EXECUTIVE INSIGHTS

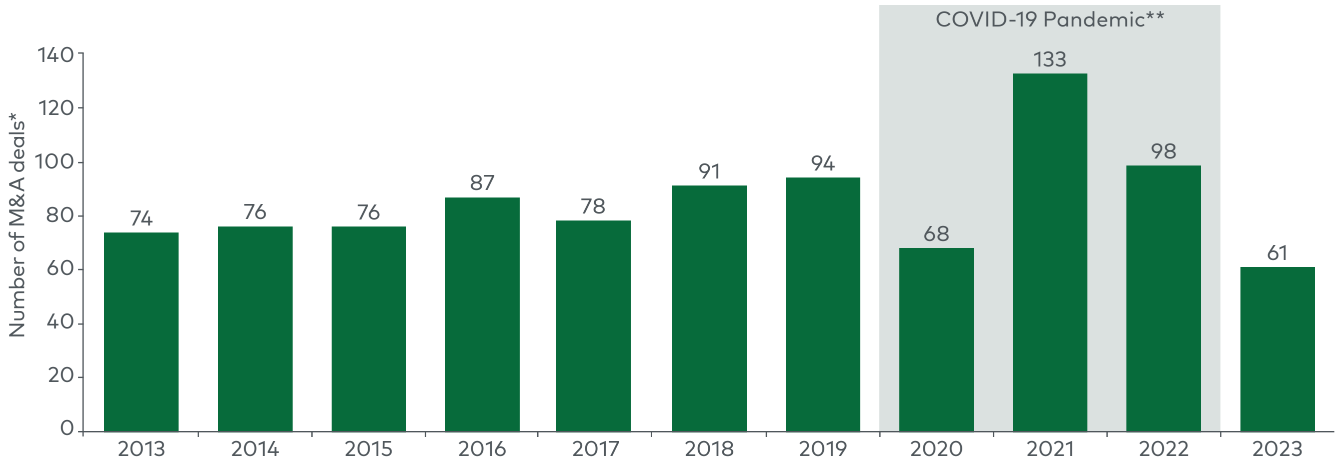
Commercial Excellence in Life Sciences Tools and Services Companies

After rapid growth and progress, now is the time for life sciences tools and services companies to reevaluate their commercial models

The life sciences tools and services industries have seen tremendous growth and change over the past few years.[1] Technology innovation has accelerated, driving customer demand for complex and technology-rich offerings, including single-cell sequencing, spatial proteomics, cell/gene therapy manufacturing and decentralized/hybrid clinical trials. To facilitate growth and better meet the needs of their customers, many life sciences tools and services companies have evolved from single-point solutions to increasingly broad, end-to-end solution portfolios, in many cases through sequential acquisitions. Annual M&A volume in the sector has averaged approximately 85 deals over the past decade, spiking to more than 130 deals in 2021 (see Figure 1).[2] Many customers have scaled similarly in the past few years, and their internal purchasing dynamics have become increasingly complex. Vendor selection and contracting have become more cross-functional and interdependent. Meanwhile, how companies interface with their customers continues to be impacted by the evolution of digital technologies, advances in artificial intelligence (AI) and the temporary (and for some, not-so-temporary) shift to remote working due to COVID-19.

The past few years have seen rapid growth and evolution with exciting success; the S&P 500 Life Sciences Tools and Services Industry Index grew 175% from 2017 to 2023.[3] However, this rapid growth has required significant time and effort from management teams, leaving few companies with the bandwidth necessary to reevaluate their customer-facing models and commercial organizations. Over the past 18 months, macroeconomic headwinds have

Figure 1
US life sciences tools and services M&A deals by volume, 2013-2023



*Includes all announced or closed U.S. M&A deals with initial deal announcements occurring from 2013 to 2023 with S&P Capital IQ-defined industry classification of "Life Sciences Tools and Services"
**The WHO ended the COVID-19 pandemic's international public health emergency status on May 5, 2023
Note: WHO=World Health Organization
Source: S&P's Capital IQ

returned the industry's focus to commercial execution and business profitability. L.E.K. Consulting believes now is the time for companies to revisit their sales and marketing organizations to catalyze renewed commercial excellence. In this edition of *Executive Insights*, we discuss:

- Common pain points in today's commercial models
- Emerging initiatives to address these pain points
- Our approach to building a fit-for-purpose commercial model

Commercial models have five key pain points

Based on our experience and recent discussions with commercial leaders, life sciences tools and services companies commonly experience five categories of pain points in their commercial models (see Figure 2).

