



“Shared” services for
life sciences companies
A prescription for value



Contents

A prescription for value	3
The shared services model	4
Not just for back-office administration any more	6
Toward the pursuit of shared services value	11

A prescription for value

In an economy struggling to recover from the worst recession in decades, many companies are facing an urgent need to cut costs while still sustaining growth. Life sciences companies, however, are on an accelerated burning platform, and several recent trends only add more urgency to the situation. Patent expirations continually reduce cash flow and curtail revenues. Increasing competition from generics is eroding brand-name market share. And the industry's high level of M&A activity has left many companies with many overlapping processes and technologies that limit efficiency even while pressure mounts to realize synergies quickly.

What can a growth-minded, cost-conscious life sciences executive do to simultaneously pursue both growth and cost-reduction goals? We believe that one extremely effective strategy can be to adopt a shared model for select functional and business support services – that is, to consolidate certain functional (e.g., HR, finance, IT, real estate, procurement) and business (e.g., R&D, commercialization, compliance) support activities into a shared organization that performs work across all of an enterprise's lines of business. Our experience suggests that most life sciences companies have lagged somewhat behind many in other industries in their use of a shared model. However, we believe that the demands now facing life sciences companies make considering the move to shared services a smart, well-timed investment as they evaluate options to help drive continued growth and greater efficiency.



The shared services model

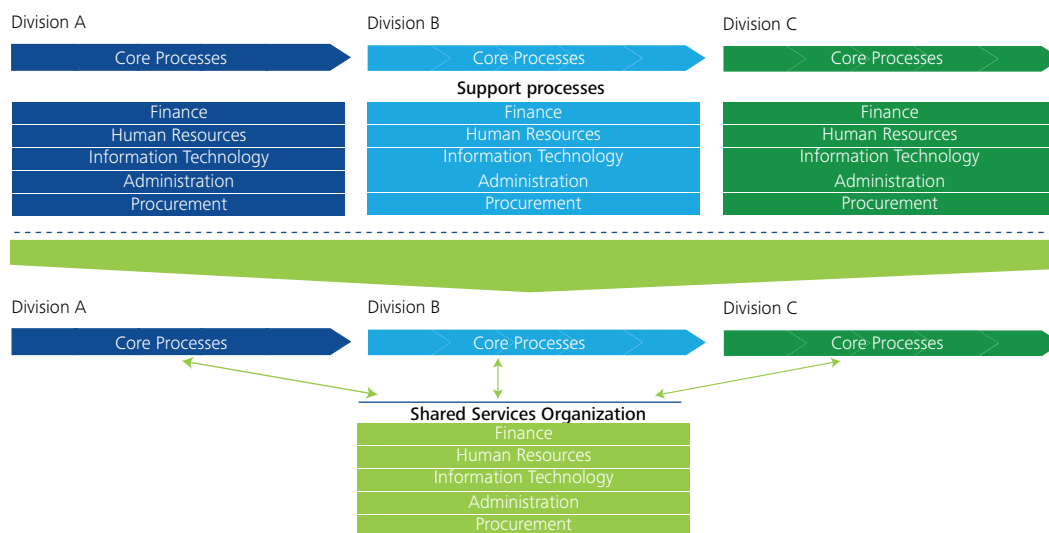
Most executives are familiar with the shared services concept, illustrated in Figure 1, as a way to consolidate back-office transactional work in the finance, HR, IT, and/or procurement functions, to name the most common areas. The defining characteristics of an effective shared services approach include:

- **Consolidation, standardization, and automation.**

The shared services model moves selected “shared” processes, both administratively and (usually) physically, out of individual locations or lines of business and into a separately managed shared services organization (SSO). To do this effectively, the shared processes must be standardized across lines of business – traditionally a challenge for life sciences companies – which leads to improved efficiency and greater comparability of data across the enterprise. Standardization then opens up opportunities for greater automation and technological enablement, which an effective SSO will pursue in order to further increase efficiency, reduce cost, and improve consistency.

