Outsourcing-Pharma.com

Breaking News on Contract Research, Manufacturing & Clinical Trials

Big client focus at top CROs may deter small biopharm; analyst

By Nick Taylor+, 10-Nov-2011

Related topics: Phase I-II, Phase III-IV, Clinical Development

Small to mid-tier biopharm may be deserting large CROs because they feel "*overshadowed*" by big strategic clients, an analyst said.

Client concentration at leading contract research organisations (CROs) has occurred as big pharma companies ink large strategic deals. These partnerships are driving revenue increases at CROs but analysis of Icon suggests growth may be coming at the expense of business from smaller clients.

"*One may speculate that mid-tier and smaller pharma companies are seeking other providers because they do not want to be overshadowed by a few very large clients*", David Windley, equity analyst at Jefferies & Company, said in a note following Icon's third quarter results.

According to analysis by Windley business from Icon's sixth to 25th largest clients fell in the first nine months of fiscal 2011. Sales growth has mainly come from its largest client, which Windley believes to be Bristol-Myers Squibb, and, to a lesser extent, the second to fifth biggest spenders.

Consequently Icon is much more dependent on revenues from a few clients. Windley said: "*The increased client concentration makes Icon much more susceptible to swings in revenue down the road*." The importance of these clients to a CRO gives them more power when renegotiating pricing.

Winning small business

Parexel also said its win rate in the small client sector was down in the last quarter. "*Smaller clients may not view Parexel as having enough capacity to provide the necessary attention in light of demands from larger companies*", Windley said.

An alternative interpretation is that big CROs are too focused on strategic deals to win business from smaller clients. "*Icon may have to focus so much business development and senior executive resource on large strategic partnerships that smaller wins are slipping*", Windley said.

Peter Gray, then CEO of the Icon, acknowledged this in February by saying the CRO may have missed smaller opportunities by focusing on strategic deals. In response Icon began "*knocking on more doors and maybe...knocking a bit louder*", Gray said, and an uptick in request for proposals (RFP) followed.

This strategy, coupled to improved venture capital funding, may be responsible for sales from Icon's smallest clients increasing in 2011. However, the gain fails to stop client concentration as it is more than offset by the dip from mid-tier clients.

Is it worth it?

Some believe it is worth sacrificing small opportunities for big deals. "*We continue to believe that [Parexel's] results will overwhelmingly be determined by their success at the higher end of the market*", Sandy Draper, equity analyst at Raymond James, said.

This view is supported by dynamics in the small client sector. John Kreger, equity analyst at William Blair, said: "*Pricing for biotech work has deteriorated as smaller CROs not involved in strategic deals are struggling to secure new orders. Parexel has opted to walk away from much of this business*."