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Do good performances always mean big bucks for CROs? ISR asks

By Natalie Morrison+, 28-Jun-2012

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It seems service quality really does mean bigger profits for CROs serving the pharma and biopharma industries, according to Industry Standard Research's (ISR) new report.

The analysis, titled 'CRO Service Quality and Corporate Performance', took five big CROs (contract research organisations) – Covance, Icon, Kendle, Parexel, and PPD – and compared closing stock price on the first day of trading from 2009-12 with its quality benchmarking studies SVI (Service Variability Index).

Quality analysis was based on 816 service encounter ratings with the five firms, in which outsourcers were asked how well the CRO's performance matched their expectations.

The conclusion? *"A solid relationship exists between a CRO's service quality and their financial performance,"* the report says.

Speaking to Outsourcing-Pharma.com, Andrew Schafer, president of ISR, said: *"As a service provider, you live and die with your customer's satisfaction. If you do not perform and meet expectations, word quickly gets around a company, even a large one, and it can become difficult to secure new work."*

Which companies got the golden egg?

Parexel had among the highest and most consistent service ratings, and as predicted share price grew in harmony.

Share price grew by more than 100 per cent – from $9.90 in 2009 to $21.11 in 2012 – with a similar rise for performance quality. PPD also had good service ratings and share price growth, although its stock market performance was inflated by takeover talk from July 2011 onwards. Before the *Wall Street Journal* report on a possible takeover PPD was actually down on its 2009 opening day stock price.

On the flip side Kendal's plummeted by half between 2009-11 before it was taken over by INC, and so did its ability to meet client expectations, according to ISR.

As for Icon and Covance, who's service qualities wavered over the three year period, the share price held fairly steady. However for Icon, which had as much as 80 per cent between its service peaks and troughs share price, tailed off by about 30 per cent in 2012 compared with 2010.

Are client demands realistic?

Though ISR admits that there isn't a *"large enough sample size for definitive statistical review,"* the analysts say the results are enough to make firms take notice and drive the need for quality in the sector.

And Schafer told us that though customers are now expecting more from their CROs, he believes *"the CRO industry is mature enough and experienced enough to handle sponsor's expectations."*

He said that measuring customer demand and how well the service sector meets the requirements could also be a good way to keep a check on sky rocketing expectations because it sets the standard.

"As an industry matures, customers begin to expect more and more from a service provider," he said. *"By measuring against expectations we can normalise any industry changes.*

"CROs have an advantage over other service provider industries in that their services can last from 6 months to 3 years, so there is time to measure how well you are meeting expectations throughout a service encounter and have time to make any changes."