- **Emphasis on process improvement.** An effective SSO continually pursues further process efficiencies and improvements after the initial consolidation, working with its internal customers (the locations or lines of business) to identify opportunities and streamline end-to-end process design and execution. This commitment to continuous improvement represents one major difference between the shared model and simple corporate centralization, which typically lacks a formal mandate for improvement to the same extent as do many SSOs.
- **Customer-focused governance.** Unlike a centralized corporate function, which is typically managed by headquarters with little end-user input, an effective SSO works directly with its internal customers to set service standards and monitor service quality. This customer-focused governance approach can help an SSO align service cost, scope, and quality with business needs far more closely than usually occurs with a traditional centralized model.

Figure 1. Illustrative example of a shared services model



The benefits of an effective shared services model can include:

- **Greater efficiency and lower costs.** Consolidating facilities and personnel into a single organization can help reduce net headcount, enable greater economies of scale, and decrease duplication of effort. In addition, an effective SSO's focus on process improvement can lead to substantial year-over-year productivity gains even after the SSO's initial establishment. In Deloitte's 2009 global survey of shared services leaders, more than 70 percent of respondents had consistently achieved at least a 5 percent annual productivity increase since the SSO's implementation.¹
- **Better service quality.** An effective SSO's focus on standardization and continuous improvement can not only help increase efficiency but also yield ongoing improvements in service quality. The relative ease of improving a single standardized process at one physical facility, as opposed to multiple variants of the process at multiple sites, is one of shared services' main long-term advantages over local service delivery.
- **Enhanced control and risk management.** Establishing a standard set of enterprise-wide processes to deliver a particular service can help improve internal control efficiency and effectiveness by reducing process variation and eliminating the need to establish, maintain, and test controls at multiple sites. This can also result in improvements in overall service compliance.
- **Greater transparency.** Information gathered in an SSO can inform cross-enterprise data analyses that can yield otherwise unobtainable business insights. For life sciences companies, this data can include information about drug effects, adverse outcomes, and the like, which can feed into analytics that can help guide research plans, identify potential interactions and new applications, and support industry compliance and reporting requirements.

- **Greater scalability.** From the perspective of each line of business, an SSO turns fixed costs into semi-variable costs, as the cost of service typically varies according to the amount of work the SSO performs for each internal customer. From the perspective of the enterprise as a whole, the SSO is a fixed cost, but the risk of underutilization is lower than if the SSO's staff were distributed across the lines of business. Each line of business is likely to have different service level requirements at different times, so these fluctuations in demand for the SSO's services are likely to cancel each other out on an enterprise-wide basis.
- **Enhanced ability to integrate acquisitions.** By consolidating support services into a single organization, an SSO can help companies more easily integrate other companies that may be bought or assimilated in the future. Some organizations in other industries view shared services' value in post-transaction integration as a key strategic benefit.²

Although many SSOs are in-house organizational units, many are also partially or fully outsourced to an external service provider. A growing number of companies are moving to a portfolio approach to shared services: The actual work may be performed by an in-house SSO, an external vendor, or both – but in all cases, the service relationship between the lines of business and the service provider follows the same basic principles with respect to consolidation, standardization, continuous improvement, and customer-focused governance.³ Nor must an SSO necessarily be located in the same place as headquarters or any of its internal customers. On the contrary, establishing an SSO at a low-cost offshore location is one of the most common, as well as one of the most powerful, ways in which companies pursue cost reductions through shared services.

¹ "Shared services shines in challenging times: Insights from Deloitte's 2009 global shared services survey," Deloitte Development LLC, 2009, p. 4.

² "Shared services shines," p. 6.

³ "Taking shared services to the next level: Towards a portfolio approach for shared services optimization," Deloitte Development LLC, 2009.

