

## Opportunities in Outsourced Pharmaceutical Services

McDermott  
Will & Emery

Article By

[Kristian A. Werling](#)

[McDermott Will & Emery](#)

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Pharmaceutical outsourcing has emerged as a robust—and rapidly growing—subsector of the life sciences industry. As the push for efficiency continues, more pharmaceutical, biotech and medtech companies are turning to contract research organizations (CROs), contract development organizations, medical affairs outsourcing and other service providers for help bringing products to market, manufacturing and distributing products, and improving quality. This trend is creating exciting new opportunities for investors in this burgeoning space.

Several factors are driving this growth in pharmaceutical services outsourcing:

- **Pharma companies are becoming more comfortable with outsourcing.** Of outsourced service providers, CROs have the highest penetration, with approximately 50 percent of clinical trials outsourced. Other areas of outsourcing are far less penetrated, however, offering ample opportunity for investment. Consider researching opportunities in health economics or outcomes research market access, for example.
- **The current health care/pharma environment is rich for pharma outsourcing.** Biotech is thriving: capital is readily available, and the US Food and Drug Administration regulatory environment for approval of new products is favorable. On the pharmaceutical front, ongoing consolidation has fostered an efficiency mindset. And across the health care and life sciences space, big data

is being harnessed in new ways that make outsourcing easier and more efficient than ever.

- **We are in a period of great market fragmentation.** The market is starting to skew toward earlier stage rather than big pharma companies. Trials also are increasingly designed with an emphasis on subpopulations and advanced analytics (such as specialty drugs targeted to specific genotypes). Traditional pharma often lacks the specialized skillset to design trials with this level of specificity and therefore can greatly benefit from an outsourcing partner.
- **The number of small pharma and biotech companies has surged over the last decade.** Many of these companies have limited resources and staffing, and therefore must outsource tasks such as clinical trials, production of clinical lots and, ultimately, commercial services. In turn, outsourcing companies have developed and expanded their range of service offerings to cater to the specific needs of these smaller pharma/biotech companies.
- **Specialty drugs and personalized medicine have proliferated, and they require extra messaging to encourage patient compliance.** For a specialty drug that is very personal to the patient, and very expensive to develop, there is a huge incentive for drug companies to motivate that patient to continue taking the drug as instructed. Outsourcing companies can fill the communications gap by offering payment services, adherence messaging and coaching. Biotechs—which are leading innovation in the area of personalized medicine more than big pharma—also need to run lean and efficiently, since the cost of these drugs is so high. Outsourcing companies can tackle real world data analytics to demonstrate effectiveness and help secure reimbursement.

When evaluating a potential investment in a pharmaceutical outsourcing company, investors should consider the following key points:

- **The company's team and executive leadership.** The CRO space in particular features unique staffing prerequisites: a combination of deep knowledge of the science (to be able to engage with biotech and pharma executives) and keen operations sensibilities (to ensure processes run smoothly and margin is maximized). There is a limited candidate pool with this particular skillset, so it is important that the target organization have adequate measures in place to incentivize and retain key talent in a competitive labor market.
- **Regulatory diligence.** How does the outsourcing company manage regulatory oversight and compliance? Do they collect and manage data properly? How do they remediate adverse events?
- **Underlying customer base and pipeline.** Look for organizations that have a solid portfolio of existing customers and pipeline of new potential customers or products to work with. The underlying customer base of an outsourcing provider impacts its ability to collect on high-margin products and build value. Successful outsourcing organizations are forward-thinking and have a thorough understanding of their market and their customer's products, and therefore make attractive targets for investment.

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