



Contract Services

Outsourcing Outlook

Jim Miller

Recovery of the contract services industry picked up steam in the quarter ending 30 June 2001. Quarterly revenues for 16 publicly reporting CROs and CMOs were up 19% compared with those in the same period in 2000, with five of those companies reporting growth in excess of 25%. Second-quarter revenue growth was slightly higher than the first quarter's 18% rate. Contractors cited strong demand from specialty pharma-

ceutical and biopharmaceutical companies as important factors in their performance.

Growth in operating profits was especially strong in the second quarter, averaging almost 80% for the reporting companies. Four of the 16 companies reported second-quarter profits in 2001 after reporting losses in the same quarter last year. Operating profits also were up significantly in the first quarter of 2001.

This strong performance reflects not only industry conditions, but also strategic decisions and operating improvements the companies have made in recent years. Contractors have become more selective in the projects they are willing to take on and more aggressive about the financial

terms they are willing to accept. The big CROs are declining or terminating unprofitable engagements. CROs are scaling back on their investments in Internet ventures, much of which have been expensed rather than capitalized. Strategic decisions affecting a company's business portfolio have been paying off. For example, **Covance** divested its money-losing biomanufacturing business and now is focusing on its preclinical and laboratory businesses, which are growing rapidly. **Cardinal Health** is experiencing strong growth in its sterile manufacturing and drug delivery businesses, which it has built through acquisitions in recent years.

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The bigger picture

Outsourcing's financial situation hasn't been as rosy outside the pharmaceutical industry, according to Michael F. Corbett, founder and president of Michael F. Corbett & Associates, Ltd. (LaGrangeville, NY) and a well-known authority on outsourcing. Corbett says the current economic environment is affecting the outsourcing business in two ways. First, companies look to outsourcing in difficult economic times to conserve revenues and drive cost-management efforts. Economic conditions are "pushing the fence sitter off the fence," Corbett says, prompting companies that have seriously considered outsourcing to use it in an effort to achieve improved costs and performance. At the same time, however, service providers report that clients are leaning on them to help cut costs through price concessions or scaling back the size and scope of services; in some cases, entire programs have been canceled.

Overall, though, the outlook for outsourcing is favorable. Corbett points to the results of a recent poll on his Firm-

builder.com Web site: 53% of the respondents said the economy is having a positive effect on their outsourcing business. Of the remaining respondents, 30% reported the economy is having a negative influence on their business, and 17% said the economy is having no effect on their business.

Corbett says clients are looking much more closely at the long-term health and stability of their service providers — financially, operationally, and managerially. Clients are assessing what he calls "leading indicators of future risk," including aspects such as revenue growth, employee turnover, investment in facilities and equipment, and adequacy of financial and operating controls.

M&A report

Baxter Healthcare Corp. (Deerfield, IL) completed its acquisition of **Cook Pharmaceutical Solutions** (Bloomington, IN) from **Cook Group Inc.**, paying \$219 million for the provider of sterile parenteral manufacturing services. The acquisition adds small-volume parenterals and de-

velopment services to Baxter's contract manufacturing capabilities.

aaiPharma Inc. (Wilmington, NC) acquired the assets of **Pharmaceutical Development Center** (PDC, Charleston, SC). **AAI International**, the contract business unit of aaiPharma Inc., will manage the facility. The acquisition will give AAI the ability to manufacture parenteral clinical trial materials for the first time. In addition, aaiPharma announced it will use the PDC sterile manufacturing facility to manufacture the injectable dosage forms for the sterile critical-care products it is acquiring from **AstraZeneca**.

Inceutica Inc. (Durham, NC), the operator of a business-to-business electronic reverse-auction for contract pharmaceutical services, has ceased operations and announced its closure to clients via e-mail on 20 August 2001. Inceutica offered a Web-based service that enabled sponsors to post RFPs on its Web site and CROs to post their bids for the projects. After viewing competing bids, bidders were able to revise their bids until the auction closed. **PT**