Entering into an Alliance with Big Pharma

Benchmarks for Drug Delivery Contract Service Providers

Anton Gueth

Because alliances are so important to Eli Lilly's long-term success, we have developed a distinct approach to managing alliances on the basis of our experience and extensive research of what causes alliances to succeed or fail.

MASTER SERIES

Anton Gueth is the director of alliance management at Eli Lilly & Company, Lilly Corporate Center, Indianapolis, IN 46285, tel. 317.276.2000, gueth_anton_g@lilly.com.

When a drug delivery company and a major pharmaceutical company begin thinking about entering into an alliance, their major concern is usually whether such an arrangement makes good technical and business sense. Is there a good technical match between the technology the delivery company has — a new way to administer insulin that is more palatable to patients, for example — and the molecule that the pharmaceutical company owns? Is an alliance the best way for both companies to create shareholder value and recoup the investment each has made in their technologies?

Once the two companies have answered these technical and business questions satisfactorily, they find that they may be facing an even more challenging question: How do they make the relationship work so that both can realize the technical and business advantages that caused them to seek the alliance in the first place? This often arises as a "morning after" question that can be likened to the day after the signing of the Camp David accords. The negotiators have put their signatures on the documents, but there's a long way to go and a great deal of work to do before the document comes to life. A sobering conclusion in the life of most alliances is that the actual work will involve many more people from the two organizations with different experiences and assumptions than the two sets of negotiators who understand both the spirit and the letter of the agreement. Even more sobering is the point at which the partners realize that the odds are not on their side: More than 60% of alliances fail because they cannot turn the agreement on paper into a living partnership.

At Eli Lilly, we have been trying to increase those odds of success by attempting to better understand what makes alliances work and by improving our capability to manage them. Alliances are crucial to our long-term success because they are one of the company's preferred

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ways of developing new products and technologies from molecules to delivery systems — an approach we call research without walls. We have learned that, among other things, this means we must have the capabilities to manage alliance relationships across a global organization of 35,000 people.

The principles we ascribe to can be used by companies of all kinds and sizes — from big pharmaceutical companies to biotech and technology firms — to improve the chances of success for any alliance. For the smaller firms, including drug delivery companies, these principles can be used as a checklist to ensure that the alliance is working best for them as well as for their Big Pharma partner. In fact, this approach may be the first principle of alliance management: The alliance must be deliberately managed to achieve the best interests of both partners.

We have been evaluating our alliance-management process for almost two years and have uncovered some key points that relate to

- why relationship issues are fundamental for alliances to achieve their stated technical and business goals
- the basic principles for successful alliance relationships
- how those principles should be put into practice.

Forming a relationship

Companies entering an alliance usually do not think about relationship issues first. They typically focus on their explicit goals for the alliance. For instance, they may want to fill a gap in the product portfolio, which may include expanding the use of existing products through new delivery technologies, or they may want to fill a knowledge or capabilities gap or seek other competitive and economic advantages.

In the case of a big pharmaceutical company and a drug delivery systems company, the goals of the two partners seem to be clear. The big pharmaceutical company has the molecule and has a core competency of molecule discovery or development. The drug delivery company, on the other hand, has a core competency of innovating delivery systems. Both parties understand what patients desire when taking a drug — ease, convenience, and no anxiety from the delivery method.

From this standpoint, the success of the alliance seems to hinge strictly on technical concerns, e.g., fitting the right drug to the right delivery system. Our experience and external research, however, show that the success or failure of an alliance has relatively little to do with technical concerns. Success and failure depend on a critical review of the organizational cultures, the alliance objectives and leadership, and the integration processes.

Organizational cultures. Differences in the partners' corporate cultures must be assumed as a given. The real issue is the degree of flexibility and self-awareness within the culture. Synergies arise from the successful use of cultural differences, just as complementary technical contributions elicit alliances. For example, many alliances between partners of disproportionate sizes struggle to bridge the perceived gap of the larger partner's bureaucracy and the smaller partner's unconventional culture. Both approaches are perfectly valid and, when matched well, will produce quantitative and qualitative results superior to either approach used by itself.

