



Not just hired guns

Contract sales organizations have come a long way to stay one step ahead of their clients' needs

Today, the contract sales industry is more than putting bodies in motion.

No longer are contract sales organizations just "hired guns" employed for a temporary territory fix. Since 1995, when contract sales began to change from small, part-time sales teams into large-scale, full-time, high-capacity salesforces involved in supporting some of the industry's largest pharmaceutical products, CSOs have

focused their efforts toward providing quality, speed, flexibility, and diverse services.

Yes, CSOs can field a salesforce, typically faster than their pharmaceutical clients, but today's contract sales organizations also offer a broad range of sophisticated integrated services, such as product commercialization, product launch data, product support, life-cycle management, return on investment analysis, and more.

According to industry sources, the CSO market has grown more than 35% annually over the past four years, reaching about \$1 bil-

lion in total revenue in 2000. In 1995, industry-wide outsourced sales representatives accounted for \$90 million in sales, or a 2% market share; in 1999, CSOs accounted for \$690 million in sales, or a 12% market share.

Among the recognized major players in the CSO industry are Innovex Inc., a business unit of Quintiles Transnational Corp.; Nelson Professional Sales, a division of Nelson Communications Worldwide; Professional Detailing Inc., also known as PDI; and Ventiv Health Inc. These companies and others such as Cardinal Health and McKessonHBOC are ensuring the market success of their pharmaceutical and biotechnology partners by offering a comprehensive selection of outsourced programs and services that feature the latest advances in healthcare information technology.

"Contract sales is no longer an industry where we're just delivering calls," says Bill Pollock, president, Ventiv Health U.S. Sales. "The major focus of our organization right now is to be able to deliver comprehensive pharmaceutical sales and marketing solutions to our clients. That goes well beyond just delivering sales."

Keeping ahead of the curve is important for the customer-centric CSO industry; these companies must be ready to anticipate what their clients want and be able to quickly deliver the goods.

"The whole industry has come a long way since we were hired guns, not only the caliber of the person that we are putting in the field, but in terms of the agreements we are entering into," says Terrence Tormey, president and chief operating officer of Nelson Professional Sales.

One of the biggest trends to shape the CSO industry of late, according to industry analysts, is that of revenue-share deals, which are opening up new revenue streams for the contract sales companies.

According to WR Hambrecht & Co. analysts, many of the CSOs had the foresight to realize this type of deal would be key. Now, a lot of the CSO companies view this type of deal as being very viable, and very possible, and a significant contributor to their financials going forward.

Innovex was the first organization to enter into a risk-share agreement; now all of the major players have in place or are negotiating gain-share types of financial arrangements.

"We continue to be a leader in the construct nature of those deals and we've been cautious in those that we chose to enter into," says Richard Johnson, MD, Innovex CEO Commercialization North America and CEO Quintiles Inte-

- Co-promotion of pharmaceutical products
- Building and managing sales teams ranging in size from 5 to more than 500
- Qualitative and quantitative market research, survey current market trends, competitive information, and industry data
- Design and management of telemarketing, telesales, peer meetings, and Web-based programs



RICH JOHNSON

- Design, development, and delivery of medical education and communications plans
- Development of territory optimization systems and territory alignment capabilities
- Strategic planning and development
- Recruitment, training, and development
- State-of-the-art technology providing sales targeting, reporting, and accountability

grated Strategic Solutions. "Because we have shareholders, we need to ensure our value as we take on any kind of risk deals."

Even though revenue-share agreements are a growing opportunity for CSOs, analysts say fee-for-service contracts will become obsolete.

"I have 26 or 27 different agreements that are up and running," Mr. Pollock says. "Every single deal is different, ranging from fixed fee all the way up through pure revenue share. I would say the majority of our agreements are probably some type of base fee with an appropriate incentive fee based on performance and ability to help the client achieve goals and objectives. Other agreements are very heavily tied to revenue share, where we get a percentage of every single prescription that's filled. We refer to risk share as incentive share—we share in the upside, based on our ability to help our clients achieve their goals and objectives."

No matter what terminology CSO executives use for their gain-share arrangements, revenue share is only important when the company is able to drive a given brand's performance beyond a preset base line to realize incremental profit along with the client.

"Basically performance-driven deals or risk-sharing deals, or gain-sharing deals, are all the same," says Chuck Saldarini, vice chairman and CEO of PDI. "This means our compensation is heavily or exclusively derived only from the incremental value that we bring, which means we have to be pretty confident we can get it done. It's difficult to sustain growth exclusively in a fee-for-service business model, because we never know when the next project is coming."

Risk-share arrangements can be beneficial to both the client and the CSO if the marketing arrangements are equitable as well.

"We prefer to use the phrase risk-reward rather than risk-share," Mr. Tormey says. "For these types of arrangements to work for the pharmaceutical company and the CSO, the CSO needs to be responsible for controlling a lot more than has been given."