Figure 2
Five common pain points in life sciences tools and services commercial models

1. **Inadequate customer segmentation and prioritization**
2. **Underdeveloped value proposition**
3. **Insufficient collaboration across commercial teams**
4. **Poor coordination between commercial and delivery/support teams**
5. **Suboptimal use of sales and marketing tools and technologies**

Source: L.E.K. interviews and analysis

1. **Inadequate customer segmentation and prioritization.** Customer segmentation in the life sciences is challenging because of the variety of customer types, ranging from large commercial pharma to preclinical biotech, academia, government and clinical laboratory customers. Each group has different needs and desired levels of consultative partnership support; it can be difficult to identify meaningful commercial opportunities among these many customers with unique needs. Particularly in biopharma, customers have complex networks of purchasing decision-makers, ranging from end users to procurement to executives. Insufficient segmentation of customers by needs and purchasing dynamics within the account can lead to lack of coordination, a poor customer experience and missed sales opportunities.

2. **Underdeveloped value proposition.** Many tools and services companies are striving to evolve their value proposition from provision of point solutions to a more end-to-end suite of products and services, but this broader value proposition is not always being marketed properly. Instead of focusing on the holistic solutions they offer to address key customer issues, some companies are still messaging customers mainly about the enhanced features of their specific offerings.

3. **Insufficient collaboration across commercial teams** (including roles such as sales, account management, business insights and analytics, and sales operations). Priorities and incentives between key account managers and sales teams are often misaligned, leading to uncoordinated account activities. Additionally, multiple sales representatives — each responsible for a different part of the portfolio — may call on the same customer stakeholders, competing for customer attention rather than collaborating and cross-selling.

4. **Poor coordination between commercial and delivery/support teams** (including roles such as project management, technical/clinical subject matter experts, technical support, and implementation). Sales organizations often overlook the value delivery teams can bring pre-sale, given their extensive interaction with customers after sales are closed. They often fail to gather sufficient input from delivery teams during the sales cycle. A lack of upfront coordination and suboptimal post-sale handoffs can sidetrack project-oriented offerings when customer expectations are not met due to "overpromising" sales teams. Meanwhile, delivery teams may not proactively share leads discovered within existing customers post-sale, leading to additional missed opportunities.

5. **Suboptimal use of sales and marketing tools and technologies.** Life sciences tools and services companies broadly underutilize sales and marketing tools and technologies, compared with other sectors and industries including biopharma. Many companies do not leverage customer relationship management (CRM) software (e.g., Zoho, Salesforce) to its full potential. Ideally, all customer-facing personnel leverage CRM tools with robust data entry both to inform and track their interactions and to coordinate across teams. Additionally, companies have underinvested in emerging marketing technologies that can enhance in-person sales efforts, such as single-customer views and zero-party data. They also generally lag in deploying novel marketing strategies like next-best action, omnichannel and catalytic marketing outside of select pilots.

Faced with these pain points, many life sciences executives find it challenging to realize the full value of their portfolios. They often observe fewer synergies than expected across business units that were bolted together after what was — on paper — a highly synergistic M&A. And they often realize their businesses are still primarily selling individual offerings despite having developed an end-to-end suite of solutions.

These pain points are also negatively impacting customer experiences. Customers increasingly view their interactions with life sciences tools and services companies as disjointed and cumbersome. For example, customer feedback indicates many are frustrated when several sales representatives call from the same company and by how difficult it is to reach technical support when needed. Many say they are not receiving the level of customer service expected for the offerings they purchased.

