

The Emerging Business among Pharmaceutical Companies: The Concept of Outsourcing to an Agency

Madelynne G. Riguer², Aidee H. Magtoto¹, Alpha Jessa P. Corpuz³, Mark Chistian L. Manalastas⁴, Augusto O. Cinco⁵, Jennifer G. Fronda⁶

¹National Sales Manager, Excelsis Pharma, Philippines

²Operations Manager, Excelsis Pharma, Philippines

³Proprietor, Philippines

⁴Group Manager, Red Ribbon Nueva Ecija, Philippines

⁵Water Superintendent I, LGU San Antonio, Nueva Ecija Philippines

⁶Faculty, NEUST Graduate School

Received: 21 Apr 2022; Received in revised form: 10 May 2022; Accepted: 15 May 2022; Available online: 20 May 2022

Abstract— This study aimed to determine whether outsourcing to a marketing agency will be beneficial to a pharmaceutical company. Marketing vis-a-vis to clients is one of the key elements to promote the pharmaceutical products. Under this setup, medical or pharmaceutical representatives are directly detailing to physicians to provide information about the products, while attending to their needs. The onset of COVID-19 pandemic halted these marketing activities of medical representatives, hence sales decreased tremendously. The study used purposive sampling that involved some 100 respondents through an E-survey directed at the marketing team of various pharmaceutical companies. Findings reveal that majority of pharmaceutical companies indeed practiced outsourcing their marketing activities which are incentive-based. However, respondents are complacent to fully adopt this model of full outsourcing for fear of losing their jobs. The effort of few isolated firms who employ individual medical representatives may not be enough if their motive is purely for profit. A contracted marketing agency or in a partner-agent model takes the responsibility for the delivery of the agreement under the production or incentivized scheme. While this saves on operational costs, price of medicines may increase. Consumers may suffer in the long term because marketing expenses are loaded as cost for the firm. Reduced workforce can also mean loss of jobs for those concerned.

Keywords— *Pharmaceutical Companies, Marketing, Outsourced Agency.*

I. INTRODUCTION

Pharmaceutical corporations have become more aggressive in their marketing and outreach to their primary clients, physicians, in recent years. R. Stephen Parker, DBA, and Charles E. Pettijohn, DBA, published *Pharmaceutical Drug Marketing Strategies and Tactics: A Comparative Analysis of Attitudes Held by Pharmaceutical Representatives and Physicians*. To boost sales of pharmaceutical medications, a variety of promotional tactics have been tried. Push approaches have always been the most common method of encouraging physicians to prescribe medications and so increase

revenues. Direct-to-consumer advertising is increasingly being used to urge patients to ask their doctors for marketed medications^[1] They've used tried-and-true strategies and tactics like celebrity endorsements, round table discussions, billboards, brochures, and attending seminars and conventions where prescribing doctors are known to congregate.^[20,14]

Deloitte previously discovered that pharmaceutical digital advertising and marketing spend trails far behind all other industries. According to this survey, the financial services sector spent \$6.2 billion on digital advertising in 2014, compared to \$1.4 billion in

healthcare and pharmaceuticals. According to a more recent analysis, this spending climbed to \$2.53 billion in 2017, although it still exceeds other businesses, which are typically in the double digits by 2018. Pharma's conventional nature may be limiting its marketing activities' potential, with money sometimes being directed to more traditional means and digital opportunities not being fully exploited. Of course, the pharmaceutical business is embracing more and more digital efforts, but as we have seen in the past, it is always one step behind, posing a difficulty for marketers^[18]

However, there is a new technique on the horizon that has the potential to increase sales while lowering costs through more efficient marketing. A new outsourcing agency marketing business concept or model is comparable to that of insurance businesses, which outsource their employees and solely benefit based on the number of sales they can bring in over a set period.

II. STATEMENT OF THE PROBLEM

With the advent of the global pandemic and the introduction of quarantine protocols, client accessibility has been severely limited. The goal of this research is to look for a new potential marketing strategies with the goal of increasing overall profit and customer access in time. The research sought to answer the following:

1. What strategies are utilized by pharmaceutical companies to increase sales and production while increasing overall profit during the pandemic?
2. Why can outsourcing to an agency benefit the sales of a pharmaceutical company?
3. How can an incentive percentage or commission-based model benefit pharmaceutical companies?