Alliance objectives. After the conclusion of the contract negotiations, the alliance's objectives and compromises will be very clear to the negotiators but not necessarily to the team that is charged with doing the actual work. In addition, some objectives remain vague or even hidden. For example, the drug delivery partner may say its objective simply is to acquire access to a molecule. However, it may have equally important but unstated objectives such as using the alliance to improve its marketing or distribution capabilities or to learn how to interact with regulatory authorities. Similarly the big pharmaceutical company may have its own unstated objectives such as developing its own capability in delivery system innovation. If left unexpressed, the objectives of the two partners likely will be unsatisfied as well, and the alliance will founder as the partners continue to feel that something just isn't working but do not say what it is.

Alliance leadership. Alliances have a greater chance of success when roles and responsibilities are clearly defined. Leadership on both sides of the partnership should be strong, decisive, clear, committed, and given appropriate authority within the governance structure. In the absence of clarity around roles and responsibilities, the alliances generally tend to drift.

Integration processes. Alliances have a better chance of success when the links and hand-offs between the two partners are transparent. When the operational processes do not mesh or assumptions about capabilities and capacities of either partner go unchecked, the seeds are planted for future problems.

Many other elements can influence alliances and ultimately support or destroy them. Clarifying the issues above, however, will go a long way to assure success.

Managing the alliance

Using our research, we developed an integrated approach to managing alliances based on four principles that we believe can be applied to any partnership in the industry. The principles are as follows:

- Establish alliances in the corporate strategy of the partners. Fundamentally, there are no strategic alliances. Alliances are formed to bring a business strategy to life, and as such, they are tactical tools. Therefore, it is advisable to think through the strategic rationale for an alliance from your partner's perspective to avoid becoming a junior partner in an orphan project that continually will have to fight for resources.
- Create replicable business processes that can be applied from alliance to alliance. Replicable processes make long-term success more than a matter of good personal chemistry. They make it possible to repeat success from alliance to alliance through the consistent application of best practices.
- Actively capture and manage the knowledge capital (i.e., how contract clauses and governance structures have worked) specific to alliance management. Systematically capturing, codifying, and