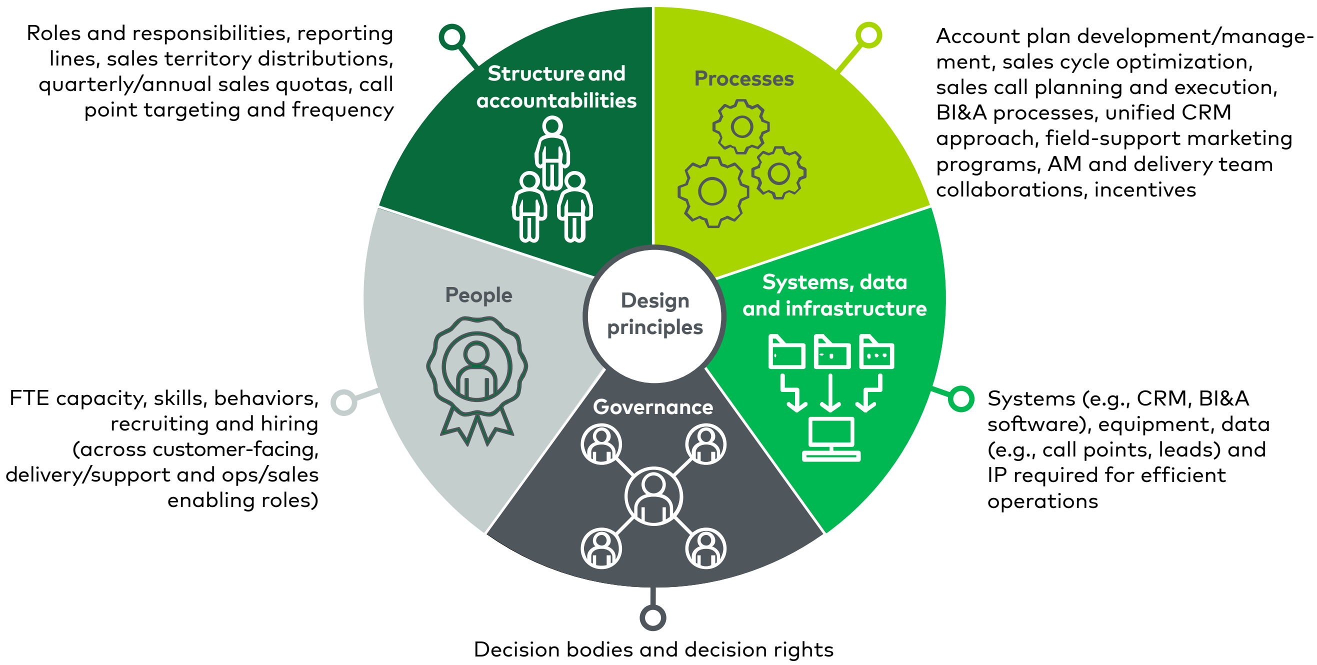
The net effects of these pain points are unforced errors in commercial execution and adverse outcomes for suppliers and vendors, such as customers dropping out of the sales funnel, selecting alternative offerings they can better understand, or becoming vocal detractors because they think the vendor does not understand their needs.

Several commercial model improvement initiatives can be explored to address these pain points

To address these common pain points, organizations should examine their commercial model capabilities across several key dimensions — the same dimensions that apply to any operating model (see Figure 3).

Figure 3

Dimensions of the corporate operating model (applied to the commercial organization)



Note: BI&A=business insights and analytics; CRM=customer relationship management; AM=account management; FTE=full-time equivalent; IP=intellectual property
Source: L.E.K. interviews and analysis

While every organization needs a unique, fit-for-purpose commercial organization, we recommend considering the following initiatives to alleviate pain points that may span these dimensions:

- **Reinforce business insights and analytics (BI&A) capabilities to thoroughly define and prioritize customer segments, accounts and purchasing dynamics within those accounts (people; processes; systems, data and infrastructure).** A robust BI&A capability can inform commercial decision-making with data-driven analyses. Those insights can be used to develop commercial priorities such as customer segmentation, a better understanding of account sales and share of wallet, key performance indicator scoring, and territory balancing.
- **Invest further in account management teams to strengthen strategic relationships with key customers (people; structure and accountabilities; processes).** Today, many life sciences companies index more heavily on traditional sales than on account management. Some may have only one key account manager per coast or continent to manage dozens of key accounts. However, bringing more customer interactions under account management can provide a higher-level, longitudinal perspective of the customer. Account managers can synergistically coordinate sales and marketing efforts, develop and steer the account growth plan, harmonize sales team activities and highlight areas of greatest opportunity.

