



HEALTHCARE
COMMUNICATIONS
ASSOCIATION

CONSULTANCY OR COMMODITY?

A discussion document based
on findings from the 2006-7
HCA benchmarking programme



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Introduction

The Healthcare Communications Association (HCA) conducts an annual benchmarking survey, exploring trends in the provision of communication services to the healthcare industry.

Last year's survey identified a clear desire for closer collaboration, and this year's survey reveals a continuing trend towards a partnership approach – which can only lead to improved efficiency and better results.



(The survey is) extremely valuable – utilised to benchmark and identify opportunities for the organisation moving forward
(Consultancy)

Increasing environmental and internal influences and pressures mean that it is ever more important for pharmaceutical companies to maximise the value derived from communications activities. One way in which organisations increasingly seek to achieve this is through the procurement process, which was therefore selected as an area of particular focus for the survey.

About the HCA benchmarking survey

For five years the HCA has been successfully running a benchmarking survey as a service to communications consultancies. The 2006-7 survey, conducted in May-July 2007, attracted participation from 25 HCA member companies, with broad representation across the spectrum of those providing PR and Medical Education services. As well as the topics commented on in this report, the survey included in-depth sections on financial performance/billing and salaries/benefits. The findings are shared only with participants, due to the sensitivity of the information and to recognise their commitment to the process.

For the past three years, pharma industry views have been sought in a separate survey. This year 11 companies responded to questions that closely mirrored those asked of consultancies, allowing us to identify the areas of common ground, as well as any differences.

A key objective is to gain insight that will enhance the HCA's role in promoting best practice and fostering productive working relationships between individuals and organisations.

The findings reported here are based on a combination of self-completion questionnaires (consultancies) and short telephone interviews (pharma companies).



*The focus on procurement is interesting, because we are increasingly working with them*¹³
(In-house communications)

Key stakeholders – consultancy heads, senior in-house communications managers and procurement/purchasing managers – in 36 different organisations have helped explore questions such as:

- How can each group contribute to a mutually beneficial outcome?
- What is 'best practice' when it comes to the procurement process?
- What could be the implications when reality falls short of this?

This report provides a short summary of the findings that have been disseminated in detail to the survey participants.

The benchmarking exercise is handled according to the strictest codes of confidentiality, carried out by a specially commissioned, independent market researcher in order to guarantee anonymity and confidentiality, with no data being attributed to individuals/companies or even seen or shared with anyone else from the HCA.

Participants in both surveys have received detailed reports covering all aspects of the findings. Whilst they cannot be publicly named for reasons of confidentiality, the HCA would like sincerely to thank all those individuals that took the time to contribute to this important exercise.

Note:

The consultancy survey is completed by one key individual (typically the MD of an agency or head of communications of a pharma company), with input from finance and/or human resources as required. For pharma companies both senior communications managers and procurement managers were included. These individuals are in a good position to give an overview of what is happening within their own organisations, as well as the prevailing internal attitudes towards communications, though the survey does also reflect the personal opinions of those individuals who responded.

Each of the individual quotations is the opinion of a single respondent, and may not necessarily reflect the views of the whole sample. Moreover, inclusion of the quote in this report does not imply endorsement by the HCA.

Summary of trends

Sustained increase in use of communications

- Almost half the pharma companies surveyed were *increasing* the proportion of their marketing budget allocated to communications activities (encompassing both PR and medical education).
- Almost half the companies said that they were increasing their use of communications consultancies.

Shift in emphasis of communications activities

- Over recent years there has been an increased recognition of the value of communications as a part of the marketing mix.
- This year a differential between medical education and PR has emerged, with medical education favoured more highly.
- Individuals' precise definitions of PR and medical education are likely to be variable, but the overall trend in favour of medical education may reflect the cautious attitude to some PR activities (for example media relations) as a result of ABPI Code changes.

How do pharma companies value PR and medical education?		
	2006	2007
PR	7.0	6.6
Medical Education	7.1	7.6

In-house communications managers' ratings of their own companies (mean values, 1-10 scale where 10 = extremely highly valued).

