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Pharmaceutical Alliances

Managing Alliances at Lilly

If in-licensing is so important to the future of drug companies, why aren't they focusing their attention on making them work? Here's one company's response.

by Nelson Sims, Roger Harrison, and Anton Gueth

- While alliances look like a relatively quick, cost effective way to keep the pipeline filled with new molecules, available data suggest that over half of all alliances fail to reach their intended outcome, thanks largely to relationship, not technical, failures.
- Lilly aims to streamline and simplify the alliance management process by systematizing the approach: training managers, creating management structures for all alliances, and regularly assessing each alliance's health along predetermined criteria.
- Alliance managers, employed by Lilly's Office of Alliance Management, have the responsibility for ensuring that alliance teams use appropriate planning, organization and start-up processes and for fixing alliances when they get into trouble, sometimes by shifting employee responsibilities.
- These managers can exploit an extensive alliance management tool kit, including a database of all alliances intended to codify what we've learned from each alliance.
- While ROI on the program is difficult as yet to measure, anecdotally the initiative is working, having repaired several damaged alliances, and, with luck, helped brand Lilly as a partner of choice in a world when the economics of deals alone don't dramatically differentiate partners.

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For the past 18 months, a team of executives at **Eli Lilly & Co.** has focused on a single task: improv-ing and institutionalizing the company's capabilities in creating value from our many alliances and partnerships, especially those with smaller biotech firms.

All pharmaceutical companies want to get more new, innovative products to market as quickly and cost efficiently as possible. To do that, they need new molecules and often new capabilities, skills, and sometimes simple capacity as well.

To address some, or all, of these needs, virtually all major pharmaceutical companies, regardless of their overall business strategies, are increasingly relying on alliances. But while creating alliances may look like a relatively quick, cost-effective way to access new capabilities and keep the pipeline filled with new molecules, the actual experience draws a different picture. Available data suggest that over half of all alliances fail to reach their intended outcome.

Some of that failure is normal, expected, and even valuable. Developing new medicines is a risky business, no matter how a company conducts it. We start off with far more good ideas, interesting concepts, and promising hypotheses than will ever result in validated targets for drug discovery, high-potential molecules, or novel drug delivery systems. The kind of natural winnowing that comes from testing our hypotheses and ideas, and discovering what works and what doesn't, is fundamental to the way we all learn.

That said, some failure in alliances has nothing to do with the inherent risk in hypothesis testing. Instead, the partners in the alliance simply couldn't figure out how to work together.

Recognizing the difference between "technical" failure and "relationship" failure prompted a Lilly board member to ask the question two years ago that sparked our quest to improve the way we manage alliances: "If partnerships have been and will be increasingly important to Lilly's future, what is management doing to improve the organization's partnering capabilities?" We spent the next year answering that question, ending up with a system with which we run all corporate alliances—the Lilly Alliance Management Process (LAMP).

While LAMP may sound bureaucratic, it is simply a road map used to streamline and simplify the process. Such systems exist to manage critical components of companies. And if we were going to be serious about a capability in alliances, we needed to systematize our approach—training

managers, creating management structures, and assessing success along predetermined criteria, all with the goal of making alliances work better.

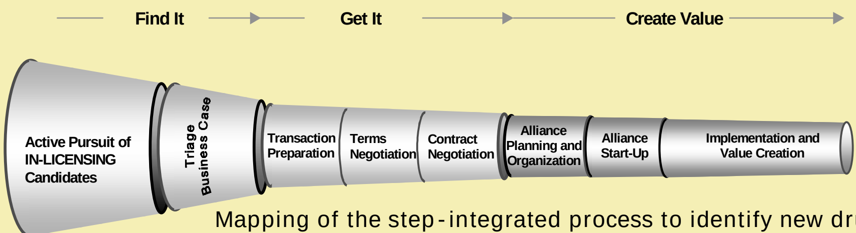
Successful Alliances: First Principles

We began by taking stock: reviewing our current procedures, “best” practices, and the needs of our existing alliance partners.

