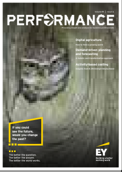

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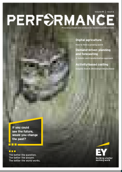
Balancing "make, buy and ally" in life sciences

Balancing make, buy and ally is one of the key drivers of corporate value for life sciences companies. In many cases, business alliances prevail as a way to boost innovation and growth in addition to in-house innovation efforts (make) and active merger and acquisitions efforts (buy). Despite significant value add, many business alliances fail to deliver the expected value. So how can companies manage their business alliance portfolios to reach their full potential?



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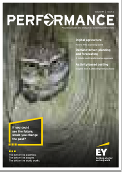

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Life sciences companies face myriad challenges, such as, demanding regulatory requirements, changing market dynamics, new business models, shorter product life cycles and expiring patents on blockbuster drugs. Combined with a traditionally long time to market and high R&D costs, life sciences companies are being forced to choose to ally over make or buy more often than other sectors, to innovate more effectively and achieve sustainable growth (see Figure 1).

Within the life sciences sector, potential alliances include university collaborations, teaming with start-ups, go-to-market licensing alliances with competitors and joint ventures. But any form of alliance presents the challenge of how to manage it such that it delivers improved performance. Many reports and studies emphasize how individual alliances often fail to deliver true potential or fail completely due to various factors (see Figure 2).[1] Some common failure factors include fear of giving away too much information and not receiving enough in return.[2] However, in our experience, failure can also be caused by a lack of structure – both in the way business alliances are managed and in the discipline applied to execute the related processes.

1. *Grow From the Right Intro: A Report on the Strategic Value of Business Alliances and Compatible Partner Matching,* BPI Network, 2014; J. Hughes and J. Weiss, "Simple Rules for Making Alliances Work," *Harvard Business Review,"* 2011; *The ASAP Handbook of Alliance Management: A Practitioner's Guide,* Association of Strategic Alliance Professionals.
2. C. Conner, "Why Most Collaborations Still Fail And 5 Ideas For Turning the Equation Around," *Forbes,* 2014.

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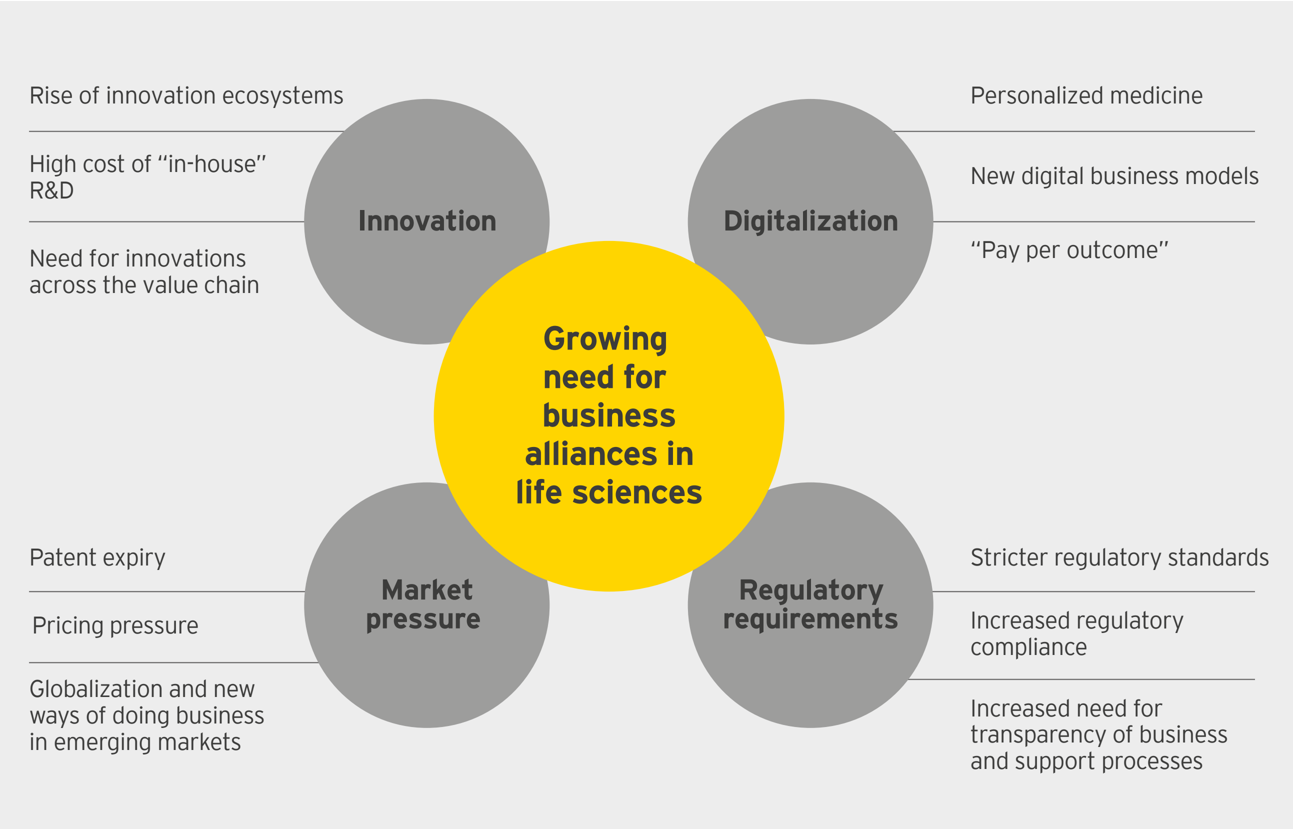
Figure 1. Growing need for business alliances in life sciences



