

Strategy

What is the added value
of R&D partnerships for
Novartis?



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1. Introduction¹

In the business world, alliances have been a very important and frequently used mean to leverage a company's value and to focus on real core competencies rather than having all capabilities in-house.

The goal of this paper, our problematic, is to analyse the added value of Research and Development partnerships for Novartis.

Novartis is a well-known pharmaceutical company. It is a world leader in the research and development of products to protect and improve health and well-being. Its core activities are in pharmaceuticals, generics, consumer health, eye-care and animal health.

Novartis invested about 3.8 billion US dollars in research and development in 2003. Its revenues were 24.9 billion US dollars and it had a net income of 5 billion US dollars. Its headquarters are in Basel, Switzerland. Novartis employs about 78'500 people and is active in 140 countries around the world.²

In this paper, a short theoretic part at the beginning is going to define the alliance and other means of collaboration. Then a practical part analyses the industry and the general environment of Novartis. A SWOT-analysis for the R&D division will then be performed, and we are going to show what impact a partnership can have for Novartis.

Coming deeper in the subject, we lean on the existing portfolio of partners and analyse the success factors of alliances. Finally, we'll give some recommendations for Novartis to become the "partner of choice".

2. Typology of alliances

Firms work every day with other firms. In our world, it is impossible to stay alone, as it is a big chance of crash. But many types of collaboration exist. Alliances is only one of them.

- ❖ Mergers:
two firms decide to merge to create a new entity which should have more efficiency through synergies newly created and economies of scale.
- ❖ Acquisition:
a firm acquires an other one to gain resources or/and capabilities creating a competitive advantage.

¹ Strategy lecture 2004, Professor E. Autio, HEC Lausanne University.

² www.novartis.com, 27.5. 2004.

- ❖ Alliances:
collaboration between two or more firms, have the same objective, need to share resources and capabilities and want to create competitive advantage.

There are a lot of types of alliances. Each firm has its own manner to deal with partnerships. It may be through an agreement, an informal contract, by acquiring a part of equity, franchising, etc.

We can classify collaborations depending on how much the firms are involved:

- ❖ Joint venture:
a legally independent company is created by sharing resources and capabilities of two or more firms, who typically control equally the new firm.
- ❖ Equity strategic alliance:
the two firms own a third, but the percentage of their equity differs.
- ❖ Nonequity strategic alliance:
a contractual relationship to share resources and capabilities.

We can classify collaboration depending on the goal:

- ❖ Cooperative strategy:
shared objective and competitive advantage gained with the collaboration. It is a "win-win" strategy.
- ❖ Strategic alliance:
combined resources and capabilities to create a competitive advantage. The strategic alliance involves the partners more than the cooperative strategy.
- ❖ Collusive strategy:
a kind of cartel, as firms collaborate to raise the prices above the fully competitive level.

From the corporate strategy point of view, we can classify alliances as following:

- ❖ Diversifying strategic alliances:
to expand the market and create synergies. It often is a first step toward a merger
- ❖ Synergistic strategic alliances:
economies of scale and synergies are created
- ❖ Franchising:
a fast way to expand market with a few risk, alternative to merger and acquisition. The basis is contractual.

An other classification exists about the risk taken:

- ❖ Complementary strategic alliances: combination of complementary assets to create new value
 - Vertical alliance:
alliance with suppliers or distributors, i.e. with actors of the stage before or after the firm in the value chain.

- Horizontal alliance:
alliance with actors at the same stage in the chain value, to combine resources and capabilities and create competitive advantage. Partners also may become competitors.
- ❖ Competition response alliances:
as a response to a strategic action of another competitor, firms can collaborate to have more strengths to resist.
- ❖ Uncertainty reducing alliances:
developing new products or technology standards is risky. To reduce this risk, two firms can make an alliance reducing uncertainty.
- ❖ Competition reducing alliances:
a kind of cartel with the goal to avoid excessive competition.
 - Explicit collusion:
firms negotiate production output and prices in order to reduce competition. It is illegal.
 - Firms indirectly coordinate production output and prices by observing other firm's actions.

