

The Changing Pattern of Outsourcing

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Outsourcing, once a staple business practice, has taken on ominous connotations. Used appropriately, it can still offer advantages to companies both large and small.

Outsourcing. The mere mention of the term today often brings chills down the spines of the eagerly employed. Just about all of us know of a friend, family member or colleague that has been negatively impacted by outsourcing. Even the popular press has lamented and commiserated over the adverse effects outsourcing has had on the domestic economy.

The widespread negative and threatening connotation associated with outsourcing has even led to the implementation and use of a new substitute term in its place: “out-tasking.” Color me cynical, but I am far from certain that the use of a newer term will do much to allay the concerns of the general populace regarding outsourcing.

It seems to me that the logical opposite of outsourcing would be “insourcing” (I am open to alternative suggestions). But you rarely hear much about insourcing, probably because insourcing is being called something else, like new job creation, new business opportunities and new company growth.

Outsourcing hasn’t always had such negative connotations. Back in the day when it was called subcontracting, OEM manufacturing, OEM supplying and such, it was understood as a necessary part of business, or better still, good for business. Perhaps we should resort to the use of these older terms. You know the saying—“what is old is new...what is new is old, again.”

Although recently popularized by the IT and software industries, today’s outsourcing practices are commonplace in the biotech industry—both for the young startup company and the industry stalwart (if indeed a thirty-year old industry can have such a thing as a “stalwart”). Outsourcing, subcontracting, OEMing, or whatever you want to call it (we’re going to call it outsourcing) is an effective cost-savings strategy when it is used properly. The best use of outsourcing depends on the organization’s or company’s development stage and is often tempered by such subjective factors as the CEO’s personal preferences.

For the biotech industry, the changing pattern or nature of outsourcing is well illustrated by a couple of examples. Many early stage and startup companies outsource most of the traditional company functionality. This relatively common strategy allows them to focus on the development of their science and intellectual property (IP). The development of a strong IP portfolio backed by sound science provides the company with a more compelling story as they scramble

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to raise the additional capital necessary to remain operational and in business.

Some startup companies outsource everything, including the development of their science and IP portfolios. I have worked with several virtual companies. They outsourced everything. These companies were primarily comprised of a few individuals who were, for all practical matters, project managers. As project managers they made use of the company's funding or venture capital and primarily outsourced IP portfolio development and technology development—technology that was usually in-licensed from a university. In those cases, the goal was to develop the therapeutic technology to a sufficient level (usually some preclinical or clinical study milestone) to get to the next funding event or next step in the company's development. Such a stepwise strategy of outsourcing presumably mitigates risk while maximizing the efficient use of capital.

Many of these virtual companies loudly proclaim and espouse their targeted and streamlined use of capital, arguably a self-serving strategy to go to the till again to raise additional capital. As the small company develops and matures into a much larger organization, some or all of the originally outsourced functionality may be brought in-house. But this usually depends on the focus and needs of the growing organization as well as the personal preferences of the company's executives.

The larger, more established biotech companies usually have sufficient capital and resources and don't need to outsource any of their functionality. Outsourcing for them is more strategic and flexible. Outsourcing allows established biotechs to fully utilize their in-house capabilities and tap into outside capabilities on an as-needed and flexible basis. For instance, outsourcing pharma or biopharma manufacturing allows a company to focus on its product development efforts and keep the product pipeline flowing.

Outsourcing also allows larger biotech companies to test high-risk ventures with minimal disruption of their usual operations—if the venture fails, the company is free

to cut its losses with minimal disruption to their operations. Unlike the small startup company, the larger biotech company is usually driven by factors on Wall Street rather than at the Venture Capital Firm.

As mentioned before, subjective matters can temper the nature of a company's outsourcing activities. Key company executives may have certain preferences regarding outsourcing depending on their personal background and their particular inclination. For example, executives coming from a finance background may not want to outsource key accounting or financial activities. Executives who enjoyed their marketing experiences in previous ventures may want to spearhead their new company's marketing activities.

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I can speak from my own experience with personal preferences and outsourcing. I started my own company about seven years ago and opted to outsource all payroll activities, which was one of the smartest things I ever did. Keeping track of tax payments, payment due dates and the changing nature of state and federal taxes is particularly challenging for both the neophyte and experienced. And there are stiff penalties associated with the lack of timely and accurate tax payments.

Also with my company, I opted to keep Web site development, maintenance and associated Internet marketing in-house and not outsourced. For me this was purely a personal preference because I like to take advantage of the rapid dissemination

of information afforded by the Internet and my company's Web site.

Outsourcing is not all milk and honey. There are plenty of horror stories circulating about outsourcing gone bad; however, keep in mind that it's usually the bad news that makes the headlines. In any event, there are many mistakes or misjudgments that can be avoided when outsourcing—if only a bit of common sense is exercised.

As an example of a lapse in common sense—and there are many—I know of one organization that outsourced its ad, promo and marketing functions. When troubled times arrived, the outsourcing group walked away with the contact database and mailing list. And guess what—nobody from the company had asked for or retained a copy of those lists. The exercise of common sense—namely, closer control and monitoring of the outsourcing function as well as having the appropriate legalities addressed regarding company property—could have prevented the resulting situation.

When searching for an outsourcing partner do your homework. Find out all you can about the outsourcing partner and get references and recommendations. Call me old fashioned, but I always call references as well as check an organization's or individual's credentials. Though it was considered essential in the past, you would be amazed at how many people don't follow up on references and credentials these days.

In addition to the obvious legal issues that need be addressed, other issues include insurance, compensation, deliverables and—most importantly—how you will interact and communicate with your outsourcing partner on a regular basis. For both parties, the chemistry needs to be right; and, being formally trained as a chemist, I think that is the most important aspect of successful outsourcing. ~