III. CONCEPTUAL FRAMEWORK

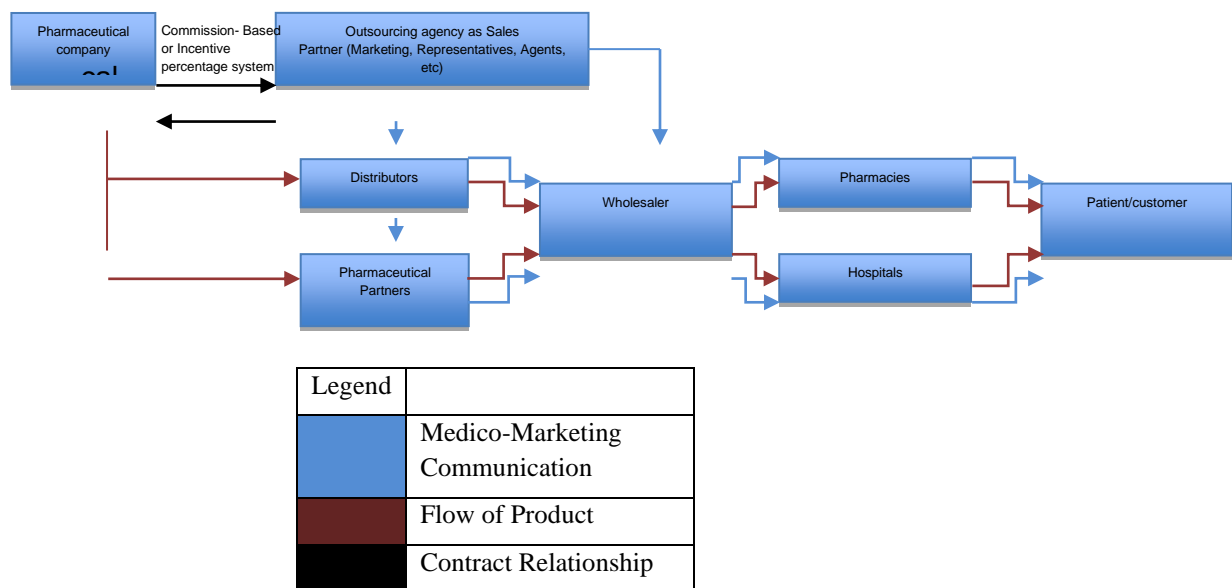


Fig.1: Conceptual Framework of the study

Figure 1 illustrates the conceptual framework of the study. This shows the relationship between a new outsourcing agency marketing business concept or model and how it would affect the pharmaceutical company's sales. Outsourcing to an agency is a novel approach in the pharmaceutical industry for incorporating a commission-based sales model. With this relationship, outsourcing can promote efficient marketing while the pharmaceutical

companies increase sales while minimizing on upfront costs.

With the pandemic, this marketing strategy will provide a direct marketing communication between the marketing representative in an outsourced agency and the potential customer with the pharmaceutical company regulating the flow of product. The conceptual framework of the study is inspired from the partner-agent model which shows the relationship between the company, the

agent, and the client. [30] This strategy improves competence as it is a commission-based model based on sales performance which attracts more profit and customer reach, as well as a platform to discuss more factors of the approaches that can be implemented into the new strategy to improve its efficiency. This model ensures the company is viable during this pandemic, as it is also flexible to respond to changes in the market and that all the elements are working cohesively together to make a profit.

IV. METHODOLOGY

The research instrument employed in this study was an E-Survey or online survey. This was utilized to effectively collect data from participants without violating quarantine protocols and ensuring the safety of both the

respondents and the researchers of this study. This involved 100 pharmaceutical company representatives.