The kind of alliance is decided depending on the environment, the objective, the needs of the firm.

Partnerships need a great attention, as it is valuable on the long term. Therefore it is important to take care of the relationship.

3. Industry analysis

3.1. Porter's 5 forces

Rivalry among competing firms

Novartis' most important rivals are mainly the big players of the industry (Pfizer, GlaxoSmithKline, Merck, SanofiAventis, etc...). Intensity of rivalry among big players is very high. It is evidenced by the numerous mergers and acquisitions that occurred during the 90's and the early 2000's and that have led to the actual industry consolidation.

We can say that smaller companies, often operating in niches or newly discovered areas of the industry, are not some serious threats as they could be easily acquired because of their little size and their weak market position.

Biotech firms are some relatively important rivals. Indeed, biotech sector has now the ability to compete with pharma industry in the field of drugs commercialisation. Their activity is not anymore limited to the research or the licensing of their discoveries to pharma industry.

Threat of new entrants

It is low because of high barriers to entry.

The most obvious barrier is the massive sunk costs required to operate in the industry: product development is estimated to cost an average of \$ 800 millions!

An other barrier is the fact that adoption of a new medicine is determined by its producer's reputation and brand name (proven ability to produce safe and efficacious drugs). As a result, it is extremely difficult for a new and unknown entrant to reach consumers because it takes very long time to build a reputation and win consumers' confidence.

Bargaining power of buyers

We can separate the pharma industry's customers in 2 segments :

The large drug buyers : hospitals and pharmacies.

Their bargaining power is high because they purchase large volumes of medicines. But the most determining fact is whether or not a disease has many choices of medicines to treat it. If there are many substitutes, the bargaining power is high. If not, the bargaining power is evidently limited.

The small customers : (1) doctors for prescribed drugs and (2) consumers for non-prescribed drugs.

Doctors' bargaining power is very high because they have the ultimate ability of deciding which particular medicine to prescribe for their patients. That is why industry's expenditures for sales representatives acting for doctors' approval are so huge.

Consumers' bargaining power is high because switching costs for non-prescribed drugs are usually low.

Bargaining power of suppliers

To be strictly accurate, there are no real suppliers because pharma industry is entirely vertically integrated (pharma companies such as Novartis usually act at all the stages of the industry's value chain, from the research of a new molecule until the marketing of a new drug).

Yet, we could consider that scientists are the industry's suppliers because they provide the most important input needed to create drugs : their knowledge. Even if battle for attracting and retaining the best scientists is more and more difficult, scientists' bargaining power is still low because there are no scientists organisations strong and large enough to measure up to big pharma corporations.

Threat of substitutes

Threat of substitutes mainly comes from the generic drugs, which start to move into the market after the branded drugs' patents expire. Threat of generics is strong : their prices are 25 to 50% lower and their performance capabilities are equal to those of branded equivalent medicines. As a result, generic drugs entry usually forces pharma firms to lower the prices of their equivalent drugs, therefore, pharma's profit margins for these products suffer, as well as their market share.

3.2. Further issues

Public Attention and Politics

The potential public reaction to any act of a company can greatly influence the management decision making process. As recently seen such concerns of public interest in the pharma industry are for example the potential damage to the environment caused by the chemical industry in general or, even more important, bad treatment of animals when doing research for new drugs. Public pressure might also occur when lower drug prices are in the public interest, as for example there was the public demand for affordable aids treatment in certain regions of Africa. If there is a rare but pivotal drug it is sometimes not easy for the producer to find a balance between profitable prices and their social responsibility since lower prices might often result in a loss.

Those public issues, however, do not necessarily reduce consumption of Novartis' products but the public disapproves the company's actions. Negative press might be released and damage the company's reputation.

The public and political issue is typically very important for the pharma industry since there is a great public awareness especially towards health.

Public censure can only be avoided by thoughtful acts concerning strategy, operations and the organisation. The bad treatment of animals must be an issue when choosing an alliance partner.