According to Hambrecht analysts, a lot of the newer deals with pharmaceutical and biotechnology companies will involve some type of revenue-share arrangement. "Biotech and specialty pharmaceutical companies are very careful when they pick a CSO," one analyst says. "They look for expertise in the area of the drugs that they are bringing

out, so a gain-share arrangement should be a good fit. I really don't see too much risk in that."

CSOs are able to benefit from innovative financial structures because the pharmaceutical industry has changed significantly in the past three years. Consolidation among the big pharmaceutical companies has streamlined product portfolios, emerging specialty pharmaceutical companies and biotechnology companies are entering the promotional arena, and CSOs have come a long way in providing enhanced services and quality people.

Consolidation among big pharma has produced much larger companies and the sales threshold that is required for good promotional support internally has been raised dramatically.

"This creates tremendous opportunities for us to do more in the co-promotion arena and more in the lifecycle extension arena," Mr. Saldarini says. "We can take on these products in the support role, and we can do it on a completely variable cost basis to the pharmaceutical client."

CSOs are gaining more business from big pharmaceutical companies, which are consolidating their portfolios. Many of the mid-tier drugs are not being targeted by their innovators. There is tremendous opportunity for smaller brands; they are not the blockbuster drugs, but these products can still generate significant sales if they are marketed properly.

Additional opportunities await CSOs as specialty and emerging pharmaceutical companies step up to the plate.

"Before the only choice for an emerging pharma or a biotech company to do a co-promotion agreement was to partner with a big pharmaceutical company; now all of a sudden they have another option, and that's to come to a commercialization organization," Mr. Pollock says.

Commercialization is the optimal term; all of the major players have a broad number of services that they can offer clients.

"Our pharmaceutical clients still have standard contract sales organization needs, but those needs are not at the same level they were a few years ago when the pharma companies didn't have their own reps." ►

- Product commercialization
- Product launch



TERRY TORMEY

- Support for a growth product
- Life-cycle management needs
- Clinical and marketplace training
- Recruiting
- Telesales
- Peer-selling programs
- Consulting and curriculum design
- Training
- State-of-the-art analytic management tools

Dr. Johnson says. "Today, clients are looking for more diversified services to solve their problems and they're looking to us to provide creative solutions."

Five years ago, pharmaceutical clients turned to their CSO partners to support their primary-care sales needs; today those same pharmaceutical companies are fielding about 70,000 sales reps.

The trend favors CSOs that offer a wide variety of services, Mr. Tormey says. "The industry is beyond 'here's how many heads we can put out there in certain times'."

All of the CSOs pride themselves on being flexible, client-centric, and on the quality of their services. The challenge is to dispel any lingering doubts clients may have about the quality and caliber of the services and personnel that a CSO can field.

"We have come a long way in the past three to five years," Mr. Pollock says. "As more companies see what the capabilities are of the industry, that perception is starting to change."

Mr. Tormey concurs, "The entire CSO industry is held in much higher regard than it was five or 10 years ago. That's part of that movement from the hired guns and flex-time reps to CSOs placing field representatives who look like, sound like, and perform as well as the internal salesforces."

The business model for most of the CSOs has evolved dramatically over the past five years. CSOs have combined strategic acquisitions with existing resources and are now more of a full-service and innovative product commercialization organization

"The biggest challenge is getting clients to understand that we are much more than a contract sales organization," Mr. Saldarini says.

PDI

- Product commercialization services, prelaunch and launch
- Co-promotion
- Lifecycle extension
- Contract sales teams built specifically for a client
- Shared salesforces and infrastructure
- Marketing research and consulting



CHUCK SALDARINI

- Marketing and brand management capabilities
- Advocacy development
- Promotional communications
- Continuing medical education accredited programs
- Multimedia formats such as symposia, teleconferences, and medical center briefings
- Hospital-based events
- Salesforce interactive seminars
- Web-based recruiting

Ventiv

- Product launch support
- Pharmacy promotions
- Specialized field services
- Mature product line support
- Collection and analysis of sales information
- Salesforce automation



BILL POLLOCK

- Brand marketing support
- Sample compliance/accountability
- Recruitment services
- Complete training and development programs
- Strategic and integrated marketing solutions
- Advanced analysis and reporting systems
- National recruitment

"They must understand that we really are a sales and marketing partner and they need to begin thinking of us as they make portfolio decisions. I think they are ready for that change themselves. I think the biggest things we have to demonstrate to clients are that we have a track record of success and that we can meet their currently unmet needs, but much, much more importantly, we can show them a strategy to unrealized gains. That's our biggest challenge." ♦

PharmaVoice welcomes comments about this article. E-mail us at feedback@pharmalinx.com.

Experts on this topic

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