The technique used in this study was purposive sampling wherein the researcher sets a criterion that the sample population must be able to conform to the data they will be contributing to be valid. The following are the criteria for the sample group:

1. Must be working in a Pharmaceutical Company
2. Must have an experience in Marketing Division
3. Preferably a member of the upper management

V. RESULTS AND DISCUSSION

1. What strategies are utilized by pharmaceutical companies to increase sales and production while increasing overall profit?

Table 1. Strategies used by pharmaceutical companies

		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
a.	Considered fully utilizing a third-party marketing agency	50%	50%	0%	0%	0%
b.	On top of the commission entered by and between parties can elevate incentives over and above the amount stipulated in the contract	40%	60%	0%	0%	0%
c.	For the company to just maintain core workforce instead of retaining them will encourage outsourcing	20%	50%	10%	20%	0%
d.	Incentivized agreement can be more convenient as this saves on operational costs	70%	20%	10%	0%	0%

Table 1 shows that most of the respondents strongly agreed that the best strategy that the pharmaceutical companies should use in order to increase sales and production while increasing overall profit is to provide incentives, because it is more convenient as this will saves on operational cost. Majority of the respondents agreed on maintaining the core workforce because the setup may be disadvantageous to them or fear of losing their jobs.

However, most of the pharmaceutical companies also offer incentives on employee’s production as they are also tasked to sell the product so that the purpose is double; monthly salary and the incentives they will get from selling the product.

2. How can outsourcing to an agency benefit the sales of a pharmaceutical company?

Table 2. Advantages in outsourcing to an agency

		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
a.	A marketing agency has to hit the target sales as agreed upon in the contract	50%	50%	0%	0%	0%
b.	Incentives are based on production that a third-party agency will make advantage to earn more than its sales force	40%	60%	0%	0%	0%
c.	Agency/ies contracted prefer this kind of arrangement as this model is more efficient, and is more profitable for	20%	50%	10%	20%	0%

	the parties involved					
d.	Commissioning a third-party marketing agency will have to maintain a certain sales target as it determines everyone’s survival	70%	20%	10%	0%	0%

Table 2 shows that almost three-fourths of the respondents strongly agreed that commissioning a third-party marketing agency will maintain a certain sales target as it determines everyone’s survival. While few of them strongly agreed that contracting to an agency is more efficient model and is more profitable for the parties

involved. It can be noted of the complacency of the respondents to fully utilize total outsourcing to a marketing agency for its operational activities for fear of losing their jobs.

3. How can an incentive or commission-based model benefit pharmaceutical companies?

Table 3. Benefits of commission-based model to pharmaceutical companies

		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
a.	Commission-based incentives can be more efficient than the traditional setup i.e., salaried monthly employees	50%	50%	0%	0%	0%
b.	A more robust sales commensurate to production assures the pharmaceutical company of a bigger profit	40%	60%	0%	0%	0%
c.	All things being equal, terms and conditions in the agreement benefit more the pharmaceutical company	40%	50%	10%	0%	0%
d.	Any savings as a result of efficient operational costs will mean more profit for the pharmaceutical company	70%	20%	10%	0%	0%

Table 3 suggests that most of the respondents strongly agreed that a lot of operational costs can be saved if pharmaceutical companies would be more efficient in its marketing and selling activities. Most of the respondents agreed that the terms and conditions in the agreement will be more beneficial to the pharmaceutical companies. Hence, it becomes profitable more on the pharmaceutical companies in adopting to full outsourcing of its marketing and selling activities. Under this model, core functions of the organization are retained and maintained. However, there is no guarantee that any company for that matter may also be inclined to subscribe to full outsourcing.

result of massive advertisement can make the price of medicines more expensive. It is recommended that pharmaceutical firms should make a balance in adopting this kind of model which in most cases is profit-motivated to the disadvantage especially on the part consumers. Corporate social responsibility will take a backseat here at it depends on the company since there is no law that would otherwise force to practice such. Being sick in this country can cost a fortune even with the presence of a government healthcare program. While this business model can be efficient, there is no guarantee that pharmaceutical firms will not be inclined for the total outsourcing model.

