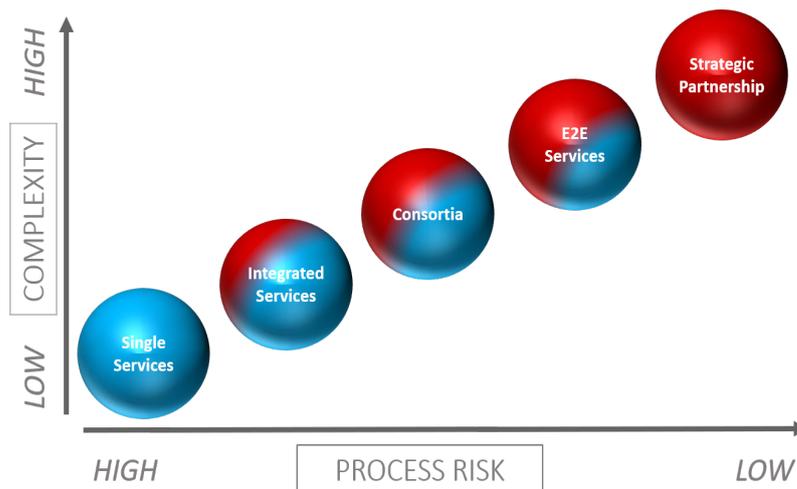


# The Service Provider Landscape

## Innovation Outsourcing Part 4

Intending to outsource innovation activities, companies and their management need to decide on the outsourcing business model to be used. The landscape of available models is huge, starting with outsourcing of small parts of the innovation value chain to Single Service Providers specialising on exactly the required activity and ending with risk shared Strategic Partnerships with companies having the capability to run large parts of the value chain.



Regardless of the business model used, management expects outsourcing to deliver value and to drive innovation success. Since risks and chances vary a lot depending on the business model applied, management should select carefully.

### Single and Integrated Service Provider

Single Service Providers have a limited portfolio of services, offering just a single scientific or technological expertise. Once their core business is established they tend to mature in two directions. Either by constantly deepening their original expertise, aiming to become 1st in class in their field, or by expanding their portfolio, becoming an Integrated Service Provider offering value adding combinations.

At first glance, working with pure Single Service Providers is less attractive due to their narrow field of expertise but good companies of that type come with an extra bonus.

*„One Trick Service Provider.“*

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Having been on the market for decades and having worked for a multitude of clients, Single Service Providers have encountered and solved practically every challenge of their special field. In addition, they have seen the various solution strategies applied by the industry, including those that work smoothly and those that fail on a regular basis. Clients managing to tap a Single Service Provider's corporate memory can generate additional value.

Integrated Service Providers score as soon as innovation processes contain cycles like "produce-test-redesign-produce". Service Providers being able to both produce and test can save significant resources for logistics and prevent an overall process slow-down compared to several isolated sites running one step each. The redesign phase is either the exclusive responsibility of the client or might be supported by the Integrated Service Provider. The latter case integrates the service providers creativity and experience in the innovation process which is a bonus but bears the risk of inventorship being partly associated with the service provider, which can be troublesome depending on the patent legislation of the country in question.

There is one additional risk specific to Integrated Service Providers having matured by adding scientific or technological disciplines to an established business – inhomogeneity of expertise and quality. Sometimes the original discipline is well developed whereas the disciplines added later have some sort of orphan status, receiving insufficient investments and/or insufficient support from management. While this is certainly not true for all Integrated Service Providers it nevertheless pays off to check the history of the Service Provider and to investigate those services a bit deeper that have been integrated later on.

### Consortia

Consortia, several service providers acting in concert to offer value adding service combinations, are still relatively rare, even so the underlying value proposition is quite interesting since they offer convenience for clients and intend to solve problems potentially encountered with Integrated Service Providers or with huge End to End Service Providers.