- **Implement standing account-wide meetings to enhance coordination across account management and sales and across business units (processes, governance).** Quarterly/monthly account meetings drive cross-functional communication on account activities and break down silos that traditionally exist between roles in legacy commercial organizations. Standing agenda items can include account managers discussing strategic priorities and opportunities, sales teams similarly providing updates on business leads, and all involved setting the accounts' agendas for the next six to 12 months.
- **Incentivize direct collaboration between commercial and delivery/support teams (processes, governance).** Given their frequent interactions with customers, delivery and support teams can provide rich insights and leads to the commercial group. Sales performance incentive funds could be expanded to include personnel such as field service engineers, motivating them to pass on leads they discover, and their participation in standing account meetings should be encouraged.
- **Establish horizontal sales organizations to facilitate cross-selling where it makes strategic sense (structure and accountabilities).** Cross-selling is inherently challenging when business units are organized vertically by portfolio offering. Establishing horizontal sales organizations to focus on a specific end market (e.g., cell and gene therapy, bioprocessing, synthetic biology), matrixed against vertical business units, can improve collaboration by formalizing cross-selling initiatives around strategic market opportunities.
- **Encourage cross-selling with referral rewards programs (processes).** Cross-selling between different product/service lines needs cohesive, top-down leadership support along with inclusion in sales teams' annual goals. This helps teams balance cross-selling with other priorities. Sales representatives must stay abreast of the broader portfolio offerings and emerging needs/priorities throughout customer organizations. Dedicated portfolio cross-training initiatives can help streamline sales teams' efforts.
- **Ensure all customer-facing teams (including delivery/support groups) are using integrated CRM tools to centralize customer data aggregation and coordinate customer-facing activities (systems, data and infrastructure; processes).** CRM systems like HubSpot, Salesforce and Zoho enable centralized, holistic customer data visibility and management that can be accessed across customer-facing groups in the organization. Customers and their call points can be classified based on value, stage of the sales cycle, likelihood of conversion to sale and more. Interactions and next steps can be documented; aggregated insights can be pulled to track customer engagement across the enterprise.[4] Of course, such a tool can quickly become unwieldy, so wide-scale system implementation must be paired with a cohesive and cross-functional CRM strategy, supporting processes, and should involve incentives (e.g., performance incentives for robust data entry) to pull the highest value out of this essential tool.

- **Pilot innovative marketing strategies such as next-best-action marketing, catalytic marketing and AI to streamline lead generation and inform sales team interactions (processes; systems, data and infrastructure).** Rather than replacing traditional sales engagement, these emerging marketing approaches are most often employed to expand the engagement's reach and productivity. Next-best-action marketing uses AI and real-time data to determine the optimal action to take for a given customer across any channel at any time, often using modular marketing content for easier customization. Novartis is one biopharma company leading the broader life sciences industry in applying this technology to their marketing campaigns, with a focus on the physician customer base.[5] Catalytic marketing is a minimalist marketing approach focused on "catalytic," engaging experiences (i.e., pop-up questionnaires, online shopping aids or other customer stimulus) that sharpen customers' understanding of their own needs with an opt-in approach, allowing customers to engage at whatever level of depth and information gathering they desire to inform their needs and drive decision-making. This increases the likelihood they will pay a premium or refer a brand.[6]

(Re)Designing the commercial model

While this list of emerging initiatives can serve as a starting point for consideration, each organization requires its own unique commercial model tailored to its portfolio, customer base, value proposition and competition. We recommend companies follow a comprehensive, four-step process to develop a truly fit-for-purpose commercial organization (see Figure 4):

Figure 4

L.E.K. approach to commercial model design optimization

Situation assessment and diagnostic

- Define the **commercial context**, including **product/service** characteristics, **portfolio** breadth and **customer**
- Map out **commercial organization baseline**, including headcounts, responsibilities, reporting lines, etc.
- Diagnose **current model pain points**, leveraging executive and customer-facing team perspectives

Capabilities identification

- Benchmark **analog company best practices**
- Identify **capability gaps** (where "capabilities" refers to any specific activities or resources an organization must be able to conduct or leverage in order to achieve its goals) and determine differentiated versus table-stakes capabilities

Commercial model design

- Agree on commercial model **design principles**
- Determine **people** needs, organization **structure and accountabilities; systems and infrastructure**
- Design **critical processes** and **governance**

Transformation planning

- Identify key **commercial model changes** and **prioritize organizational initiatives**
- Estimate associated costs and **develop a transformation roadmap**
- Set up **TMO**

Note: TMO=transformation management office
Source: L.E.K. expertise

1 **Situation assessment and diagnostic:** Understanding the current situation and pain points is the first step to commercial model optimization. This often starts with a self-diagnostic exercise. Within this phase, teams should first focus on knowledge of product/service characteristics, portfolio breadth and customers, and then map out the baseline commercial organization (i.e., headcounts, roles and responsibilities, reporting lines, and budgets). This information should then be used to facilitate input-gathering sessions with executives and customer-facing teams in the field.