To some extent, the review pointed out what we already knew—that Lilly had been engaged in alliances and alliance management for a long time, at least since the 1920s when we began working with **University of Toronto** scientists Frederick G. Banting, MD, and Charles H. Best, PhD, who had isolated insulin and demonstrated its value in managing insulin-dependent diabetes. They had identified the molecule; we had the capabilities to optimize its production and market it. The development of insulin was one of the great project management challenges of its day, with a very short timeline required in our agreement with the university. But it was astoundingly successful—for patients without treatment options for an otherwise fatal disease, and for the partners. By 1985, insulin had become a $400 million franchise for Lilly.

The next stage of the diabetes story was also partnership-based: **Genentech**

SOURCING INNOVATION ALLIANCE PROCESS



Mapping of the step-integrated process to identify new drug opportunities, to successfully complete the transaction, and to ultimately manage a successful alliance, creates clarity of roles and responsibilities ensuring better outcomes for Lilly and the partner.

SOURCE: Lilly

Inc. cloned and then licensed to Lilly recombinant human insulin (*Humulin*) which, along with its Lilly-modified analog molecule, *Humalog,* account now for almost 100% of Lilly's total insulin sales. Nor had Lilly come up with its own small-molecule oral antidiabetic. It licensed one in through a co-promotion with **Takeda Chemical Industries Ltd.**: after two years on the market, pioglitazone (*Actos*) is now generating total US revenues of over $600 million and is the fastest growing molecule in its class. Further alliances, such as Lilly's recent collaboration with **Alkermes Inc.** on inhaled insulin, will build the franchise with new drug delivery technologies.

Outside of our diabetes work, there were scores of other collaboration examples, including work in the 1950s with the UK National Research and Development Council on a new class of antibiotics (called cephalosporins) derived from a fungus first discovered in contaminated water in Sicily. Six cephalosporin products helped drive Lilly's growth for 30 years. This history may have lulled the company into thinking it had greater alliance management capabilities than it actually had—at least until the Lilly board member asked the previously stated question.

Our review did reveal a basic pattern that alliances go through: a "find each other" phase (usually with the large pharmaceutical company finding the smaller company that has a molecule or technology of interest), a "negotiating phase" (which the big company often thinks of as the "get it" phase), and the actual alliance implementation or business partnership phase.

In each of these phases, the considerations about whether the partners could actually work well together were rarely considered explicitly, especially in phase one and two. And when they were considered in phase three, they were treated as secondary to the primary objective of moving the project forward on time and on budget.

The internal review of Lilly practices made us suspect that the company may have, in some cases, been lucky rather than proficient at alliance management. The successes clearly were more dependent on the individual talent and goodwill of people involved in alliances—from both sides—than on any kind of systematic management procedure. Nobody was following a particular process that focused on improving alliance results. Few were capturing information about failures and successes in a formal way and sharing what they learned throughout the organization.

Our review of best practices, provided by our consultants from Accenture and our survey of actual partners, confirmed and elaborated what the in-

ternal review showed us. The findings from an external survey (conducted by PricewaterhouseCoopers) were particularly telling. Alliances failed most frequently, said respondents, because of "cultural and process differences" between the two organizations. If these were addressed and accounted for, alliances were more likely to succeed. Technical issues were actually ranked sixth in contributing to the success or failure of an alliance.

Why Alliances Fail

Exhibit 2

- Differences in partner cultures
- Objectives of partners were not compatible
- Poor alliance leadership
- Poor integration processes
- Market potential overestimated
- Failure in technology
- Changes in the business environment
- Ineffective governance structure

SOURCE: PricewaterhouseCoopers

Indeed, badly managed relationship considerations could erect barriers to scientific success on a given project. Perhaps more importantly, they would prevent the partners from working with each other again. In the long run, Lilly wants the relationship to succeed so that the partnership can potentially work on other projects, and thereby increase the odds of scientific success. The company also wants a reputation for partnering excellence that will allow it to be even more successful in gaining access to key partnership opportunities.