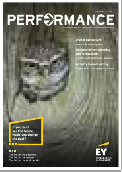


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Figure 2. Business alliances in perplexing (contradictory) numbers

85% of companies consider **business alliances as a growth engine.**

30% of companies have a **consistent business alliance strategy** supported by structured processes.

30% **of revenue** can be derived from a well-managed business alliances portfolio.

Up to **70%** of all **business alliances fail** to deliver the expected value or fail completely.

Source: *Grow From the Right Intro: A Report on the Strategic Value of Business Alliances and Compatible Partner Matching*, BPI Network, 2014.

> The biggest fear when entering an alliance is giving away too much information and receiving too little in return.

The next level of business alliance maturity is about focusing not only on the success and return on investment of individual business alliances, but also the management of the overall business alliance portfolio. What sets the true leaders apart from the average performers in the life sciences sector is the way they continuously rebalance their business alliance portfolio so that it is both dynamic and strategic.

A holistic approach to business alliance portfolio management

EY has developed a structured approach that can help improve the success of both individual business alliances and the business alliance portfolio. The approach is based on the four major phases in the life cycle of a business alliance, i.e., plan, build, run and sustain. In this way,

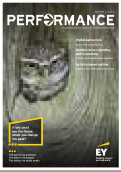

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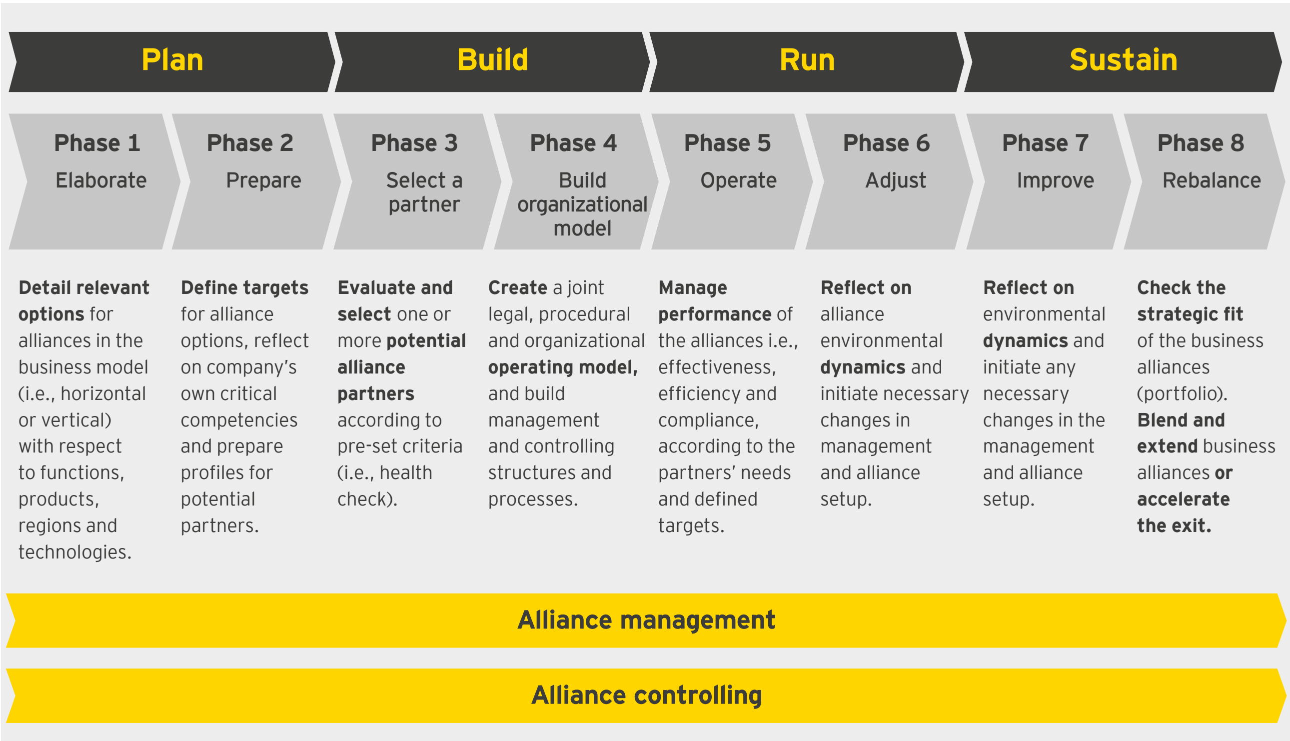
Figure 3. Business alliances can be managed with a flexible life cycle approach



managers are led through the strategic decisions, processes, organizational setup and KPIs needed to help improve the value of a business alliance (portfolio).

For large life sciences companies particularly, the number of alliances across the value chain can easily proliferate. It is not unusual for leading companies to have hundreds of collaborations with universities across the globe. Add to that, whole departments devoted to identifying future business opportunities, open collaborations, public-private programs, partnerships with start-ups, customers and competitors — the picture quickly becomes very complex. And with this increasing complexity, questions of transparency, the true value-added, strategic fit, resource availability, and return on investment on such a large number of individual alliances start to multiply. As a result, decision-makers can easily lose track of the performance of activities. So it's necessary to find a holistic way of managing these alliances and networks, as well as establishing the processes and organizational setup to manage and administer them in a more efficient way, with harmonized governance across the value chain.

