for going outside the list is made.

None of the pharma company representatives surveyed characterized their relationships with CROs as truly “strategic” and noted that outsourcing is still very transactional in nature even though they are investing significant resources into CRO assessments and developing qualified and/or preferred provider lists. Many indicated that the intent at the beginning of the preferred provider selection process was to develop strategic relationships.

Most respondents reported that pharma/CRO relationships have a long way to go before they could be characterized as strategic.

## **The Pharma/Biotech Perspective**

Pharmaceutical companies were interviewed to investigate their:

- Approaches to outsourcing
- Opinions and perceptions of preferred provider relationships
- Perceptions of issues, and problems and opportunities
- Response to the commonly reported complaints by CROs

Pharma companies acknowledged that there is a need to move toward more strategic relationships with CROs. Problems preventing such relationships cited were:

- “CROs are offering nothing innovative proactively.”
- “Turnover within CROs is a significant issue.”
- “CROs are hiring inexperienced staff.”
- “CROs are overworking staff to the point of burnout.”

## **Pharma/Biotech Self Analysis**

Pharmaceutical companies assessed themselves and admitted that they often micromanage CROs and that this results from the pharma companies’ unwillingness to relinquish control. Additionally, they reported that project teams are often reluctant to utilize preferred providers and that there is little or no buy-in from senior management. Overall, one of the most significant problems cited was the tendency of most pharma companies focus too much on cost cutting and not enough on quality.

The term “preferred provider” currently has somewhat of a negative connotation and many companies will not use this terminology. They prefer the term “qualified” so that CROs make no assumptions that they are preferred over other companies. Some companies also admitted that there was a feeling of vulnerability among staff members when using a CRO.

## **Opportunities for Improvement**

Pharma companies noted that a “culture shift” is needed in large pharma, where trust is the cornerstone of the relationship and importantly, that senior management endorses

CROs and the strategic value that can be gained from working with them. Pharma companies want CROs to provide experienced people and to have a clear understanding about how they integrate with the sponsor processes. They would prefer to have teams dedicated to their companies alone, but recognize that without guaranteed work volume this is unrealistic.

Pharma companies recommend that CROs provide the case studies, rationale and proactively demonstrate the value proposition of true strategic partnerships, stating that such evidence could create the shift in mindset within senior management. Senior management from pharma and CRO companies should interact regularly.

Pharmaceutical companies acknowledged that they must stop micromanaging projects and trust the CROs. They recognize that more focus on quality and less on pure pricing would improve relationships and add value.

## **The CRO Perspective**

CROs were interviewed for:

- Types of current relationships
- Opinions and perceptions of preferred provider relationships
- Perceptions of issues, problems, and opportunities
- Reactions to Pharma's assertion that CROs are reactive instead of proactive
- Reactions to Pharma's assertion that quality is inconsistent within CROs because of turnover and burnout
- Perception of opportunities

Overall, CRO representatives agreed that pharma/CRO relationships are still largely transactional in nature. They noted that pharma companies have expectations of significant price reductions, which result in very low profit margins. A common sentiment was that negotiations are often unrealistic and one-sided. They claimed that pharma companies ask for top quality but do not allow the CRO to spend the time necessary to consult and work in partnership with the sponsor. There is a lack of a truly strategic focus.

Every CRO interviewed said they had more than three "preferred" relationships with sponsors, but that the term "preferred" is not clear and differs by sponsor. There is seldom guaranteed volume or true preferential treatment. CROs complained that there is little trust and sharing of information by the pharma companies and that often inexperienced people are managing the CRO relationships. CROs also voiced concern about micromanagement.

## **Self Analysis**

CROs admitted to some of their own shortfalls. Many CROs reported agreeing to rate discounts without any investment or commitment on the part of the sponsor pharma company. Bowing to price pressure affects the whole industry. They also noted that because of the fast-paced nature of the business, some CROs do, in fact, hire inexperienced people and put them in positions of responsibility and authority, thus diminishing the perceived quality of CRO services.

## **Opportunities for Improvement**

CRO company professionals see a need for greater collaboration to streamline drug development and reduce overall costs and timelines. They suggest that sponsors adopt CRO best practices gained from significant experience rather than mandating the conduct of trials in the manner dictated by the pharma company. CROs would like to see pharma companies have a deeper understanding of the CRO business, and how issues such as delays in contracts and late payments can dramatically affect them. In short, CROs are looking for relationships built on mutual respect.

## **Resolving the Tug-of-War – Avoca’s Point of View**

Over the years, I have seen and it was validated in Avoca’s benchmarking study, that there is a *disconnect* at the senior management level (executive level) of CRO/vendor relationships. In some cases, senior executives from the pharma side are not involved or are not “on board” with the development of strategic relationships with CROs. While there are exceptions, there is an immaturity in the approach in that the focus tends to be short-sighted rather than long-term.

There is clearly a need for a culture shift, and many opportunities for improving relationships exist. Among the opportunities are joint, up-front planning; joint managing of portfolios; dedicated staff; risk-sharing, and infrastructure solutions. The cornerstone of a truly strategic relationship and the single thing that may create a shift is interest, support and involvement of executive level staff within pharma. If we examine some of the current examples in the industry of relationships that seem to be moving toward the more strategic – the Wyeth/Accenture joint venture and some of the relationships that Quintiles have fostered over the years with companies such as Aventis and Solvay - the common element in these relationships is an early CEO to CEO connection and buy-in at the top.

In many ways, the pharma industry has shaped and formed and essentially, has created the CRO industry. Outsourcing to CROs was once considered a necessarily evil. Now, as more and more experienced professionals have migrated from pharmaceutical and biotech companies to CROs, outsourcing to CROs has evolved from needing “arms and legs” to finish an individual project to collaborating on the development and execution of high-profile, global programs. The CRO industry has kept pace with the changing needs and demands of pharma, and it is expected that outsourcing will increase; what isn’t

certain is whether the necessary shift will take place to fostering a more consistent, *strategic* approach to clinical outsourcing.

Clearly, there is much left to do to optimize these important relationships. It is encouraging, however, to find that pharmaceutical and biotechnology companies and CROs alike recognize problem areas and potential solutions. Continuous attention to the issues and opportunities, a continued effort to enroll and communicate the advantages to executive management within pharma and a genuine commitment to change will yield significant value for all companies and for the industry as a whole as the need for increased efficiency intensifies.