2 **Capabilities identification:** Building on the situation assessment, commercial leaders can validate identified pain points and perceived capability gaps via benchmarking to understand best practices. Here, "capabilities" refers to any specific activities or resources an organization must be able to conduct or leverage in order to achieve its goals. By benchmarking capabilities, models, and resourcing of peer organizations and competitors, gaps can be identified and further delineated based on must-have/table-stakes versus differentiating capabilities. This assessment should create a prioritized list of organizational capability gaps to fill.

3 **Commercial model design:** Leaders should then define what the principles of their commercial model will be (e.g., strategic goals, desired culture, model rigidity versus flexibility to evolve). They can next identify initiatives to address pain points by managing capability gaps. As discussed previously, these initiatives can be broadly categorized into those relating to people (e.g., capacity, skills, behaviors); organizational structure and accountabilities; processes; systems, data and infrastructure; and governance.

4 **Transformation planning:** Finally, organizations must refine and prioritize these initiatives after evaluating their actionability and impact and once the financial implications are understood. From there, a transformation roadmap can be developed — with workstreams, timelines and owners — and a process for managing the transition can be set up (e.g., a transformation management office).

Do we need to evolve our commercial model?

If you are considering whether your organization needs to evolve its commercial model, consider the following 12 questions (see Figure 5). If you can answer "yes" to most of these questions, you are probably in a great place to focus on other parts of the organization. If you answer "no" or "not sure" to some of them, it would be a good idea to at least conduct a more thorough diagnostic to understand current pain points and potential solutions.

Figure 5
L.E.K. commercial excellence self-diagnostic exercise

Customer segmentation and prioritization	1. Do we have a list of current and potential customers prioritized by account size and opportunity? 2. Do we know share of wallet within each account, and do we have a clear plan to capture more share? 3. Do we know who the customer decision-makers are, and are we partnering with them, from end users to executives?
Value proposition	4. Do customers easily understand how our solutions can meet their needs? 5. Are we selling at the right level within their organizations?
Collaboration across commercial teams	6. Do account managers and sales representatives collaborate to their mutual benefit? 7. Are call point interactions centrally tracked to minimize overlap between sales reps? 8. Are sales reps incentivized to collaborate and cross-sell across business units?
Coordination between commercial and delivery teams	9. Are sales teams getting feedback from delivery teams on timelines and feasibility early enough in the sales process? 10. Are delivery teams supporting sales teams in lead generation with existing customers?
Sales and marketing tools and technologies	11. Are we using a CRM system to track customer interactions across teams/BUs and tailor interactions based on insights? 12. Are marketing strategies augmenting traditional channels with complementary digital approaches (e.g., omnichannel)?

Note: CRM=customer relationship management; BUs=business units
Source: L.E.K. research and analysis

If you are planning a commercial model refresh, reach out to us for an informal discussion about your situation and how we can partner with you to evolve your commercial model with a holistic, structured approach.

For more information, please contact lifesciences@lekinsights.com.

Endnotes

[1]Specifically tools and diagnostics, contract development/manufacturing, and R&D services companies.

[2]Includes all announced or closed U.S. M&A deals with initial deal announcements occurring from 2013 to 2023, with S&P Capital IQ-defined industry classification of "Life Sciences Tools and Services."

[3]S&P. S&P's Capital IQ.

[4]Forbes.com, "Best CRM Software of February 2024."
https://www.forbes.com/advisor/business/software/best-crm-software/

[5]Tealium.com, "How to Create Real-Time, Personalized Experiences in Pharma."
https://tealium.com/blog/customer-experience/how-to-create-real-time-personalized-experiences-in-pharma/

[6]Gartner, "Gartner Says Catalytic Marketing Allows CMOs to Drive Profitable Growth Amid Macroeconomic Pressures." May 22, 2023.
https://www.gartner.com/en/newsroom/press-releases/2023-05-22-gartner-says-catalytic-marketing-allows-cmos-to-drive-profitable-growth-amid-macroeconomic-pressures

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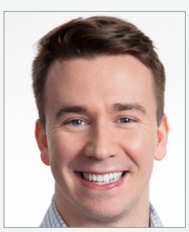

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