Industry Attractiveness

The industry is the playing field who determines the nature of profits. Of special interest are the margins in the pharma industry, its growth rates and companies' profitability compared to other industries, the latter two probably depending on the different segments within the branch.

Over the last five years the global pharmaceutical branch has achieved strong annual growth of roughly 10% and was seemingly unaffected by the global economic downturn. However, the pharmaceutical sector is becoming more complex with slower volume growth facing

competition from generics, parallel imports and rising taxes. Pharmaceuticals industry sales and growth will be impacted by the expiry of patents on blockbusters from the eighties and nineties. Datamonitor predicts the future annual growth rate to be around 7.5%, likely to be driven by new avenues of research, mainly driven by pharmacogenetics (drugs based on human genetic structure)³.

Legislation

The pharma industry is traditionally a highly regulated industry since their activities are of national concern. There is a long and difficult way of approval before a drug can be launched to the market. Hence, a company is required to understand the legislation covering environment, trade unions and national concerns.

Technology

In a fast moving branch, such as pharmaceuticals, technology wields tremendous power for change. It is very important to be an early adopter of new technology to remain competitive.

4. Need for R&D partners^{4,5}

The pharmaceutical area belongs to a fast cycle market where the firms' competitive advantages aren't shielded from imitation. In fact, pharma companies such as Novartis seek to make alliances for many reasons.

First, they want to share the uncertainty risk, given the fact that R&D costs are high. Indeed, the costs of basic R&D, clinical testing and market education, have reached \$900 millions per approved drug in 2003. Moreover, if the drug fails once introduced in the market, all these costs become lost costs. In fact pharma companies seek partners, so that this risk gets spread over more organisations.

Second, pharma firms want to speed up the development of new drugs, since they get a big profit when they launch a blockbuster drug. But this profit lasts only a short time because of high imitation by competitors. Indeed, experience shows that drugs lose around 80% market share when generic copies come into the market.

In order to increase the speed of innovation, pharma companies look for late stage drugs from biotech partners which are closer to the market. They pay a premium for these products because they're partially developed and are less risky. They also provide more rapid return on investment.

³ dbic.datamonitor.com.

⁴ Drug Week page 200 - Dec 19, 2003.

⁵ Biotech Week page 162 - Feb 25, 2004.

5. SWOT analysis of R&D for Novartis

Having stated the critical importance of having a good portfolio of partners in R&D and before thinking about how Novartis could optimise its own portfolio, it is necessary to study Novartis' strengths and weaknesses in R&D and to highlight the opportunities and threats for R&D at the level of the entire industry.

5.1. Strengths

A powerful and global research organisation

- ❖ The Novartis Institutes for Biomedical Research (NIBR):
With seven facilities worldwide (in US, Switzerland, UK, Austria and Japan) most of them located in some biotechnology clusters, the NIBR put Novartis close to the most renowned academic institutions and offer an impressive pool of scientific talents.
- ❖ The Corporate Research Institutes :
Corporate research at Novartis comprises three independent institutes with a total staff of more than 750 scientists. The institutes are : the Genomics Institute of the Novartis Research Foundation (US), The Novartis Institute for Tropical Diseases(Singapore) and the Friedrich Miescher Institute (Switzerland).
- ❖ A portfolio of 23 research alliances.

High development productivity

- ❖ Median development times are shorter than industry ones.
- ❖ Novartis has the highest number (11) of Food and Drug Administration's (FDA) approvals among top ten pharma companies since 2000.
- ❖ High productivity in clinical trials: approximately 200 new trials and 200'000 patients in trial each year, ability to recruit patients quickly for priority trials.

A strong and innovative pipeline

- ❖ Innovative new molecular entities (NMA) and powerful lifecycle management programs in attractive speciality and primary care markets.
- ❖ Favourable benefit/risk mix of portfolio.
- ❖ Excellent late-stage portfolio addressing key unmet medical needs.