The survey work also confirmed what our internal analysis had suggested—that Lilly had some work to do if were to become first-in-class at alliance management. The survey showed that Lilly was better than the average company in most attributes and categories that went into being a good partner: trustworthiness and credibility; organization and management; culture and values. But the survey also showed that the company needed to improve in order to be the leading firm in the industry on any of the attributes in these categories. In fact, Lilly was the number-one company in only two attributes: having a track record of successful partnerships and trustworthiness.

Based on the survey results and discussions with our partners, we identified several broad areas where we could improve our partnering capabilities. In effect, we needed to manage the alliance process just as rigorously as we managed the product development activities.

Putting Principles into Practice with LAMP

The logical result of this work was the Lilly Alliance Management Process (LAMP), the first component of which was the Office of Alliance Management (OAM), which would be integrator, intermediary and catalyst for best practice performance. If alliances are to work, there has to be an organization responsible for making them work.

Those multiple roles, if they were to be taken seriously, meant that the biggest responsibility for the OAM in any particular alliance would be to serve as the advocate for the collaboration itself, not one side or the other. Our aim would be not trying simply to get the best results for Lilly but for the partnership. This image of the organization as a kind of alliance ombudsman represented a major shift for Lilly, as it would be for any organization, large or small.

Indeed, because what we were embarking on was such a different path, we also needed to make the roles and responsibilities of those involved in leadership of alliances very clear to people inside and outside of Lilly—perhaps most importantly to those inside. Our analysis showed that lack of clarity for key leadership roles is one of the key elements of alliance failure. Consider the fact that Lilly is a multinational Pharma company with over 35,000 employees and then put yourself in the shoes of a small biotech partner trying to navigate the system and committee structures. Even, or maybe especially, the most sophisticated partners need help in understanding each other's organizational complexities.

Every alliance, therefore, has its own three-person management lead team responsible for the collaboration's success—an alliance champion, alliance leader, and alliance manager. The alliance champion, usually a senior executive, is responsible for overall support and oversight of the alliance. Probably the most important responsibility of the champion is to facilitate or ensure communication between Lilly and its alliance partners by breaking down the normal bureaucratic barriers that can get in the way of a smooth working relationship.

The alliance leader, usually a technical leader, a project manager, or other senior person with an intimate knowledge of the area, is responsible for the day-to-day leadership of the alliance. He or she is ultimately accountable for the overall program and thus must ensure that the teams are committed, ca-

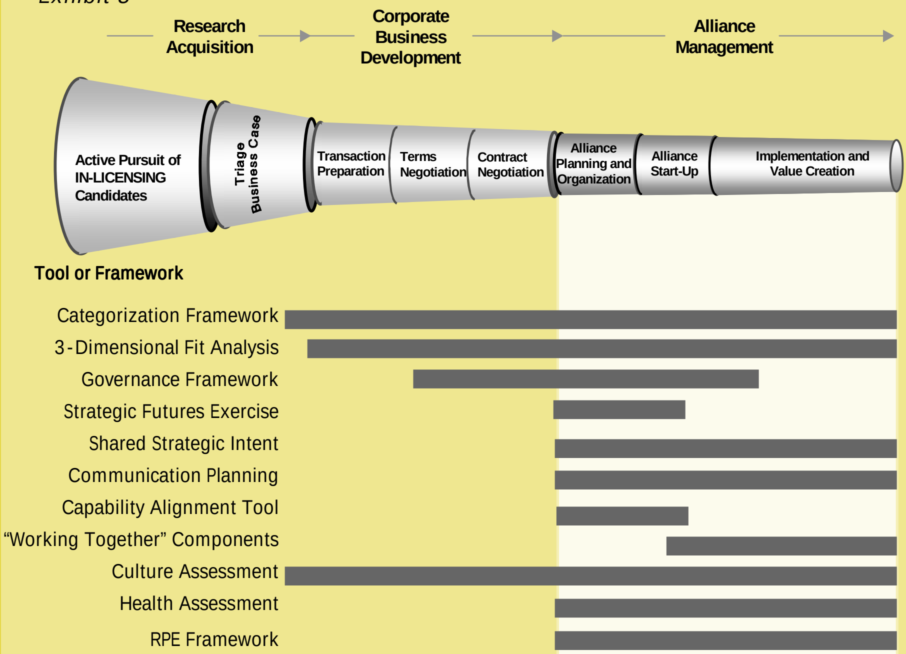
pable, and united in their implementation of the project plan.