In contrast to the E2E Service Provider giants, the companies joining consortia are frequently small and agile, allowing them to flexibly align with client expectations and to smoothly react to the changes that are all too common in innovation processes. In contrast to the larger Integrated Service Providers, the companies in a consortium tend to have a limited range of services, allowing them to develop into highly experienced specialists, frequently belonging to 1st in class in their own field. Well managed consortia can put together service provider teams that have a high level of experience in every necessary discipline, while being still as nimble as the single units of the team.

*„Corporate  
Memory to tap.“*

*„Cycle  
Specialists.“*

*“Orphan  
Disciplines.“*

*„Small and agile  
joining forces.“*

Client convenience is achieved by consortia operating with a single point of legal interaction, allowing the client to use a multitude of service providers under a single contract. Professional project management supplied by the consortium adds to client convenience and facilitates significant saving of resources on the client side, otherwise necessary for project handling and reporting.

### **End to End Outsourcing and Strategic Partnerships**

End to End Outsourcing, externalising complete parts of the innovation value chain, is mainly the playground of the very large service providers being able to establish and maintain a large number of different technological or scientific disciplines. The top five of pharma service providers employ together around 100.000 people, resulting in companies that are significantly larger than the innovation units of many of their clients. While this is not a downside per se it nevertheless bears the risk that these giants are hit by the inherent challenges of big organisations like complex operations, expertise silos or bureaucracy.

Strategic Partnerships take the concept of externalising parts of the innovation value chain one step further, focusing on long-term collaboration and including usually some concept of risk and profit sharing. For both concepts, E2E and strategic partnership, clients need to expect a high level of project complexity and substantial challenges for project management, monitoring of success or tracking of objectives achievement.

An additional problem is the internalisation of results beyond the basic reporting level. The key to drive a formerly outsourced project further is true intellectual ownership, which is very hard to achieve when huge project chunks enter the client's innovation portfolio from outside. No matter how diligent the reporting has been, no matter how many million datapoints are exchanged, not all the details, observations or conclusions will make it across corporate boundaries.

Last and final some reflections on the rational to either use E2E Outsourcing or Strategic Partnerships. While overloaded internal innovation units may be one reason, management dissatisfaction with performance and productivity of the in-house science may be another. Should the latter be the case, management should consider to honestly answer one question – why should a service provider succeed where the internal innovation unit failed?

Because service providers operate separately without the burden of the client's organisation and processes? Because service providers takes decisions on their own without funneling them through a cascade of client committees? Because the motivation of the service provider's employees is superior to the motivation of the client's employees? Because the service providers employ better scientists? More to the point, is the decision to E2E outsource driven by a true rational "Pro Outsourcing" or by the unwillingness of client management to address and correct internal innovation roadblocks?

*„Playground of the Big Kids.“*

*„Driving forces for E2E Outsourcing and Strategic Partnerships.“*

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### Match Business Needs, not Outsourcing Hypes

The landscape of Service Providers and service models is huge and diverse, ranging from simple “single services” to complex “strategic partnerships”. Since each version comes with pros and cons there is certainly no “best practise” that could be universally applied to each company and each innovation project.

Seen from top management perspective the “big chunk” outsourcing (E2E or strategic partnerships) has a lot of charm. Less fixed costs, lower headcount, less infrastructure and risk sharing concepts fit well to the business thinking of today. However, top management should keep in mind that the additional value usually comes along with additional complexity and additional risks. Challenges to manage collaborations and to monitor progress and achievement of objectives increase significantly. Full internalisation of results and achievement of true intellectual ownership is problematic. And loss of internal expertise may permanently close the door to internal innovation.

Selecting the right service model for Innovation Outsourcing is a critical management decision and the various business reasons should be well considered especially before going down a one-way road like closing down internal innovation units.

Once the outsourcing model is selected, care should be given to select the right Service Provider. More to that in one of the next issues.

*„Match company requirements with Outsourcing Model.“*