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What sets true leaders apart from average performers is the way they continuously rebalance their business alliance portfolio so that it is both dynamic and strategic.

Paradoxically, although over 85% of companies do agree that business alliances are the necessary growth engine, only 30% of them have a formal and consistent business alliance strategy, governance and dedicated processes supporting them.[3] This is despite the fact that, for very successful companies, the value generated by a well-managed business alliances portfolio can contribute up to 30% of the revenue.[4]

Figure 3 shows the four phases (i.e., **plan, build, run and sustain**) of EY's alliances life cycle management approach. It offers management the opportunity to define a comprehensive business alliances strategy and establish the processes and governance necessary to drive the value of the overall portfolio. The focus is to improve the value a portfolio of business alliances can bring to the company by using proven tools and global leading practices.

Phase 1: Plan

The purpose of this phase is to establish the link between the portfolio and the strategy the company is currently pursuing. The first step is to explore the strategic fields of play. We recommend a simple market and technology matrix (see Figure 4) that can be simplified or extended based on the company's needs. Even with the most complex business alliances portfolio, the goal is to develop a single matrix for the whole company. True leaders extend the concept even further by managing all other projects using the same matrix.

Several fields of play and their relevance to the strategy and the business alliance portfolio are significant (as shown in our case study later in this article):

- **Old markets and old technologies:** This is reserved for very basic R&D. This could include collaboration with universities, establishing private partnerships or large alliance networks (one example of these are European Development projects) working on the basic understanding of the scientific principles needed for the new product development. The knowledge gained here should be shared with all other fields.

3. C. Conner, "Why Most Collaborations Still Fail And 5 Ideas For Turning the Equation Around," *Forbes*, 2014.
4. C. Conner, "Why Most Collaborations Still Fail And 5 Ideas For Turning the Equation Around," *Forbes*, 2014.