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Not just for back-office administration any more

Many executives we know still subscribe to the idea that the shared model only “works” for transactional, rules-based processes such as payroll, accounts payable/receivable, and similar activities. However, the experience of many organizations in various industries has soundly debunked this view. Deloitte’s 2009 shared services survey revealed that many respondents are using a shared model to deliver a variety of knowledge-based functional services such as business analytics in finance, application enhancement and deployment in IT, and workforce analytics in HR, among others.⁴

Based on our experience in a variety of industries, we believe that the usefulness of the shared services concept goes far beyond the repetitive administrative activities to which the model has traditionally been applied. For life sciences companies in particular, this means that shared services offers executives two distinct spheres of opportunity. The first opportunity is to expand the scope of their functional SSOs – that is, the shared organizations that many life sciences companies have already established for transactional HR, finance, IT, and/or procurement activities – to include knowledge-based services as well as transactional work. The second is to apply the shared model to areas in the product development and commercial “front office” – value-chain activities such as research, clinical development, and commercialization, for example – that offer specific opportunities for consolidating certain activities across multiple lines of business.

Functional support: Climbing the capabilities ladder

Most business functions’ activities run the gamut from highly repetitive transactional work, such as payroll, accounts payable, and accounts receivable, to knowledge-based activities that demand more advanced skills, such as benefits plan design, budgeting and planning, and financial analysis. Within each function, the lower-level, transactional services are usually the first to be moved to a shared environment, since they are easier to standardize, more readily automated, and relatively location-agnostic. And in fact, essentially all large life sciences companies have made substantial strides toward establishing SSOs for many of these processes.

However, once a company has effectively moved transactional functional activities to shared services, we believe that leaders should next examine opportunities to expand the shared model to knowledge-based functional activities as well. This can entail the creation of shared organizations to deliver knowledge-based services – often known as “Centers of Expertise” (CoEs) – that employ skilled professionals to deliver these services to the lines of business in much the same way as a traditional SSO delivers transactional support services. While implementing and effectively operating a CoE can involve certain challenges,⁵ the potential benefits are similar to those of a transactional SSO: reduced costs, heightened efficiency, and greater service delivery consistency.

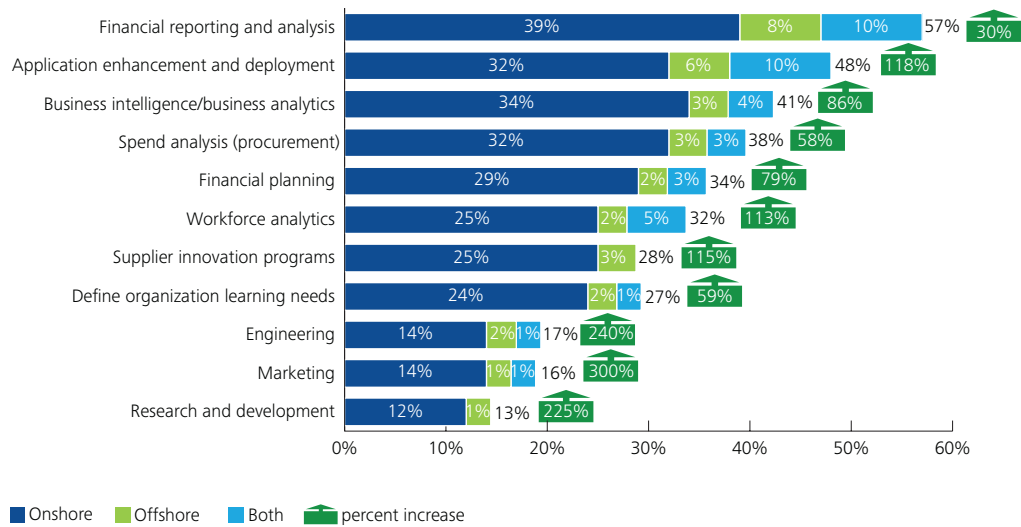
Deloitte’s 2009 global shared services survey showed a substantial increase since 2007 in the percentage of respondents using a shared model for knowledge-based functional processes (Figure 2). Some examples of such knowledge-based functional processes include:

- **Finance:** Financial reporting and analysis, financial planning, budgeting, and forecasting. Many organizations spend significant time gathering and reporting data for these processes, which present an attractive opportunity for centralizing activities and leveraging lower-cost locations. Standard forecasting based on system-driven information, for example, is one area that companies are starting to consider for centralized and shared delivery.
- **HR:** Workforce analytics, employee relations and communications, skills and competency administration, succession planning administration, organization and position management, organizational learning needs definition, and learning measurement and evaluation.
- **IT:** Application enhancement and deployment, business intelligence and analytics, security and controls, and business continuity management.
- **Procurement:** Spend analysis and supplier innovation.
- **Knowledge services:** Certain activities in legal, corporate affairs, ethics, and compliance can also be consolidated under a shared model.

⁴ “Shared services shines,” p. 7

⁵ “Sharing internal expertise: Making shared advisory capabilities work,” Deloitte Development LLC, 2010.

Figure 2. Percentage of selected knowledge-based functional processes performed under a shared model at participating companies⁶



Business support: Consolidating the “front office’s back office”

We believe that the life sciences product development lifecycle also offers many opportunities for pooling business support services into one or more shared organizations. Just as the enabling functions discussed above include both transactional and knowledge-based activities, each stage of the life sciences value chain includes both unspecialized activities that require relatively little product-specific knowledge, and specialized activities that require greater expertise related to the specific product being developed. Here, however, the opportunity to apply the shared model lies in consolidating the unspecialized activities – activities that are relatively product-agnostic and can therefore be standardized across products and lines of business. In a sense, these activities can be thought of as the “front office’s back office”:

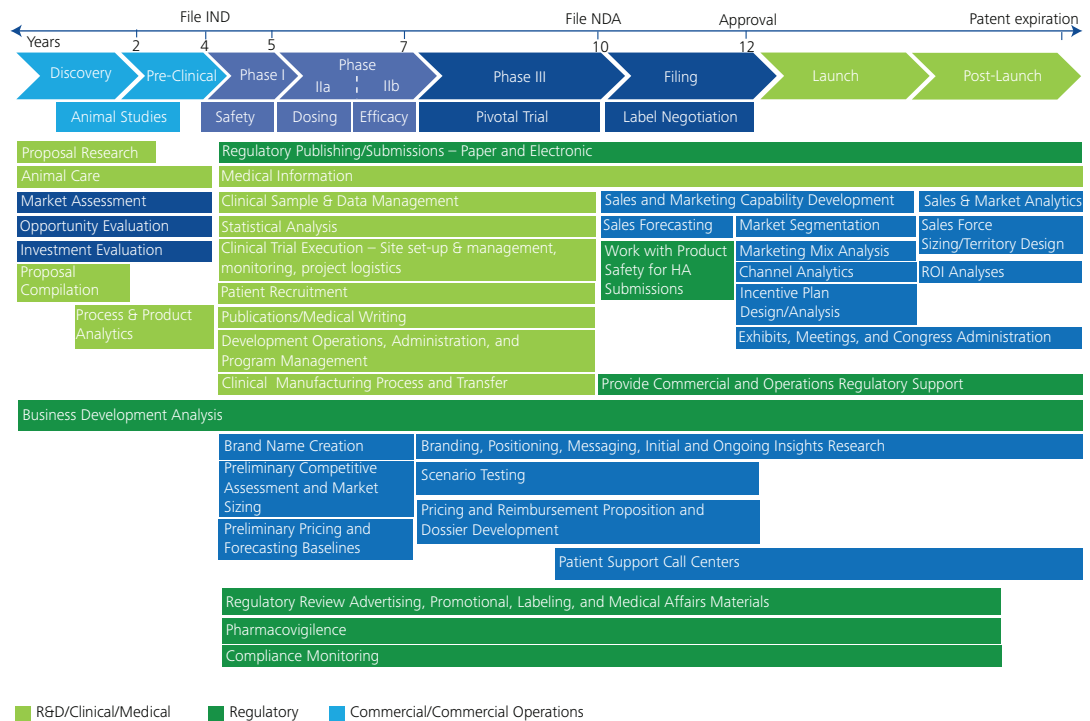
business support processes that, while essential to moving a product through the development lifecycle, can be repeatably and reliably performed by personnel without a high level of specialized knowledge.