Novartis' high profitability and healthy cash position free strong financial resources for ambitious R&D projects

Novartis is the second most aggressive investor in R&D in term of spending per sales: in 2003, the group has allocated 18.8% of its pharma sales to R&D.

A "partner of choice" for R&D alliances

Novartis seeks to offer value to its R&D partners by committing to create a culture of building fair, effective, and mutually beneficial collaborations.

This philosophy is very attractive and valuable for any potential R&D partner, especially for small but promising ones that, faced with big pharma corporations, do not often have a strong business bargaining power. Novartis' expertise in building fair collaborations could also become a strong competitive advantage because R&D alliances will be more complex as their number will continue to increase.

Moreover, Novartis' brand name and market leadership position combined with its status of a truly global player are some obvious strengths that make Novartis a real partner of choice.

5.2. Weaknesses

Growth through acquisitions

According to Datamonitor, the majority of the company's diversification into new areas of research has been based upon acquisitions and has not therefore been facilitated by any internal learning or organic growth⁶. Such a strategy eventually could lead to problems with integration or knowledge sharing as unforeseen problems can arise with the acquisition of a new company.

The broad scope of Novartis' research organisation and alliances portfolio could show the other side of the coin.

Management of all the activities is very complex : attention of top management is scattered between the strategic focus and goals of each research group, resources allocation among needs of each research group is a hard task.

5.3. Opportunities

The increasing performance of countries such as India and the East European countries in the development and discovery sides (not only in manufacturing)

This opportunity offers a double benefit: on the one hand, the staff costs in these countries are lower, on the other hand, this increased competition will also lead to more innovation.

The industry-university licensing relationship is still under-exploited

Academia could be an important source of early stage drug candidates. But most often, pharma's collaborations with academia are done through biotech firms. Biotech companies often license technologies from universities, develop them, partner with pharma for clinical

⁶ <http://dbic.datamonitor.com/companies/company/?pid=A6967DE8-A1F0-446A-B423-6FB2815A2E4D>.

trials, then sell the resulting product to pharma for much more than pharma companies would have paid if they had worked directly with the universities.

The sequencing of the human genome has opened a huge new area of research and drug development : the pharmacogenetics

Sequencing of the genome has provided thousands of potential targets for new drugs that researchers must sift through. The genome is estimated to contain around 5000 pharmaceutically relevant genes!

5.4. Threats

The rising of the bargaining power of biotech firms could shake the equilibrium of the traditional pharma-biotech deal

On the one hand, the biotech sector, characterised by smaller and more specialised firms, have shown better research productivity performances and greater growth rates than pharma companies. On the other hand, more and more biotech firms has moved downstream into activities of the pharma own value chain (such as testing and clinical development). These combined reasons are threatening pharma's dominance on the biotech sector.

The declining of the R&D alliances opportunities as the number of available partners dwindles

As a result, pharma companies could be forced to envisage more often a riskier mean of collaboration: merger. Although mergers could lead to some important benefits in the short term (potential for cost savings, achieving synergies, increased research scale), in the long run, they could also lead to some serious human problems such as clashes in corporate cultures, leadership and power struggles, dissatisfaction and increased turnover.

The rising complexity of R&D alliances as a result of their increasing critical importance to success

Companies must anticipate the potential costs of complexity, rules will probably have to be changed. Large companies should assess what smaller partners really want from their collaborations and consider alternative ways of satisfying them.

The innovation drought

With drug productivity down and R&D costs rising, the pharma industry is under pressure to improve R&D output. A Datamonitor analyst pointed to several factors that have contributed to the innovation drought: "The cost of R&D is rising rapidly, driven by larger and more complex clinical studies and expensive new enabling technologies. Moreover, there is an oversupply of me-too launches and a lack of genuinely innovative drugs to replace revenues lost through patent expiry"⁷.

⁷ Chemical Market Reporter : "Big Pharma's R&D engine continues to sputter" (Dec 8, 2003).