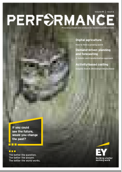

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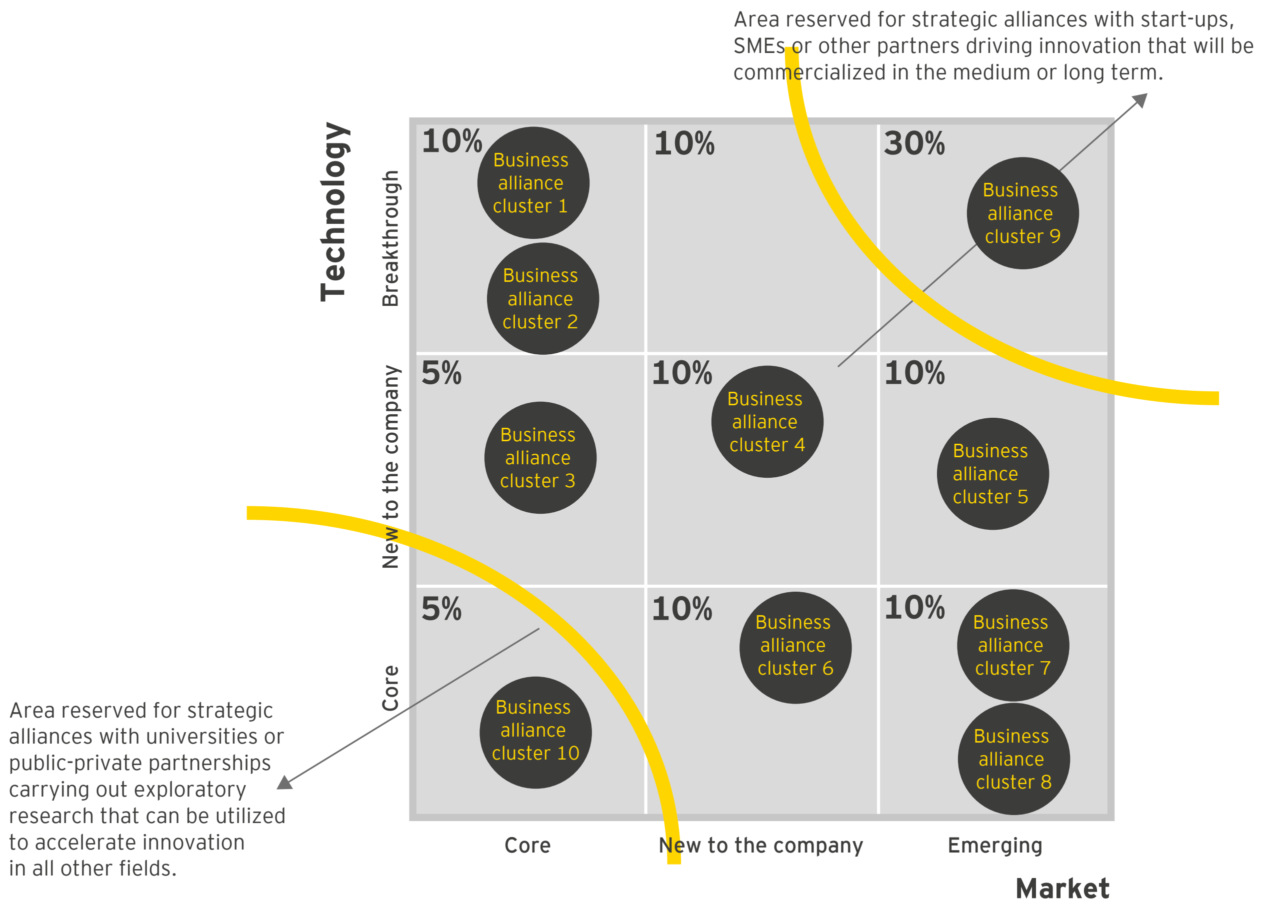
Figure 4. Business alliance strategic portfolio matrix

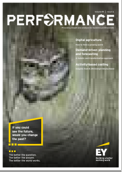
Definition of terms:
The percentage of resources (i.e., budget) that will be allocated to each area will need to be decided (represented here as xx%).