Central role for in-house communications functions

- In most pharma companies, communications is a central, cross-functional department that sits across the business.
- Several organisations had moved towards further centralisation over the last year, reflecting the importance of an integrated approach towards managing the increasingly complex array of activities encompassed by communications.
- Corporate affairs/communications are represented at board level in the majority of companies.

Increasingly stretched resources

- In-house teams are increasingly being expected to deliver more but without increases in budget or headcount.
- Both pharma companies and agencies face continued challenges to recruit and retain quality staff, when the overall talent pool appears to be declining.
- Environmental challenges – such as increased workload to ensure compliance with the revised ABPI Code of Practice – are stretching resources even more.

Pressure on consultancy margins

- The requirement for in-house teams to deliver 'more for less' inevitably has a knock on effect on consultancies, who are experiencing continued high client expectations but without an increase in programme budgets.
- Combining this with the high cost of securing new business means it is not surprising that a third of consultancies reported a decline in profit margins.
- Nevertheless most are reasonably optimistic about future prospects.

A move towards a 'partnership' approach

- When asked about what makes for the best pharma company/consultancy working relationships, there is an increased emphasis on the importance of 'partnership', with the consultancy a fully involved and integrated part of the team.
- The other top factors that make for the best working relationships are personal relationships/chemistry and honesty/transparency/trust.
- Where there are barriers to a perfect partnership, these centre around lack of understanding of each others' issues and viewpoints, which can be addressed by clearer communication.



The procurement process

What happens now?

Of the pharma companies that have a specific procurement function, three out of ten said that a procurement process *always* takes place when a new consultancy is appointed and the remaining seven out of ten said this is *usually* the case.

Situations in which a procurement negotiation might *not* take place were identified as:

- Urgency for work to commence
- Smaller accounts
- Brand teams unaware of procedure for engaging with procurement.

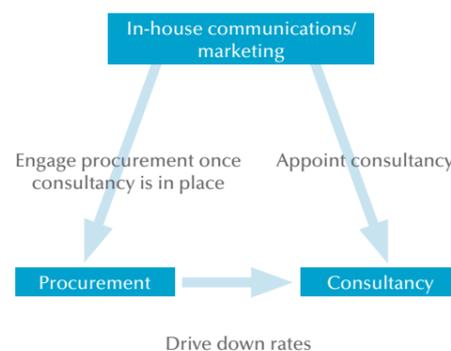
When do procurement become involved?

The stage at which procurement become involved is variable – in some companies involvement starts at the outset of agency selection (credentials and short-listing) and in others procurement may not become involved until a consultancy has been appointed following a successful pitch. On the whole, procurement people tended to identify a valuable role for themselves *earlier* than was recognised by their communications colleagues.

What is the nature of the involvement?

Figures 1 and 2 illustrate the extreme ends of the spectrum with respect to engagement in the procurement process. For most companies the reality currently lies somewhere in between these two.

Fig.1 'Cost-containment'



By the very nature of the research, the participants from procurement functions tended to be those committed to engagement as opposed to simply driving down prices. They aspired to a 'collaborative' model, in which all three parties are communicating and working together from the outset, but generally recognise that reality may fall short of this aspiration, even in their own organisations.

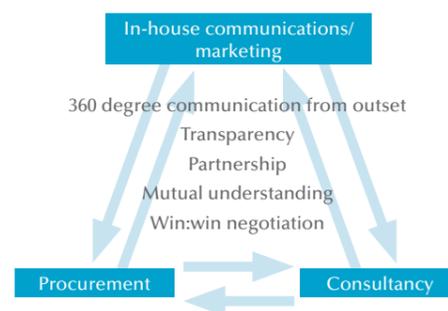
At present, the most common types of *specific* pricing arrangements are:

1. Reduced fee in return for volume (which may operate on a rebate basis, according to volumes achieved during a specific time period)
2. Set/discounted rate for multiple accounts held by the same consultancy.