Creating CoEs to perform activities for the entire enterprise can drive substantial cost savings as well as enhance business performance. As shown in Figure 2, a growing number of respondents to Deloitte’s 2009 shared services survey are already pursuing these benefits by using a shared model for activities in engineering, marketing, and research and development (R&D).

Figure 3 depicts a number of service areas relevant to various stages of the life sciences product lifecycle, from discovery through launch, that may offer opportunities to perform certain processes using a shared model.

⁶“Shared services shines,” page 7

Figure 3. Potential areas of opportunity for applying the shared model across the value chain



As with functional shared services, reduced service delivery costs can be one important benefit of applying a shared model to value-chain activities like those portrayed in Figure 3. The value-added nature of much of the work, however, opens the door to realizing significant additional benefits from the improved business intelligence that a shared model can enable. For instance, life sciences companies routinely generate and collect mountains of data about their products, both before and after the products are commercialized. Every time a new molecule is created, every time a chemist joins a new team, every time a compound library is accessed, and every time an adverse event is reported, a new data trail is born. When this data is located on incompatible systems or in multiple locations, it cannot be used to its greatest business advantage. Moving certain lifecycle-related processes to a CoE, however – adverse event tracking and reporting, for instance – can consolidate much of this data in the same place and thereby give a company visibility into events and their interrelationships on an enterprise-wide basis. This,

in turn, can enhance compliance, provide the raw material for business analytics, and even speed the road to product discovery and development by helping scientists share information across research teams and different disease areas.

The following are examples of several areas that we think present an especially compelling case for a shared approach:

- **Research.** In the last few years, several companies have begun to consolidate select research services that used to occur in multiple geographic locations or in silos specific to unique disease areas. For instance, a number of pharmaceutical companies have, to a certain extent, moved to a shared services model for some more transactional research activities (such as safety reporting and high-throughput screening). Less common is the movement of research-driven or knowledge-based activities to a shared services model; however, many companies are recognizing the advantage of

this approach because it can support knowledge development, reduce redundancies, spur innovation, and create cost efficiencies. One example of an activity that can be delivered under this approach is the development of technology platforms, such as biomarkers or RNAi, for target discovery and validation or as a potential therapy. Other types of services, such as assay development and bioimaging, can be delivered through a shared model as well.