Technology (i.e., whatever technology the company is using to generate its products):
- **Core:** long-established technology used by the company
- **New to the company:** well established in other companies but not previously used by the company
- **Breakthrough:** technology that no other company or industry is using on a large scale

Market:
- **Core:** markets in which the company already has an established presence
- **New to the company:** markets in which direct competitors already have a presence
- **Emerging:** markets in which the company aspires to operate in the future



Notes on graph:
The size of the bubble correlates to the size of the cluster. The percentages shown are for illustrative purposes only.



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- **Breakthrough market and breakthrough technology:** Alliances in this field focus on products and technologies that will raise revenue in the long term. This field is especially interesting for technology scouting alliances or start-up alliances, for example, digital pharmaceutical concepts. The performance of the alliance clusters in this field are measured by different KPIs from other fields due to their long-term perspective.

Each field of play has to be defined in terms of budget and resources, strategic objectives and which KPIs should be used. Transparency across the organization is essential for success. If possible, companies should manage alliance clusters within each field of play. We recommend establishing some strategic business alliance clusters within each field. This will reduce complexity, increase strategic fit and improve resource availability and inter-alliance knowledge management within and outside of a particular cluster.

At this stage, leading companies also define the business alliance clusters that need to be established in the future in order to reach strategic goals. Very successful companies use the same matrix for in-house innovation projects (make) as well as for decisions on M&A activities (buy). Thus, a truly holistic view on all types of activities (make, buy and ally) is established. In our experience, without such a holistic view, there is a high risk that the decisions made on make and buy may be sub-optimal. With a holistic approach however, both transparency and performance increase dramatically.

Phase 2: Build

In this step, a large number of active business alliances must be evaluated based on pre-defined criteria and assigned to the clusters in a particular field of play. This is a good opportunity to "clean" the portfolio – one success factor is reducing complexity by not placing isolated business alliances outside of the defined clusters.

This is also the time to establish how the business alliance portfolio's future performance will be managed. Existing processes, controlling and reporting structures can be leveraged to help with this. These will need to be regularly updated and improved.

Phase 3: Run

After all the fields of play, and corresponding present and future business alliance clusters are defined and populated, the company can proceed with running the portfolio. The performance of individual alliances is monitored and evaluated, as well as the aggregated performance of alliance clusters and fields of play. The performance of individual clusters and fields of plays is also monitored and continuously adjusted. Addition or termination of individual business alliances follows the pre-established rules.

One common tool for measuring the performance of individual clusters is the value-complexity matrix used by business alliances practitioners[5] (see Figure 5). Here, the individual alliances and their respective clusters are measured according to the value they bring in relation to the complexity of their management.

This methodology is applicable and straightforward if the company deals with a moderate number of alliances. For a large number of business alliances, we recommend using big data analytics so that the performance and business impact can be evaluated more accurately.

Other factors to note include:

- Aggregation can help enable the company to evaluate the overall return on investment from all business alliances.
- Issuing an annual report on the status of the overall business alliance portfolio is possible with minimal effort compared with when managing individual business alliances separately.
- Use of internal resources and assigned budget is significantly improved to facilitate better performance.
- Internal auditing of individual business alliances and clusters is made possible, allowing the company to meet ever-increasing regulatory requirements.

5. *The ASAP Handbook of Alliance Management: A Practitioner's Guide*, Association of Strategic Alliance Professionals.

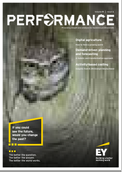

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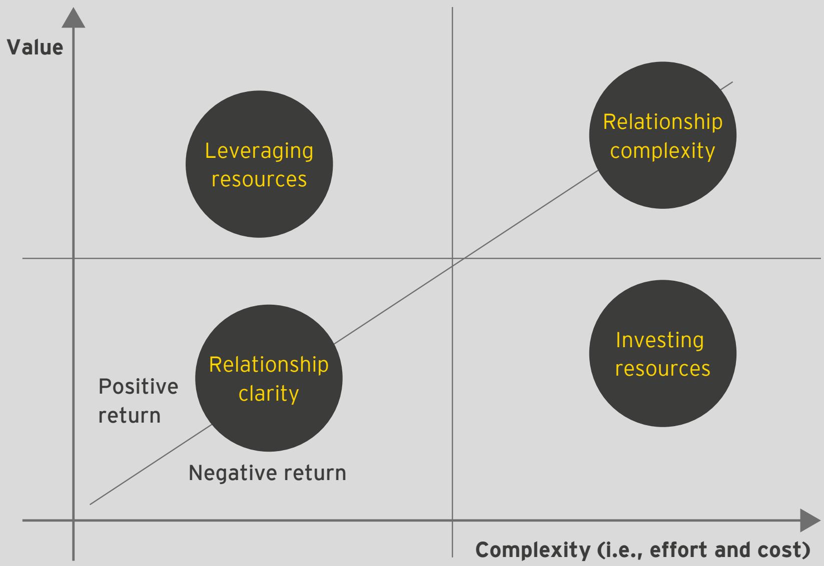
Figure 5. Alliance portfolio graph (value and complexity matrix)