VI. CONCLUSION AND RECOMMENDATIONS

Some pharmaceutical firms were compelled to outsource their marketing and their selling activities to a third-party agency or agencies especially during the pandemic where movement of people was restricted and face-to-face was discouraged then. This arrangement can be more advantageous especially on the part of pharmaceutical firms where profit is the motive. Respondents may not totally agree to this kind of arrangement for fear of stealing part of their commission through a third-party where a contract. The pressures as a

ACKNOWLEDGEMENTS

We would like to convey our heartfelt appreciation to our research adviser, Dr. Felipe Balaria, Chairman Business Administration Department, for providing us with the chance to conduct this research, and for offering vital advice during this process. His energy, vision, genuineness, and motivation have left us in awe. He taught us the approach for doing the study and presenting the findings as plainly as possible. Working and studying under his supervision was a wonderful

honor and a great privilege. We are tremendously appreciative for what he has done for us.

REFERENCES

- [1] Baum, JAC., Calabrese, T., & Silverman, B. (2000). Don't go it alone: Alliance network composition and startups' performance in Canadian technology. *Strategic Management Journal*. 21: 267–294.
- [2] Billi, JE., Pai, CW., & Spahlinger, DA. (2004). Strategic Outsourcing of Clinical Services: A Model for Volume-Stressed Academic Medical Centers. *Health Care management review*, 4, 291–297. Available: http://journals.lww.com/hcmrjournal/Abstract/2004/10000/Strategic_Outourcing_of_Clinical_Services__A.5.aspx.
- [3] Brunetta, F. & Boccardelli, P, Lipparini, A (2012). Centralità e Performance Scientifica: *Alcune Evidenze dai Network di Ricerca Clinica. Finanza, Marketing e Produzione, 1*.
- [4] Brunetta, F., Giustiniano, L, & Marchegiani, L (2014). Caring more by doing less? An enquiry about the impacts of outsourcing on patient care. *American Journal of Applied Science*. 11: 273–279. Available: DOI: 10.3844/ajassp.2014.273.279.
- [5] Brunetta, F. & Marchegiani, L (2009). L'outsourcing nella sanità. *Consumatori. Diritti e Mercato*. 10: 57–68. Available: <http://www.consumatoridirittimercato.it/archivio-articoli-2009/consumatori-diritti-e-mercato-10-032009/>.
- [6] Calabrese, A., Campisi, D., Capece, G., Costa, R., & Di Pillo, F. (2013). Competitiveness and Innovation in High-tech Companies: An application to the Italian Biotech and Aerospace Industries. *International Journal of Engineering Business Management*. 5: 1–11.
- [7] Christensen, C. (1997). “The Innovator’s Dilemma: When New Technologies Cause Great Firms to Fail” *Boston: Harvard Business Press*.
- [8] Cool, K. & Dierickx, I (1993). Rivalry, Strategic Groups and Firm Profitability. *Strategic Management Journal*. 14(1): 47–59.
- [9] Cool, KO. & Schendel, D. (1987). Strategic Group Formation and Performance - the Case of the United-States Pharmaceutical-Industry, *Management Science*. 33(9): 1102–1124.
- [10] Cool, KO. & Schendel, D. (1988). Performance Differences Among Strategic Group Members. *Strategic Management Journal*. 9(3): 207–223.
- [11] D'Alise, C., Brunetta, F., D'Agostino, MV., & Dandi, R. (2010). Communities of Clinical Practice: Knowledge Exchange in Pediatric Communities. In *26th EGOS Colloquium Sub-theme 42: Communities and Networks as an Organizational Form*.
- [12] Decarolis, DM.& Deeds, DL (1999). The Impact of Stocks and Flows of Organizational Knowledge on Firm Performance: An Empirical Investigation of the Biotechnology Industry. *Strategic Management Journal*. 20(10): 953–968.
- [13] Gambardella, A., Orsenigo, L., & Pammolli, F. (2001). Global Competitiveness in Pharmaceuticals: A European Perspective. *Enterprise Paper N°1. European Commission: Brussels*.
- [14] Goyal R. & Pareek P. (2013). A review article on prescription behavior of doctors, influenced by the medical representative in Rajasthan, India. *IOSR J Bus Manag*. 2013;8(1):56–60
- [15] Gulati, R. & Singh, H. (1996). The Architecture of cooperation: managing coordination costs and appropriation concerns in strategic alliances. *Administrative Science Quarterly*. 43: 781–814.
- [16] Henderson, R. & Cockburn, I. (1994). Racing or spilling?: the determinants of research productivity in ethical drug discovery. Paper prepared for the A.E.I. Conference “Competitive Strategies in the Pharmaceutical Industry” *Alfred P. Sloan School of Management MIT*.
- [17] Jacobides, M., Knudsen, T., & Augier, M., (2006). “Who Does What and Who gets What: Capturing the Value from Innovation”, *AIM Executive Briefing*. accessed July 27, 2009, http://faculty.london.edu/mjacobides/assets/documents/JKA_briefingAIMnov06.pdf
- [18] Lawson, C. (2019). The industry is slow to innovate its marketing, certainly with digital. <https://www.orientation.agency/insights/pharmaceutical-marketing-challenges>
- [19] Lee, J. (2003). Innovation and Strategic Divergence: An Empirical Study of the U.S. *Pharmaceutical Industry from 1920 to 1960. Management Science*. 49(2): 143–159.
- [20] Marco CA., Moskop, JC., Solomon, RC., Geiderman, JM., & Larkin, GL. (2006). Gifts to physicians from the pharmaceutical industry: an ethical analysis. *Ann Emerg Med*. 2006;48(5):513–21.
- [21] Parker, S. & Pettijohn, C. (2005). Pharmaceutical Drug Marketing Strategies and Tactics A Comparative Analysis of Attitudes Held by *Pharmaceutical Representatives and Physicians DBA Pages 27-43 | Received 01 Feb 2005, Accepted 30 Aug 2005, Published online: 24 Sep 2008*
- [22] Phelps, K. (2007). “Mergers May Buy Time, But Fundamental Changes Necessary, GSK’s Garnier”, *The Pink Sheet p. 11*.
- [23] Pisano, G. (1990). The R&D Boundaries of the Firm: An Empirical Analysis. *Administrative Science Quarterly*. 35: 153–176.
- [24] Pisano, G. (1991). The governance of innovation: Vertical integration and collaborative arrangements in the biotechnology industry. *Research Policy*. 20: 237–249.
- [25] Powell, W., Koput, K., & Smith-Doerr, L. (1996). Interorganizational Collaboration and the Locus of Innovation: Networks of Learning in Biotechnology. *Administrative Science Quarterly*. 41(1): 116–145.
- [26] Powell, W., White, D., Koput, K., & Owen-Smith, J. (2005). Network Dynamics and Field Evolution: The Growth of Interorganizational Collaboration in the Life Sciences. 1. *American Journal of Sociology*. 110(4): 1132–1205.