- **Clinical operations.** Many operational activities in clinical trials are the same across the board for all diseases, which makes clinical operations a logical candidate for shared services delivery. A shared clinical operations group may assess the feasibility of clinical trial designs or conduct and manage clinical trials. It may also train investigators for participation in studies across various therapeutic areas. Additionally, a consolidated clinical operations group may select and manage outsourced vendors or clinical research organizations on behalf of multiple lines of business or disease areas. This could enable a more coordinated, systematic approach than if each line of business were to handle contracting independently, providing for better vendor oversight, higher quality of service, and reduced regulatory and compliance risk.
- **Compliance and regulatory.** Many legal and regulatory support services, including data review, reporting, and compliance processes, can also be consolidated under a shared model. A “hub and spoke” model may be the most effective option for sharing regulatory and legal support services, with a central team to handle reporting and filing supported by regulatory specialists in each line of business, disease area, and/or geography. For example, some companies are leveraging a hub and spoke model to centralize data reviews related to pharmacovigilance in an offshore center.
- **Commercial intelligence/analytics.** Although pharmaceutical companies use modeling and analytics in many different ways – to explore marketing, risk, and operations/supply chain issues, for instance, as well as to perform online channel analyses and high-end modeling – the underlying technical skills needed to perform these analyses are similar across all of these areas. A shared analytics group, perhaps augmented by a small number of subject-matter specialists, could perform the bulk of the analytical work in all of these areas, with the subject-matter specialists contributing their knowledge and guidance as necessary to refine the analyses and interpret the results.
- **Commercialization.** Over the past five years, pharmaceutical organizations have focused considerable attention on their commercial operating models. Companies are facing significant revenue loss due to rapidly approaching patent expirations and R&D portfolios that are unable to fill the voids left behind. Many organizations have resorted to significant reductions in the size of their field forces and an overall tightening of their commercial expenditures. These changing dynamics present opportunities to create new functional CoEs within the commercial organization. Commercial CoEs centered around market research, insights research, business development analysis, pricing, forecasting, sales and marketing capability development, and patient support call centers represent just a few examples of functions that, while different from each other, require similar functional and/or technical skills across all therapeutic areas or brands.

Key implementation considerations for CoEs

Expanding and applying the “shared services” concept to business support areas across the life sciences value chain is not without challenges. Many of the challenges companies often encounter when establishing a traditional transactional SSO can be amplified when implementing a CoE. Key factors to be aware of include:

- **Awareness.** Sometimes, a CoE effort can founder simply due to the lack of awareness that certain activities in value-chain areas such as R&D can be performed under a shared model. Communication and stakeholder education are key, especially for the heads of the groups or departments that may be affected.
- **Business case.** The business case for a shared model must be clearly articulated and communicated to stakeholders of the activities under consideration. Otherwise, many executives will remain skeptical of the value proposition, especially for value-chain activities.
- **Culture.** At life sciences companies, every product, every drug, and every treatment is unique. This often leads to an erroneous belief that every study’s execution must be unique as well – a misconception that can stand in the way of fully leveraging a shared model.
- **Initial investment requirements.** In some cases, the initial investment in the infrastructure to support shared knowledge-based and analytical processes may be higher than either doing nothing or the investment needed to enable a traditional transactional SSO.

- **Talent.** Personnel who are qualified to staff a product development-related CoE, many of whom may need advanced degrees from higher educational institutions, can command much higher salaries than staff in a transactional SSO. Talent attraction, retention, and engagement become critical concerns for these personnel, since the cost of turnover and the opportunity cost of unfilled positions become correspondingly greater than for a transactional SSO.
- **Performance management and measurement.** Given the nature of certain knowledge-based and analytical services, defining clear, measurable performance metrics and developing service-level agreements can sometimes be a challenge. It is vital to scope each service correctly, to understand the shared service goals, and to set appropriate customer expectations, as well as to implement measures around service quality and processes for ongoing solicitation of customer feedback.
- **Data security and confidentiality.** Certain knowledge-critical processes include highly sensitive data that are key to a company’s competitive advantage. Protecting that data is vital to the success of any CoE that touches it, especially if some or all of the work is offshored or outsourced.

Toward the pursuit of shared services value

Today as never before, life sciences companies must use every possible means to reduce their costs and increase their efficiency. An effective shared model to deliver functional and business support services can be an excellent way to achieve these goals. To realize the value that a shared model can drive, thorough planning and a strategic approach are essential, as is careful attention to the challenges that can arise during implementation, especially with respect to CoEs. Given common cultural and historical biases, driving value through applying the “shared services” concept will require significant discipline and commitment to change in order to enable true integration and sharing across the organization’s lines of business. Despite these challenges, however, we believe that the case is clear: life science companies that effectively apply the shared services model to appropriate services and processes across their entire scope of activity will be better positioned to outperform those companies that do not.



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