The alliance manager represents the OAM. This executive's primary duty is to support the alliance leader and serve as an advocate for the alliance itself. The alliance manager is essentially the alliance *process* resource and business integrator. He or she is available to the alliance leader and partners to help resolve differences among the partners, should those arise, provide training and development, and serve as chief diagnostician in assessing the health of the alliance.

In a more general role, the alliance manager, who supports a portfolio of alliances, captures and codifies knowledge about alliance management that

Tools and Frameworks

Exhibit 3



SOURCE: Lilly

we can use in helping future alliances. While the alliance manager is part of the OAM, we have found it important for the manager to “live” with the functional area involved in an alliance. The alliance manager then can truly be seen as a partner within the business. We deliberately recruited our alliance managers from a wide variety of disciplines at Lilly: corporate affairs, finance, and marketing—not only from research and development. As relationship integrators their fundamental skill had to be in listening, appreciating, and influencing other people.

As such, the alliance manager is responsible for alerting Lilly senior management when leadership problems arise. In one of our deals, an alliance manager recognized that a majority of the combined alliance team didn’t understand the objectives and direction of the alliance: the alliance leader—a scientist otherwise well respected within the team as the technical point person—wasn’t leading. Upon the recommendation of the alliance manager the scientist became technical leader of the collaboration, a new overall alliance leader was appointed, and the alliance’s productivity markedly improved.

The responsibilities and degree of involvement of the OAM and the alliance manager actually vary from alliance to alliance. The alliance manager is always available for consultation and facilitation. But the manager may not always be directly involved in the day-to-day activities of the alliance. We assess each of Lilly’s more than 140 alliances on two dimensions: their strategic importance and their management complexity. The alliance manager needs to be less involved with alliances with less strategic importance to Lilly and lower management complexity; alliances that are complex and highly important strategically do need heavy commitment.

Looking for a Seamless Process

The OAM process has already evolved from its initial conception. Initially, the OAM came in after the deal was completed, focused on making sure processes were thoroughly outlined following contract signatures. But the handoff from business development to alliance management could be abrupt: our partners had to transition to an entire new group of individuals.

Thus we changed the process: an alliance manager now visits the potential partner during Lilly’s due diligence, trying to understand the partner’s organization and culture. The goal is to identify ways to meld, not change, the two companies’ cultures. A simple example involved an alliance where

both partners used similar terminology but meant very different things in a clinical process. That realization avoided significant consternation in the operational phase of the project. During the contract negotiation itself, the alliance manager focuses on governance principles. And once the deal is signed, he or she coordinates the first interactions with the new members of the team and helps set the alliance's initial agenda.

The agenda might seem obvious. Historically at Lilly, we appointed as alliance leader a project manager who focused on getting the alliance off to a fast start. Agendas for the initial alliance meetings were heavy on tasks: they laid out project plans in great detail, assigned work responsibilities, detailed expectations as to when the first deliverable milestones had to be met. It was not unusual for teams to be deep into technical discussions within hours of their first meeting.

Yet the alliances often performed poorly. The success of any alliance greatly depends on the strength of the relationships among individuals in both partners. Our current kick-off meeting agendas therefore start with the social issues—with the alliance manager and leader using widely published, simple exercises such as "Best Friend", "Mission Possible" designed to get team members from both companies to know each other, figure out ways of working together, and formulate and commit to a shared team definition of the alliance objectives and goals.

Paradoxically, the alliance manager's initial involvement in an alliance is often to persuade the partners that they need to slow down and not take immediate action toward the alliance's technical goals. They first need to put in place a solid foundation for their relationship, understanding what they are building together, how they will work together, and how they will respond to issues that undoubtedly will arise during the project.