- [27] PriceWaterhouseCooper (2020). Pharma 2020: Challenging business models (Which path will you take?.) <https://www.pwc.com/gx/en/pharma-life-sciences/pdf/challenge.pdf>
- [28] Roberts, PW. (2001). Innovation and firm-level persistent profitability: a Schumpeterian framework. *Managerial and Decision Economics*. 22(4–5): 239–250.
- [29] Saraswat, A. (2014). Outsourcing theories and models, benefits and challenges for outsource.... <https://www.slideshare.net/ifaourakash/outsourcing-theories-and-models-challenges-and-theories-for-outsourcing-companies-india>
- [30] Vellakkal, S. (2012). Adverse Selection and Private Health Insurance Coverage in India - A Rational Behaviour Model of Insurance Agents Under Asymmetric Information. *SSRN Electronic Journal*.
- [31] Watts, AD. & Hamilton, RD (2011). Scientific foundation, organization structure, and performance of biotechnology and pharmaceutical firms. *The Journal of High Technology Management Research*. 22(2): 81–93.
- [32] Yeoh, PL. & Roth, K. (1999). An Empirical Analysis of Sustained Advantage in the U.S. Pharmaceutical Industry: Impact of Firm Resources and Capabilities. *Strategic Management Journal*. 20(7): 637–653