

Relationship Management

360° feedback — improving the selection process all the way around

Pharmaceutical companies typically evaluate both current and potential CRO partners using a linear process. The feedback flows only one way — from sponsor to vendor — and may be restricted to people in management positions only.

Recently, 360° feedback has been used in corporations to give individuals feedback about their performance. Input is provided from a range of colleagues who interact regularly with the person being evaluated, including supervisors, coworkers, and subordinates who are representative of the stakeholders in the person's performance. Howard Williams, executive consultant with Personnel Decisions International (www.personneldecisions.com) says the approach has two major advantages: First, the subject receives a more extensive evaluation than typically is given in a linear supervisor-subordinate assessment; and second, because multiple observers are used, the information is more likely to be accurate than the information gathered during traditional evaluation processes.

Williams makes the case for using 360° feedback both in choosing new CROs and rating existing ones. "360° feedback can lead to a better partnership and a better relationship," claims Williams.

Core Criteria

Sponsors can effectively use 360° feedback to rate a CRO's performance, says Williams.

Contributing editor **Jim Miller** is publisher of Bio/Pharmaceutical Outsourcing Report (B/POR). PO Box 8163, Springfield, VA 22151-8153, 703.322.4971, fax 703.503.4506, info@pharmsource.com, www.pharmsource.com.

Ideally, this process would be linked to the selection process for evaluating potential outsourcing partners.

The evaluation process should be linked to core criteria that are required for a vendor to successfully execute a project. Sponsors should list the essential tangible and intangible characteristics a project requires for successful execution by the CRO. Leadership skills, technical knowledge, plant capacity, turnaround time, and financial outlay are examples of areas in which core criteria should be examined, notes Williams.

"Basically, you're asking, 'What do we want in a partner?'" he says. The criteria also should reflect a company's long-term values and what it expects from its outsourcing partners. To establish such criteria, it may be necessary to form an internal focus group that identifies the key needs and values it expects a vendor to match.

The evaluation. Once the core criteria are in place, the company can link them to the 360° feedback process. At this stage, a sponsor team is selected to evaluate the CRO in each area of the core criteria model. The evaluators should come from various departments — research and development, marketing, and manufacturing, for example — and should range from executives to project managers to line workers.

"Anyone with a stake in the project's success should be involved," says Williams. He suggests choosing people *diagonally* — in other words, avoid putting people on the team who directly report to each other. "If we can get stakeholders at different levels, we get a better mix than if we do it

Outlook

Jim Miller's "Outlook" commentary discussing the outsource industry's economic picture can be found at www.biopharm-mag.com in the online version of this month's column.

horizontally." The mix is important because each department and level brings a different perspective to the evaluation process.

"You may even go outside the company in some cases," he suggests. That may mean getting feedback from the CRO's existing clients or from consultants who regularly help sponsors manage studies.

Team size. No matter who is doing the evaluating, Williams prefers to restrict the size of the team. "We like to use between four and six observers," he says. Less than four, and feedback isn't accurate; but once the number gets into double digits, the feedback tends to be redundant.

Team members rate vendors on the basis of the established core criteria. Once the feedback has been compiled, it can be analyzed in various ways depending on the sponsor's needs, says Williams. When used for vendor selection, the feedback can identify which vendor most closely matches the required core criteria.

Planning for Development

Whether 360° feedback is used to choose a vendor or to evaluate an employee, it is essential to follow through with a development plan. "Otherwise, what's the point?" asks Williams.

Continued on page 60

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 the same period in 2000, with five of those companies reporting growth in excess of 25% (Table 1). Second-quarter revenue growth was slightly higher than the first quarter's 18% rate. Contractors cited strong demand from specialty pharmaceutical 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 (www.covance.com) divested its money-losing biomanufacturing business and now is focusing on its preclinical and laboratory businesses, which are growing rapidly. Cardinal Health (www.cardinal.com) is experiencing strong growth in its sterile manufacturing and drug delivery businesses, which it has built through acquisitions in recent years.

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. and a well-known authority on outsourcing (www.corbettassociates.com). 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. The industry has been hit hard by the decline of the dotcom companies, which were major users of outsourcing services. Also, electronics contract manufacturers have suffered from slowdowns in the computer and telecommunications industries.