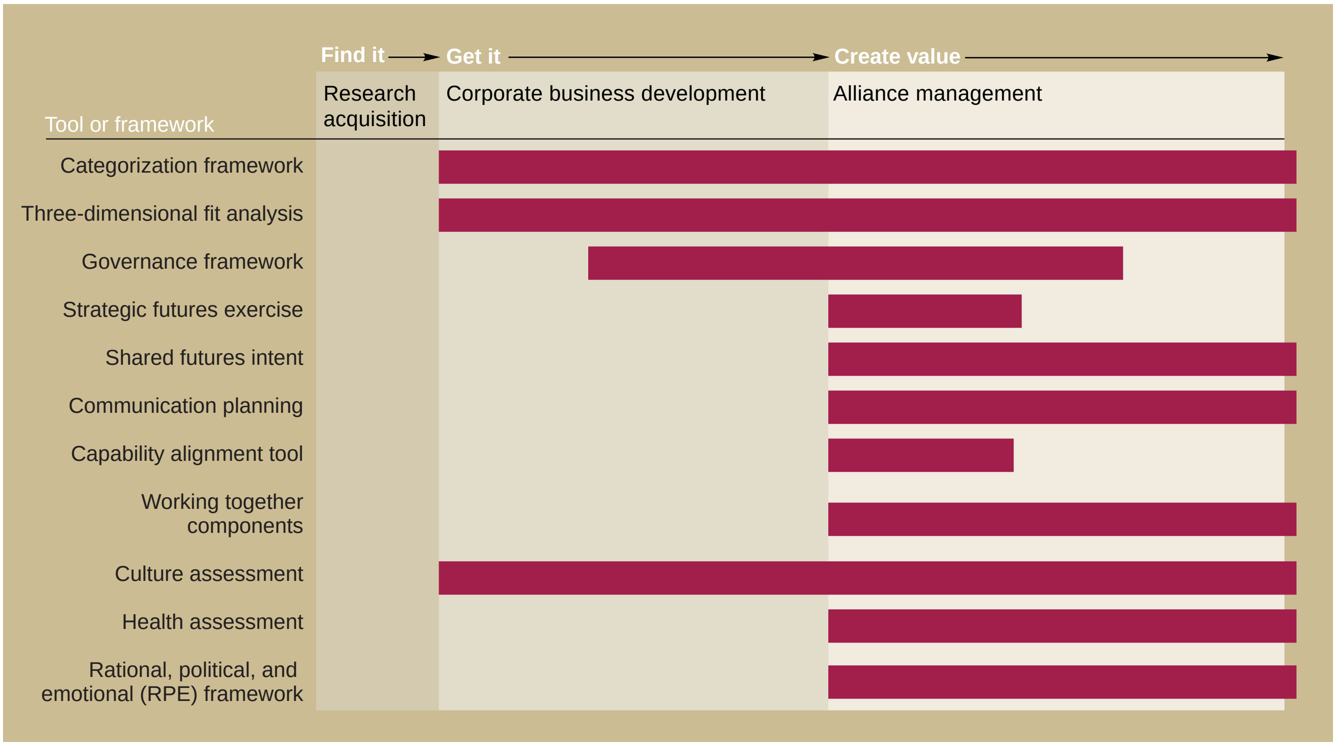

Figure 1: Lilly's alliance management model with tools and frameworks. The model spans the three phases of an alliance (i.e., research acquisition, corporate business development, and Office of Alliance Management) and uses a set of replicable tools and frameworks appropriate for each phase. Note that the process is integrated with the business development function to facilitate continuity, feedback, and learning.

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sharing knowledge allows repeated success. For us, knowledge capital resulted in a dedicated organizational structure (i.e., the Office of Alliance Management [OAM]) as well as systematic processes.

- Shape and develop participants' capabilities to ensure a positive relationship. This isn't so much a matter of finding the right personalities to work in an alliance (though defining the appropriate personal competencies is important) but is more a matter of defining the right roles and responsibilities specific to alliance management. Once this is accomplished, the company should equip its personnel with the skills necessary to fulfill those roles and responsibilities through dedicated training.

To put these principles into practice, we begin with an organizational model that links alliance management responsibilities to existing corporate business development functions. All aspects of alliance creation and management are integrated within a larger organization that spans strategy development to alliance management (see Figure 1).

The organization seamlessly links all three phases of an alliance: the finding phase, in which we seek out appropriate partners or respond positively to a potential partner's inquiry; the negotiating phase, in which we negotiate and sign the business agreement with our partners; and the creating value phase, in which the negotiated agreement turns into an effective partnership. The creating value phase is named to remind us that an alliance succeeds when the partnership creates value for both partners but doesn't succeed if either partner expends their energy only on getting the best deal for themselves. This organizational structure essentially becomes a feedback loop in which experiences and insights from one alliance influence the creation of the next.

Roles and responsibilities

Our experience has shown that leadership in an alliance is much improved when personnel roles and responsibilities are clearly defined. These roles include

- alliance champions (usually senior managers from both partners). They are charged with providing vision and linking the alliance to the corporate strategy as well as removing organizational roadblocks and supplying resources.
- alliance leaders (line managers from both partners who are responsible for achieving the stated goals of the alliance).
- functional leads (technical staff responsible for accomplishing the actual work

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of the alliance, from developing the molecule to making the technical match between the molecule and the delivery device).

- alliance manager (the representative from the alliance management organization). This manager is the advocate for the alliance itself. Although the alliance manager is employed by the Big Pharma partner, he/she acts as the ombudsman for the alliance. The managers should pay close attention to all relationship issues, from the way decisions are made to the work processes and communication. They also support the alliance leader in the start-up and ongoing management of the alliance. The alliance manager serves as the honest broker between the two partners, resolving conflicts and generally facilitating the relationship.

Our OAM develops and continually strives to improve tools and processes to support alliance managers. These tools and processes cover every phase of the alliance, from the start-up (building personal relationships and establishing a common strategic goal within the working team) to aligning partners' capabilities (see Figure 1).

