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Uneasy Alliance

Managing the relationships in Alliances and Joint Ventures

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Focus on the product, but not to the detriment of the people

Large Pharmaceutical organisations are failing to meet their promises in terms of Shareholder return, and in 2002, an unprecedented number of its big players have been forced to issue profit warnings. This has been driven by a number of factors:

- ♦ Deteriorating R&D productivity
- ♦ Cost containment by Healthcare providers
- ♦ Shortening exclusivity periods for compounds in the marketplace
- ♦ Impending patent expiries in the next few years
- ♦ Increasing regulatory uncertainty and timelines
- ♦ Sales-force saturation

Of all of these, R&D productivity has perhaps become the most visible problem. Over the last 3 decades, investment in R&D has risen exponentially from $600m in the US in 1970, to $24bn in 1999 while the number of NCEs approved by the FDA has actually fallen. Companies have responded to the pipeline paucity in a number of ways, including mergers, acquisitions, internal process re-engineering, organisational restructuring, partnering with external organisations and so on. These have met with varying degrees of success – but have not led to the changes the shareholders had been promised and rightly expected.

Where are the majority of "leading" products coming from today? A quick scan through any company's portfolio will tell you that its not all from their own in-house research. In fact, 14 of the 55 blockbuster drugs (>$500m/year revenues) marketed by the ten largest pharmaceutical companies have been in-licensed and their reliance on in-licensed based revenues as a proportion of their total revenues is expected to increase from some 24% in 1992 to some 35 – 45% this year.

In-licencor	Out-licencor
Access to Novel technologies (e.g. Pharmacogenomics), novel delivery mechanisms and products	Big Pharma are able to offer economies of scale in development and manufacturing as well as the expertise to overcome regulatory barriers
Access to the Intellectual Property (IP) and scientists skilled in that IP	Ability to leverage a global presence to create maximum value for their innovative products
Flexibility – reduces the risk of investing early in R&D	Access to financial resources
Expands the portfolio and therefore the return on investment in a large sales force	

This substantial increase in reliance on strategic alliances has resulted in the value of big Pharmaceutical – Biotech alliances increasing almost ten fold in the last decade. It is not intended to focus here on the types of deals, but suffice it to say they range from co-operative alliances through to joint ventures and consortia. The potential benefits to both the in-licencors and the out-licencors are clear as shown in the table above - but are they always realised?

It is worth pointing out that the In-licencor in 2002 is increasingly likely to be a Biotech themselves, whilst Biotech / Pharma alliances were flat at 429 in 2001, Biotech / Biotech alliances went up 16% to 586 in 2001. As Biotech's and smaller Pharmaceutical companies have gradually taken a lead in the discovery and development of early stage products, big Pharma has had to focus on developing a core In-licensing capability in order to gain competitive advantage – but are big Pharmaceutical companies necessarily better at managing these relationships as a result?

One thing is clear – across the industry the ability to manage these relationships will be critical in the short to medium term. As both In and Out-licensors learn more about the process – undoubtedly the basics will improve. Working procedures will evolve rapidly (through trial and error!) to communication and issue resolution paths. So where will competitive advantage come from?

The complexity of the pharmaceutical industry today is such that increasingly companies need to be able to meld together a range of products into a treatment for the patient. This may involve a delivery system, novel packaging, diagnostics, monitoring devices or any combination of the above, and it is unlikely that any company would look to invest in all these areas themselves. Increasingly companies are going to need to operate their alliances in a network that takes full account of overall portfolio value and requires them to work with multiple partners, simultaneously. They will need to have identified and understood their own core strategic capabilities and invest in developing them.

They will need to have a full view of their strategic portfolio and the gaps and opportunities that lie within and whether they are looking to In or Out-licence, and to understand the types of partners needed to optimise this portfolio. Pharma and Biotech organisations need to develop objective analytical measurement and forecasting skills to optimise their portfolios in a network of alliances and identify and secure appropriate partners. However these alliances must be sustained and nurtured if they are to fulfil realistic performance targets. The industry needs to learn to set these targets, proactively measure value delivered and learn from experience to sustain the relationship going forward, or sever the ties if appropriate. It needs to develop understanding of working in a network, way beyond its organisational boundaries or controls.

Having identified that alliances are likely to continue for the foreseeable future between the traditional Pharmaceutical industry and the rapidly developing and evolving Biotechnology sector, it will become increasingly critical that greater benefits are achieved from these relationships. If one assumes that the due diligence has led to partnership for the appropriate products to expand the portfolio and increase investors ROI, then the next logical step must be to consider your other primary partner – the people.

“I strongly believe that market place pressures will drive towards Targeted Treatment Solutions as described above. For Pharma to pull together the necessary parties to make this happen will require them to change how they work to meet the Partners and be prepared to reconsider the value of the different components e.g. a diagnostic, often seen as a commodity, may be a vital component to a Targeted Treatment Solution”

Dr Sarah King, Associate Partner, IBM Business Consulting Services, EMEA Pharmaceutical Group

All too often products are acquired through alliances without due consideration to the expertise that has developed the compound to date which is now attractive to purchase. Rivalry, politics and self-protection have all ensured that in many cases the best team is no longer responsible for the product. A potentially good product with the wrong development team will at best be average, but with the best team, all adding value and operating collectively, then a great product, or even a blockbuster, could be developed.

Through many alliances, the talent required has been lost. Often, this is a consequence of inertia and lack of communication and direction that leads to the brightest talent being attracted to or seeking employment elsewhere. By the time you have identified who this talent is, developed a plan to engage them, communicated this plan and put it into place, the individuals concerned are often celebrating their first year’s anniversary with your competitor! Acquiring a good product is one thing, attracting and retaining the intellectual experience that has developed it, is another.

" Pharma must change the process by which it sets up and manages alliances, such that there is continuity between business development and operational functions. Currently many operational people feel deals are handed to them that they fail to see the value in (maybe because the value is poorly understood rather than non-existent), and consequently that relationship is doomed from the start"

Dr Sarah King, Associate Partner, IBM Business Consulting Services, EMEA Pharmaceutical Group

Perhaps less focus should be placed on ensuring that both parties are therapeutically compatible, and more on ensuring cultural compatibility. There are many examples where blue chip pharmaceutical companies have partnered with small biotechnology companies who are successful due to the freedom that their employees enjoy to be creative and express themselves. Once absorbed into the partnership they are wholly engulfed in what feels like a “dinosaur” culture that not only restricts further expression of ideas through forcing your structure and culture upon them, but places clear barriers upon their further growth and personal development. The consequence is that once again this expertise is lost and these individuals seek similarly vibrant and flexible environments as you have just destroyed.

The landscape for product development is changing and will continue to do so. Increasingly, new alliances and partnerships will be formed under conditions not previously experienced. This will make the future even more complex and successful companies will need to appropriately manage not only their product portfolio, but also these alliances and joint ventures. The greatest challenge will come not in identifying the appropriate compounds, but in matching cultures, recognising the needs of your partners and facilitating the continued personal, professional development and growth of the talent pool involved. Without the most appropriate and experienced talent fully engaged and included your chances of meeting shareholder expectations will be dramatically reduced.

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