$$\text{Return on collaboration (RoC)} = \frac{\text{Potential value}}{\text{Complexity}} \times 100\%$$

- Financial value
- Capability
- Capacity
- Access
- Expansion opportunities
- Product portfolio
- Reputation

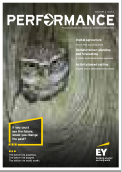


- Decision-making
- Relationship scope
- Number of touch points
- Priority alignment
- Partner's capability
- Confidence and trust

● Management strategies

- Leveraging resources: the aim is to maintain the positioning of this strategy on the graph
- Relationship complexity: the aim is to reduce the complexity of this strategy as measured by the graph
- Relationship clarity: the aim is to keep the complexity of this strategy low
- Investing resources: the aim is to increase value and reduce complexity

Source: *The ASAP Handbook of Alliance Management: A Practitioner's Guide*, Association of Strategic Alliance Professionals.



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The huge number and variety of business alliances within life sciences companies is driving the need for a strategic and well-structured alliances portfolio approach.

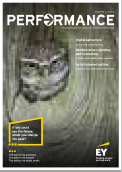
Phase 4: Sustain

This phase has two components:

1. **Continuous, incremental improvements in the business alliance portfolio management processes and outcomes:** Knowledge sharing between the clusters plays a pivotal role in this process. Failures and successes are transparent and shared across the business alliance community.
2. **Regular rebalancing of the dynamic and strategic business alliance portfolio:** A forward-looking perspective on the market and technology, combined with new strategic goals, will require a rebalancing of the alliance portfolio to achieve improved delivery and performance. The general rule here is to blend and extend – merge alliance clusters and extend existing clusters to new areas so as to leverage existing knowledge and resources. If no strategic link is found, organizations should work to eliminate the clusters quickly to reduce losses.

In our experience, not one of these phases is more important than the others. Rather, process discipline and diligence are what differentiates truly successful alliances. While the plan determines the overall direction, equally important is the sustain phase, where the current alliance activities are rigorously checked. Process discipline and transparency are especially necessary in the build and run phases because these are operationally driven.

Transitioning from the management of individual business alliances toward strategic management of the business alliances portfolio requires new competencies, a major mindset shift and change management as integral parts.



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How portfolio management saved 12% of R&D costs

One global life sciences company with a large R&D portfolio and a significant number of business alliances in the R&D area wanted to increase the efficiency of its alliance portfolio management.

The company had already established a formal strategic orientation and phase gate process for the R&D portfolio. However, business alliances in the R&D area were managed individually, with no clear strategic orientation.

Weak governance and approval processes led to a situation where over 1,000 research alliances with universities were approved, without coordination, by a whole range of individuals and departments. This resulted in a number of instances where a variety of research groups had signed contracts with the same alliance partner but with different prices and conditions. Moreover, the results of many alliances were not transparent and in some cases lasted for years with no clear benefit for the company. In other cases, alliances were continued in fields of research, where the company had already made a strategic decision not to pursue further.

EY worked with the company to apply business alliance portfolio management methodology. Due to the fact that the organization's R&D processes were already well established, the plan phase focused on using the existing strategic orientation for both in-house R&D and alliances. The technology and market matrix were used to identify the business alliances clusters.

During the build phase, we helped the company review existing R&D alliances with a focus on reducing quantity but increasing quality. Eliminating multiple contracts with the same partner has led to significant savings, with more than 12% of the budget being released.

We have also helped the company define the governance and fine-tune the processes and KPIs needed to identify, approve and run business alliances in the future.