Pharma company respondents were interested in the idea of performance-related pricing, but recognised that this may not be easy in practice, and that it would have to work both ways – i.e. if a portion of the fee is withheld subject to achievement of objectives, then there should be a bonus element available for *over* achievement.

In practice, several pharma company respondents said that it is more common for them to go through an individual process with each consultancy, looking at where savings can be made, rather than making one of these specific arrangements.

Fig.2 'Collaboration'



Elements of best practice

The following areas were identified by respondents from the two surveys, and illustrate the key elements of a more collaborative way of working:

- Transparency – both with respect to consultancies providing clear proposals and billing structures and in-house teams communicating exactly what they are looking for.
- Developing a partnership approach and close working relationships in all directions between the three key parties (in-house communications/marketing, procurement and consultancies).
- Procurement teams that understand the value of PR/medical education, its differentiation from commodity products and the consultancy business model.
- Consultancies (and in-house teams) that have a positive and open-minded attitude towards engagement with procurement.
- True negotiation – i.e. a two-way process with the objective of a 'win-win' outcome.
- Early and full involvement of procurement teams in appointing consultancies, right from (or before) the start of the selection process.
- Procurement playing a role that goes beyond budgets and finance – for example taking an independent view at the pitch to ensure that evaluation is objective, fair and properly documented, and managing the contract such that all parties are protected.



We facilitate evaluation, we make sure all agencies get an equal chance and that there is a real business opportunity for all – not just a pitch for pitch sake³³

(Procurement)



My aim with my team is to understand that agencies are commercial organisations. I focus on value not just price – we are not just about beating agencies up on fees if they are transparent. We do recognise that offering services is different from commodity type goods³³

(Procurement)



Arrangements that encourage agencies to be proactive and put great people on client business results in a true win-win³³

(Consultancy)



Developing a personal relationship with the people involved. This will allow you to fully appreciate their goals ... and be in a position to reach out to them on issues which go beyond the financial³³

(Consultancy)



The procurement process

The future?

What are the potential consequences of a 'cost-containment' approach?

The survey revealed the following ways in which consultancies – striving to be competitive – are already responding to pressure to contain costs:

- Half the consultancies surveyed had not increased their billing rates in 2006, or 2007 to date (at the time the survey was conducted in May 2007).
- Most consultancies have entered into financial arrangements that they know will have a negative impact on their margins (three-quarters of all procurement arrangements made by consultancies during 2007 had at least some impact on the agency's profit margin).
- Two-thirds of consultancies said that they had, on occasion, given away more than they had intended to, under pressure not to lose a deal.



It's still a traditional focus on cost/budgets – hammering the agencies on hourly rates. We're not really involved in the service aspects – how they work, what their skills are, staffing etc. and would like to see this change³³

(Procurement)

Ultimately, the result of such actions is that either profit margins suffer or consultancies have to compensate by making cut-backs elsewhere.

What, then, could be the consequences of failing to move away from the 'cost-containment' model outlined in Fig.1 of the previous section?

Possible scenarios might include:

- Consultancies deciding not to do business with some companies. (Three-quarters of the consultancies surveyed said that they would, if necessary, be prepared to walk away from procurement negotiations even after being successful at a pitch – which would represent a huge waste of both parties' resources).
- Consultancy staff that are less motivated and less highly trained, as staff benefits and training budgets are hit by pressure on margins, resulting in lower levels of service to clients. (The survey has already identified lower salary increases in 2006 vs. 2005 and, more worryingly, a continuing decline in training spend, despite increased training needs with respect to the new Code, new web-based media, and an increased intake of new graduates).
- Procuring agency services as if they are a commodity may lead to a commodity product being delivered – for example some agencies evolving into 'media houses' that are distinct from strategic consultancies and churn out press releases at a set cost (and low margin) per item. This is the model in France, where only larger companies provide an integrated service.



Both companies need to be profitable for a beneficial relationship. Procurement need to understand that treating an agency badly isn't profitable³³

(Consultancy)

What needs to change?