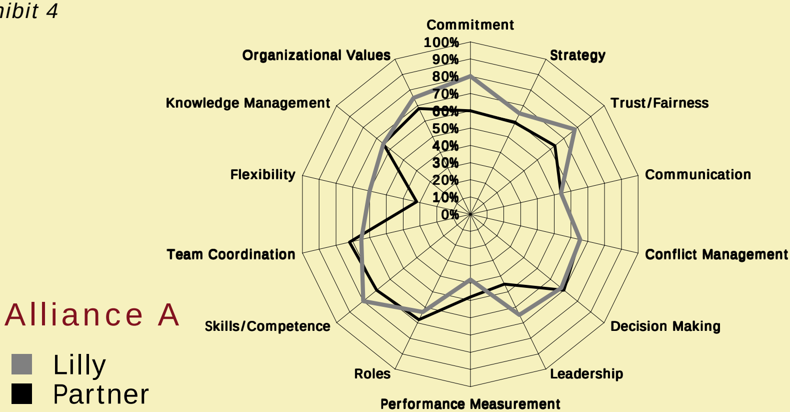
The Tool Kit

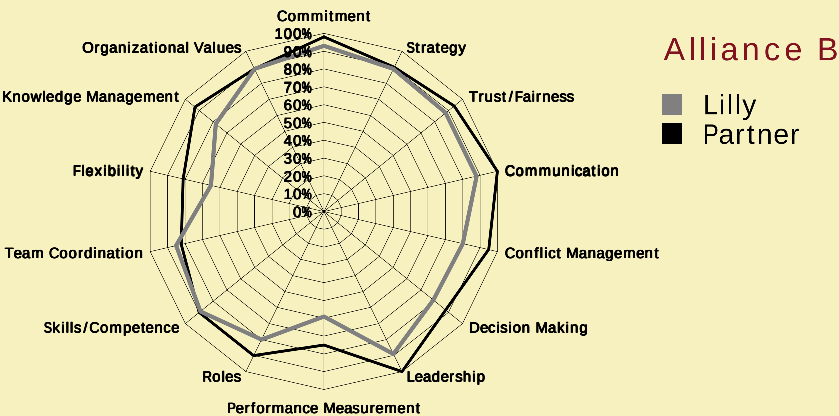
To help them put such a foundation in place, the alliance managers use an extensive tool kit we've developed. The kit documents processes, tools, frameworks, and approaches that the manager can use to support the alliance leader and the alliance itself at each phase of its development. Among other things, we use the tools to clarify and gain consensus on the strategic intent of the alliance; identify, align, and best leverage the capabilities of both partners; and map and align the work processes of each partner so that

they can more effectively work together; and assess an alliance's health. For example, one of the tools we use is the Alliance Health Survey with which

% of Team Members Rating each Dimension as Favorable or Very Favorable

Exhibit 4





SOURCE: Lilly

we check, on a regular basis, the health of a given alliance.

We send to all employees of the alliance from both companies the survey's web-based questionnaire which covers 14 distinct dimensions that have been identified as the key indicators for alliance success.

We've compared the results from two alliances in Exhibit 4, plotting the feedback from both companies (Gray = Lilly, Black= Partner). Alliance A shows significant signs of stress, while Alliance B appears to be in good health, with each partner assessing the alliance similarly and favorably. The overall assessment of Alliance A is moderate at best (average favorable ratings 60-70%), with significant differences in the assessments of both partners. The collaboration clearly needed help.

The assessment tool allowed the alliance leader and manager to provide help where it was most needed—changing processes, using our "strategic futures" tool to re-align the partners, and to re-deploy certain team members. Six months later, the collaboration was more productive and the team members reported a much healthier and robust working relationship that allowed them to address issues much more proactively.

Alliance B required no particular intervention. However, the results were shared with the combined team to re-emphasize the importance of the quality of the relationship for the desired outcomes.

Institutionalizing the Lessons Learned

Yet another one of our important tools, a database called *Partners*, aims at a third component of our alliance management plan: to systematically capture, codify, and share what we know and what we learn about partnering skills. We knew we wanted the OAM to be a learning organization (which also means a teaching organization). To achieve that we needed to specify learning as someone's clear responsibility and developing a powerful tool to support it.