Two of the more important tools help us answer how well we are working together. The first is used throughout the life of an alliance. The three-dimensional fit assesses the cultural fit between the two organizations, meaning the compatibility of the management processes and cultures; the operational fit, how well the operational aspects of the business models complement each other; and the strategic fit, how well the partners' objectives are aligned. Using these three perspectives when categorizing and analyzing issues that arise tends to focus the discussion on the facts and reduces emotional distractions.

The second tool is used annually to assess the health of the alliance. The Voice of the Alliance is a Web-based survey that helps us assess our major alliances. This proprietary survey includes approximately 80 questions to evaluate the 14 dimensions essential to a healthy alliance, from communication to leadership, trust, and fairness. Both organizations take part in the survey, and the results (usually displayed on a radar chart, see Figure 2) show how each partner views each dimension. The chart indicates the areas in which the alliance is doing well, the areas in which it can improve, and the areas that need the most immediate attention. Results are used to design interventions that will improve the partnership, making the Voice of the Alliance survey another critical mode of organizational learning.

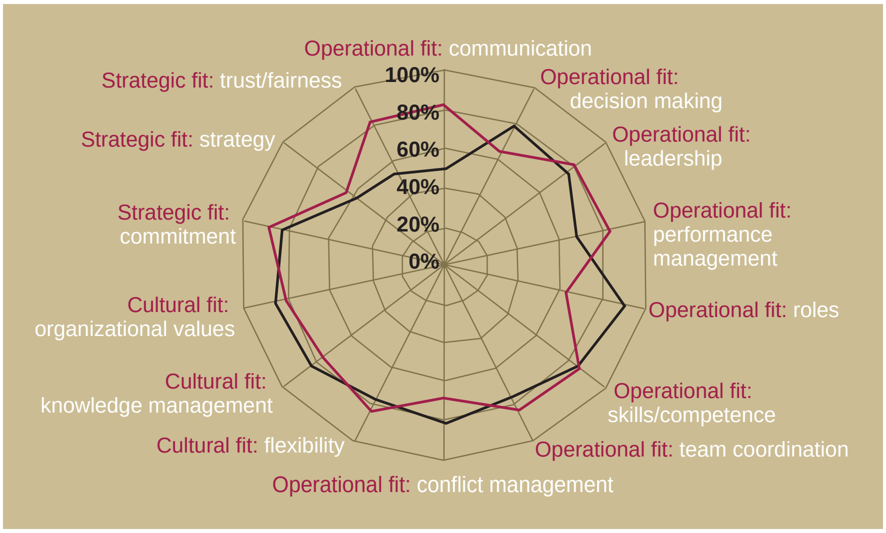

Figure 2: Radar chart example. Results of the Voice of the Alliance survey are reported on a radar chart that shows the findings for Lilly and the alliance partner in each dimension so they may identify easily the differences in their perceptions.

Conclusion

Although these principles and approaches seem plausible in theory, the real question, of course, is do they work? Our partners say they do. The Voice of the Alliance feedback allows us to diagnose and cure problems before they reach the incurable stage. Perhaps just as important, we know the principles are functioning because our partners continue to work with us on new projects — a true test of their effectiveness.

The larger question is can these principles work for partnerships and organizations of any size and shape? In other words, if you are a drug delivery company, will they work for you? We believe they can. Make sure that any alliance you consider is clearly grounded in your corporate strategy and the corporate strategy of the potential partner. Inquire if the potential partner uses a set of alliance-specific, replicable processes, tools, and best practices that reflect the experiences from previous alliances. You can even start developing tools of your own. Ask what your potential partner has learned from previous alliances.

Of course, you also should reflect on your own experiences to determine where your corporate culture and operational processes may help or hinder external partnerships. Then make sure that all the roles essential to alliance management are defined and filled. Remember that one person can play more than one role, but all roles must be accounted for and must function at the appropriate time, especially the role of the alliance advocate. If you satisfy each point on this checklist, then you may improve the odds that your new alliance will be more than a well-negotiated deal — it will be a living partnership that can deliver. PT