To move closer towards a collaborative way of working that encompasses the elements of best practice outlined earlier, the following have been identified as key areas that may need to be addressed by some organisations:

- Helping procurement teams to understand how consultancy services differ from commodity products, and have an appreciation of the consultancy business model. Some companies are addressing this by ensuring that procurement people gain experience working in a brand team, or specialise in a particular area (e.g. communications and advertising).
- A greater appreciation from procurement that consultancies need to make a profit and that a 'win:win' approach really does pay dividends for the company in terms of the quality of delivery. (One example of an arrangement that can provide a clear win:win for both parties is a 'no pitch discount' in which the consultancy gives a reduction in rates in return for saving the significant – and high risk – cost of pitching).
- A greater recognition by consultancies that procurement can be a valued partner in the process and an open-minded approach to engaging with them (this may also be an issue for some in-house communications teams to address when it comes to involving procurement early in the selection process).
- Increased transparency and clarity from all parties – but also perhaps a recognition that there are limits on what is appropriate to share.



All parties need to be involved from the beginning and kept in the loop. This limits misunderstanding from the start³³

(Procurement)



UK agencies are still trying to come to terms with the fact that procurement stick their noses in - whereas US and some global European ones have got used to it. So there's still some resentment - they see procurement as people who screw them down to the last penny, when in fact the role of procurement is to ease the contract through and ensure all parties are protected³³

(Procurement)



Not being too open – understanding that if the DoH asked them for the cost (of goods) of their products they wouldn't share it and neither should we³³

(Consultancy)



We have invested time to educate procurement - but they do need more education on PR/medical education - they are used to dealing with commodities and they want two or three suppliers so they can work with these to negotiate the best deals – we have to explain that the nature of the business means we need 20-30 on our books³³

(In-house communications)

Measuring the value

- With an increasing investment in communications, it is clearly important to evaluate success, yet both pharma companies and consultancies estimated that, on average, only 4.1% of the budget for a consultancy-run project is allocated to evaluation, and this is not expected to increase significantly.



I would like to say evaluation will be increasing – people say they want it, but they don't want to pay the agency. There is an increased awareness this year that they want to see RoI, but I don't know if they'll pay for it³³

(In-house communications)

- Reasons for this low level of investment may include reservations over whether evaluation conducted by the consultancy can be truly objective (some companies are therefore doing more evaluation in house) – as well as the sheer difficulty of defining outcome measures that will give a true indication of success.
- When asked how they would define 'added value' delivered by a communications consultancy, pharma company respondents tended to mention 'thinking outside the box', picking up on issues and opportunities beyond the immediate scope of a project and providing specific complementary skills that the company doesn't have in-house.



(Added value means) not just carrying out the agreed project, but identifying other opportunities, thinking outside the current day-to-day treadmill we're all on and providing insight into what else is happening, opportunities, suggestions of how to do things differently³³

(In-house communications)

- Some procurement respondents also mentioned specific measurement of return on investment (RoI) in terms of sales growth. This presents an interesting question – in the current regulatory climate is it appropriate to set objectives linking PR/medical education activities to sales or market share?
- Nevertheless, specific and measurable objectives can always be set for communications activities. Some of these may be 'softer' measures, such as the extent to which the consultancy is willing to 'go the extra mile' for their clients. And indeed such parameters are key in demonstrating the difference between 'consultancy' and 'commodity'.

Mission:

The HCA mission is to provide an independent forum to drive the highest standards and promote best practice, innovation and excellence in healthcare communications.

About the HCA

The Healthcare Communications Association (HCA) was founded in July 2001 as an independent, not-for-profit organisation with the stated aim of promoting excellence and best practice in the field of healthcare communications. It grew out of the recognition that healthcare communications was playing an increasingly pivotal role in the strategic marketing plans being developed for pharmaceutical products and deserved a representative body to champion its cause.

The HCA is now a high profile and influential player in the healthcare arena. It has sufficient influence and credibility to shape opinion and lead debate and is flexible and progressive enough to respond to changing circumstances. Membership has expanded rapidly and the HCA now counts a significant proportion of the leading communications consultancies and pharmaceutical companies among its members.

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