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The first step toward integrated alliance management

Applying the EY alliance management quick scan (AMQ) can provide a first step toward an integrated alliance portfolio, by enabling organizations to quickly evaluate the opportunities and risks within existing and prospective business alliances.

The AMQ is an interactive questionnaire that not only highlights the gaps between current performance compared with desired maturity, but also helps enable organizations to benchmark themselves against others in the same industry.

The questions are clustered across four areas: processes, tools, strategy and management (see Figure 6), and the answers match with one of five possible maturity levels, from basic (level 1) to leading (level 5).

Overall the AMQ can help guide life sciences companies while planning, building and managing alliances.

Balancing make, buy and ally

Business alliances in the life sciences sector drive innovation and growth. But when a single company has a plethora of alliances, strategic and resource conflicts can occur. By following a holistic approach to help with the management of individual alliances as well as a diverse business alliances portfolio, companies can unlock potential.

This potential could be further realized if organizations link their business alliances portfolio to their corporate strategy and establish clear processes and KPIs to support it.

To help with this support, there are many levers that companies can use which can help increase both efficiencies and transparency, The result can often be an increased return on investment. Establishing clear governance and roles and responsibilities can help increase the efficiency of decision-making as well as improve resource management.

By running an overall business alliances portfolio rather than managing alliances individually, it could be possible to resolve conflicts between different stakeholders and better allocate resources. And this holistic approach can helps leaders to strike a winning balance between make, buy and ally. ■

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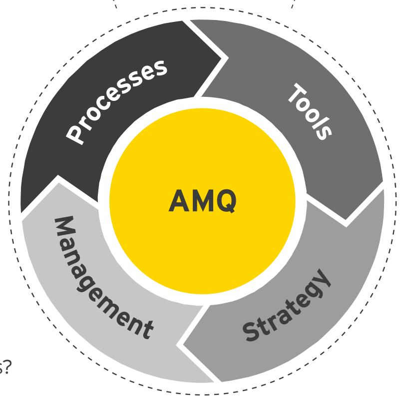
Figure 6. Alliance management quick scan (AMQ)

EY´s AMQ: selected questions per areas

- **Driver analysis:** Do you know the factors that determine the success of your alliances?
- **Process efficiency:** Do you need a lot of iterations (i.e., internal or external) to manage your alliances?

- **Data integrity and sharing:** Do you use digital and automated interfaces to transmit data within and outside your company?
- **Data generation and processing:** What is the degree of automation of your alliance processes, e.g., planning, budgeting and reporting?



- **Management capabilities:** Do you have the right people managing your alliances?
- **Portfolio management:** How well do you integrate and coordinate the different alliances?
- **Guidelines:** Are there clear policies and process in place for managing alliances?

- **Strategic fit:** Are your alliances aligned to your overall strategy?
- **Partner evaluation:** How do you choose your alliance partner?
- **Business case tracking:** Are your alliances adding value to your business?

Quick scan quiz

Plan

- Is your business alliance (portfolio) management clearly linked to corporate strategy?
- Do you have clearly defined target measures for all business alliances (e.g., cost, time and quality KPIs)?
- Have the roles and responsibilities for the plan phase been clearly defined and implemented in your organization?

Build

- Do you conduct a comprehensive health check for potential partners (e.g., due diligence)?
- Do you have sufficient transparency on the performance of your business alliances in the build phases?
- Does the setting up of your business alliances follow standardized processes?

Run

- Are your numbers showing everything you should know?
- What is the added financial value of your collaborations? Have you reached your targets?
- Do you use a defined escalation processes to resolve potential issues in your business alliances?

Sustain

- How often do you check the strategic fit of all your business alliances?
- Do you regularly rebalance your business alliances portfolio?
- How fast can you gracefully exit non-value add business alliances?

Alliance management

Alliance controlling

- Do you use the right control tools for your business alliances and did you adapt them in the right way?
- Do you have sufficient transparency on all relevant drivers during the different phases of your collaborations?
- Does your company have an adequate control organization for the different types and phases of business alliances?
- Does your company manage the entire business alliance (portfolio) according to an overall strategy?
- Is your company satisfied with the flexibility of involving third parties (e.g., additional partners)?
- Is the management of multiple concurrent collaborations handled by a dedicated corporate function at your company?