In our case, the primary responsibility for capturing and sharing what we learn belongs to the alliance manager. At each point in the process, the alliance manager uses our repertoire of tools to help facilitate the partnership and report the results of each use—including an evaluation of a tool's effectiveness in a given situation and a description of modifications that improve its effectiveness.

The *Partners* online database contains information about all of Lilly's alliances, including a high-level overview, the collaborations' contract, governance

agreements and minutes, lessons learned, milestone and budget reporting, as well as all the existing tools and processes, and online instruction for how to use them. It can be accessed by anyone responsible for, or involved with, an alliance.

The database importantly facilitates training, helping those involved in alliances develop their skills in using the fundamental tools and processes. Training is part of the formal orientation sessions at the beginning of a new alliance. We also provide help on an as-needed basis.

In our first year, we trained nearly 500 Lilly managers and research scientists. We also held our first alliance summit where external alliance experts and Lilly senior management reinforced the importance of alliances to an audience of almost 100 key managers in Lilly and discussed best practices that they could help instill in the organization. The point we reinforce: create an appropriate partnering culture for the company.

For that reason, much of the educational component of LAMP has been designed for alliance leaders and alliance champions. We share with them the business case for alliances, so they clearly understand the importance to Lilly. And we make sure they understand the kinds of behaviors that are more likely to help a partnership succeed, which largely means treating the needs and interests of our partners with the same care as we do Lilly's own needs and interests.

And we feel we have evidence that training works. For example, we formed an alliance in the early days of a new product's development, but, by the time the project had progressed, in the latter part of 2000, some Lilly managers believed we could handle the program ourselves. And perhaps we could have. But the alliance manager reminded all involved that there was a contract in force and rather than changing that basic legal reality the alliance team needed to re-engage with our partner. The alliance manager set up a two-day training class for the combined team from the two companies, focused initially on creating awareness and provided background information, and then used case studies taken directly from this particular alliance to drive the points home. Team members worked collaboratively to re-establish the strategic intent of the alliance, and then spent considerable time working through an assessment of capabilities and gaps in the two companies to achieve the agreed-upon objectives.

The training sessions didn't necessarily change minds among Lilly

employees—many still believe that we could have fully developed the product ourselves. Nonetheless, within days of this training the attitude of the team members had improved. Productivity soared. And today this alliance rates as one of the company's better collaborations, despite its recent near-death experience.

The Short-Term vs. Long-Term Tradeoff

But what is also intriguing about this example is that it shows Lilly was willing to sacrifice what may have appeared as its best short-term advantage (keeping development within its own control and therefore retaining the additional margin) for a set of longer-term, and much less obvious, interests. Had we allowed the alliance to die, we could have delayed the drug development process squabbling over who was doing what, potentially ended up in court, and, in either case, have had plenty of explaining to do when it came time to talk with other potential partners. They could reasonably ask: "If you abandoned your partner when it suited your short-term interest, why won't you abandon us?"

But whether the investment in OAM actually creates a positive return on investment is less clear. Most other companies don't have such a process, at least that we know of, and it's not easy to say that LAMP spells some part of the difference between, for example, our current P/E-to-growth multiple and those of our competitors less interested in alliance management.

So is the investment worth it? OAM and Lilly senior management are convinced that we are making Lilly a more partner-friendly organization. At the individual partner level, our annual Alliance Health Survey of our partners shows that the new management processes are working. Survey respondents tell us that Lilly has materially improved its ability to recognize and resolve difficulties in a partnership at an earlier stage, before they become barriers to success. The qualitative evidence is also compelling. For instance, our alliance partners more and more frequently call the OAM to ask our counsel on the best way to work with Lilly; they clearly view OAM as an honest broker.

We believe that this kind of brand management—Lilly cares about partnerships—will in the end win us more of the key partners. Economically, we believe, deals are going to be much the same: valuable new products

and technologies will command relatively similar deal prices. The fact that more and more of the most sought-after products are effectively auctioned will assure that. Lilly's edge therefore must be non-financial: in the line-up of partners offering the same economic terms, Lilly needs to stand out in its ability to make an alliance successful.

Nelson Sims is Executive Director and Roger Harrison and Anton Gueth are directors in Eli Lilly's Office of Alliance Management.