Insight Sourcing
Part of Accenture

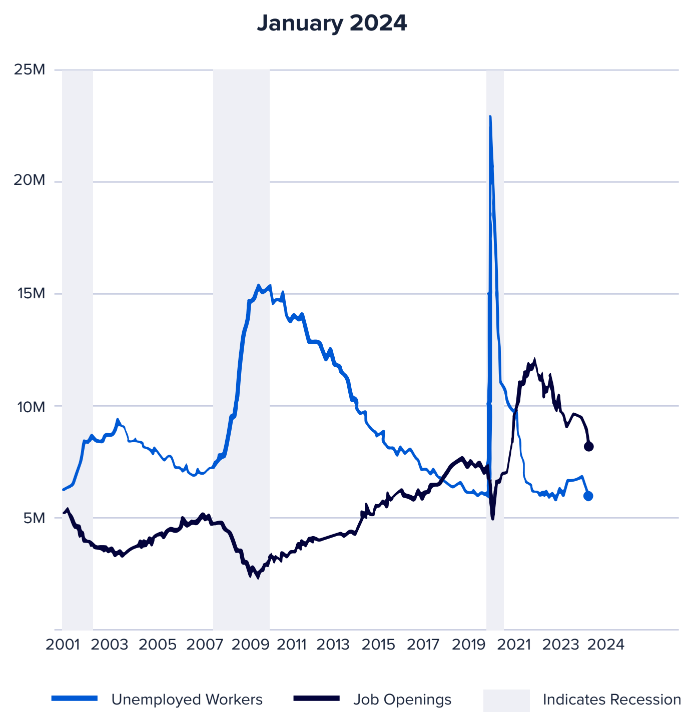
MARKET ADVISORY

Corporate Services Market Q1 2024

EXECUTIVE SUMMARY

The narrative of the labor market going into 2024 continues to be a story of labor shortage. While the Bureau of Labor Statistics still forecasts a growth in the labor market over the next decade, the rate of growth is significantly slower than the previous decade (0.3% increase[1] compared to 1.2%). This difference is largely attributed to a decrease in the participation rate of the labor workforce: 62.5% of employment-eligible Americans are working or actively looking for work in January 2024, compared to 63.3% in February 2020, leaving 2.5 million jobs in the labor market unfilled.[2]

NATIONAL JOB OPENINGS VS. NUMBER OF UNEMPLOYED WORKERS



Source: U.S. Chamber of Commerce Analysis, BLS Data

Across the professional services landscape, labor shortages will still be counterbalanced by tertiary market trends, including a lower increase in wage rate and the increased adoption of Generative AI tools.[3] While third-party corporate services vendors may try to pass annual rate increases predicated on inflation and labor shortage, those claims can be refuted based on the ability to leverage more non-labor resources (e.g., new technology in the space) and the return to pre-pandemic wage levels.

[1] *https://www.bls.gov/news.release/ecopro.nr0.htm*
[2] *https://www.uschamber.com/workforce/understanding-americas-labor-shortage*
[3] *https://fortune.com/2023/11/15/2024-labor-trends-hr-predictions/*

CATEGORY SPOTLIGHT: PHARMACY BENEFITS MANAGEMENT

Overall market conditions point to significant opportunity to drive cost improvement in Pharmacy Benefits, despite increases in drug list prices. Companies seeking to improve Pharmacy Benefits Management (PBM) should continue to monitor more competitive cost models and prospective legislation to ensure they are maximizing the benefits of the shifting market.

- List prices increased in January for over 900 drugs, with an average increase of 5.6% (slightly higher than 2023's increase of 4.96%). Increases can be partially attributed to the Inflation Reduction Act, which allows Medicare negotiation authority with drugmakers (negotiated prices will take effect in 2026). Increases are expected to continue over the next few years as drug makers attempt to recoup margins lost in Medicare negotiations.
- Rebates paid back to clients are starting to outpace the growth of list prices. This market trend is driven by growth in competition outside of the primary three Pharmacy Benefit Managers, CVS Caremark, OptumRx, Express Scripts. The CAGR of the PBM market is expected to be 8.77% between 2023 and 2030 (~$519B to ~$934B revenue increase).
- Cost plus models are rising in popularity. Express Scripts announced its new transparency-oriented "Clear Network" cost-plus option in November, and CVS has followed suit with their CostVantage program (which will only be commercially available in 2025).
- Legislation introduced in April in the Senate proposed restrictions to Pharmacy Benefits Managers and their pricing structures. If passed, legislation would implement transparency requirements regarding net price of drugs dispensed and would prohibit spread pricing. Proposed legislation will likely drive more competitive rebates and alternative pricing models with lower list prices in the coming years. Companies should continue to track legal reform in the PBM space to ensure they are benefiting from market shifts.

Source: 46Brooklyn (https://www.46brooklyn.com/research/3/9/2023/brand-launch-prices-revisited), Wall Street Journal (https://www.wsj.com/articles/drugmakers-raise-prices-on-nearly-1-000-medicines-but-show-restraint-11675313960)

CATEGORY SPOTLIGHT: EXTERNAL AUDIT

The cost of labor and overhead are on the rise, but companies should not let their External Audit firms try to pass on annual increases. With increased adoption of technology in this industry, efficiency gains and creative resource models should be leveraged to drive bottom-line savings.

- Due to decreased client demand, Big 4 firms have been forced to act aggressively to secure revenue, despite rising labor wages and overhead costs.
- Capability expansion, including the use of artificial intelligence, virtualization techniques, and increased proficiency in data analytics1, is leading to larger process efficiencies; companies should ensure they are receiving the margin from these efficiencies.
- Expanding offshore practices have also opened the door for discussions around shifting resource models and decreasing the total cost of services.
- Cost transparency in this industry continues to be a challenge. Companies should push for underlying detail on actual hours, rates and full resource roster associated for a holistic view on historical work.
- If your company has interest in switching auditors, it is critical to start the conversation late in Q1 of your Fiscal Year, in order to strategically approach sourcing activity and align the necessary stakeholders.

[1] https://www.forbes.com/sites/insights-kpmg/2022/10/26/three-key-areas-where-technology-is-modernizing-the-audit/?sh=4d80bfec2d70

ABOUT INSIGHT SOURCING

Insight Sourcing is home to the largest team of dedicated sourcing experts in North America exclusively focused on procurement optimization and Procurement Value Creation™.

Our unique blend of procurement specialization, market leading Category Centers of Excellence, and proprietary digital accelerator, Insight TechAssist, has helped countless corporations and Private Equity firms develop tailored strategies to drive results.

In 2024, Insight Sourcing became part of Accenture. To learn more, visit **www.insightsourcing.com**

Insight Sourcing
Part of **Accenture**

To learn more, visit **www.insightsourcing.com**
or call (877) 545-5182 for a consultation.
info@insightsourcing.com