Overall though, the outlook for outsourcing is favorable. Corbett points to the results of a recent poll on his Firmbuilder.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 (www.baxter.com) completed its acquisition of Cook Pharmaceutical Solutions (www.cookgroup.com/cps), a provider of sterile parenteral manufacturing services, from Cook Group Inc. Baxter paid \$219 million for Cook, an aggressive multiple of about five times revenues, according to PharmSource (www.pharmsource.com) estimates. The acquisition adds small-volume parenterals and development services to Baxter's contract

manufacturing capabilities.

aaiPharma Inc. (www.aaiintl.com) acquired the assets of the Pharmaceutical Development Center (PDC, www.pdclabs.com). AAI International, the contract business unit of aaiPharma Inc., will manage the facility. The acquisition will give AAI International 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 (www.astrazeneca.com). Terms of the all-cash transaction were not disclosed.

Inceutica Inc., the operator of a business-to-business electronic marketplace for contract pharmaceutical services, has ceased operations. The company announced its closure to clients by email 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 project. This reverse-auction system allowed bidders to view competing bids, but not the names of those bidders, and gave them the opportunity to revise their bids until the auction closed.

Table 1. Second quarter 2001

Company	Revenue	Change ^a	Profits	Change ^a
Cardinal Health	318.0	16	60.0	16
Quintiles	224.6	4	7.7	305
Covance	203.9	11	15.0	6
W. Pharm. Svcs.	20.3	12	0.7	nm
PPD	102.0	21	14.9	60
Charles River Labs	68.8	121	12.5	98
Parexel	106.9	17	2.3	283
Galen	20.2	24	2.9	21
Patheon	47.1	4	4.6	11
Kendle	38.7	28	1.6	nm
AAI Pharma	21.2	0	1.1	-74
Albany Molecular	13.6	55	11.8	40
BioReliance	16.3	17	1.3	160
Bioanalytical Systems	3.7	48	0.6	nm
Medichem	4.8	1	-4.7	nm
Omnicare CRO	31.9	16	2.8	23

^a percentage change from same period in 2000; nm=not meaningful, company reported loss in comparable quarter

Outsourcing Outlook continued from page 48

For a CRO, the initial 360° process serves as a baseline. Although it may indicate that the CRO has the necessary capabilities and qualities to carry out a project, the preselection 360° feedback evaluation will identify areas that the CRO should work on — and that the sponsor should monitor — during implementation. Once the project is completed, a postproject evaluation can establish what worked, what didn't, and what should be improved.

A two-way process. But a postproject evaluation also should be a two-way process. “Yes, it's a form of benchmarking — how the CRO stacks up, and what it can do better,” Williams says. “But to build a better partnership, feedback has to come from the CRO as well.”

Ideally, another 360° feedback session should be scheduled about a year after the original baseline evaluation. This one should be conducted using evaluators from both sides, and both the CRO and the pharmaceutical company should be

reviewed. After the data have been collected, the two parties should meet.

“You want both sides to sit down in the same room and talk,” says Williams. The session should end with a three-column list — what works, what doesn't, and what is a priority for improvement. The group should formulate an action plan outlining what steps will be taken, and by whom, to bring about the required change. Typically, such a session would be driven by the sponsor, notes Williams, but he argues that there should be a joint chairperson at that point. “If you can get to this stage, it's a great way to see where the companies stand,” he says.

Unfortunately, many companies that start the 360° feedback process aren't willing to put the required resources behind it. An internal champion is essential, notes Williams. Without a high-level person to make things happen, it's likely that the process will stall before it reaches the feedback session.

Seeing improvements can take time. But Williams, who has used the process at companies ranging from new dotcoms to

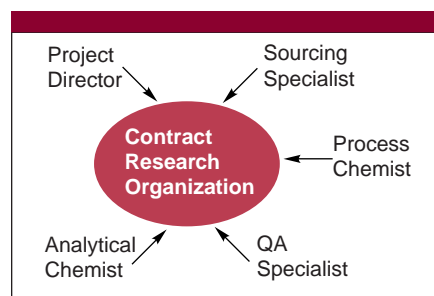


Figure 1. Evaluating a CRO with 360° feedback

global financial institutions, argues that most clients find the investment worth it.

“If a company can connect its recruiting, selecting, and development processes to 360° feedback when selecting its staff, it will see major changes in productivity. When used to select vendors, the company will see improvements in cost reductions, timelines, and quality,” he says.

For more information, please contact Howard Williams, executive consultant at Personnel Decisions International, Boston, MA, 617.587.4805, howard.williams@personneldecisions.com. **BP**