Another explanation could be the industry obsession with producing blockbusters (drugs with annual sales of \$1 billion or more). As they search for such best-sellers, firms may mistakenly be passing up smaller but still profitable opportunities⁸.

Accelerating growth of generics

The rising public interest for generics products could threaten the traditional duration of pharma's patent protection for their drug discoveries.

6. Success Factors for R&D alliances

In a first phase we need to evaluate which partnerships we want to build. Hereby the question is what the potential partner does bring into the collaboration, whether it's worth to step into negotiation. This first evaluation has to be completed even before stepping into serious talks with the partner. First we should do a deep evaluation of what he yields for us.

Also in this very same period we need to ask ourselves what we expect from an alliance, what are our motives for the alliance and what resources we need but don't have ourselves. This can help evaluating the right partner who again can be evaluated in terms of his past-time behaviour in previous alliances. Do we already have experience with this company as a partner or can we get information about other partnerships with our potential new partner? This leads to the evaluation of trustworthiness, reliability and intentions of the new ally.

By also evaluating the partner's benefit and expectations from the alliance we should try to determine whether we can make profit from each other and how probable a successful partnership could be.⁹

Only then we should think about starting the negotiations properly. Our information gathering will have helped us already to identify partnerships that would otherwise be likely to fail on the long run.

For the identification of success-factors in partnerships we have divided the alliance-lifecycle into 4 phases:

Phase 1: Search for the right partner

Trust is one of the most important success factors for integrity and stability when building the relationship with the new partner.¹⁰ It reduces the need for control and hence lowers the transaction costs. The establishment of later collaborations will be more likely if the company has already established a trust-based relationship. Lack of trust is often leading to failure of the collaboration project.¹¹ However, we recommend to put some system of control into place in order to detect any opportunistic behaviour of the partner.

⁸ The Economist : "Fixing the drugs pipeline" (Mar 13, 2004).

⁹ Strategy lecture 2004, Professor E. Autio, HEC Lausanne University.

¹⁰ Whipple & Frankel.

¹¹ Hoffmann & Schlosser.

Then the partner needs to have obvious strength in the field of collaboration since alliances provide access to his resources in the area of concern. Therefore, successful alliances require the partner to have complementary resources which, when combined with our strength provide synergies. Those synergies can be realised by sharing and transferring resources, which again requires us to have excess resources to share in the field of concern.¹² Strategic compatibility means that there must be a win-win-situation for both partners.¹³

An agreement on fundamental values such as a similar business culture shouldn't be left out. Collaborations should be based on a common understanding and the same view of the world.¹⁴ According to empirical studies this factor can have a great impact on efficiency and stability. Apart from partners tending to have similar objectives, values and decision-making structures, it enhances trust and mutual understanding.¹⁵

It is very important in an early phase to define and value all the possible gains from a partnership in order to build a big pie to share. We recommend, therefore, to spend a good share of time on building synergies.¹⁶

Phase 2: Design the partnership

An important success factor is the careful preparation of the cooperation agreement. When potential conflicts are arising a clear regulation of duties and competencies may be very helpful and a key factor to the future success of a collaboration.¹⁷

Therefore, the partners' agreement must be reached on clear, realistic and measurable objectives especially in the initial phase of collaboration. And fixed milestones must be set as points of orientation for each partner.¹⁸ A common goal and deep commitment are very crucial to the success of the partnership. The roles should be clearly defined and the expected outcome clearly communicated.¹⁹

The required and critical resources need to be allocated to the partnership as quickly as possible and there needs to be agreement on how to handle them (do they remain property of each partner or do they become mutually owned).²⁰

It is also crucial to maintain a good system of communication and coordination between the partners in order to keep the project on the right track.

As Novartis is usually very big compared to its partners it might run the danger of drowning its partners by the unbalanced distribution of power.

¹² Hoffmann & Schlosser.

¹³ Holtbrügge.

¹⁴ Hoffmann & Schlosser.

¹⁵ Holtbrügge.

¹⁶ Hoffmann & Schlosser.

¹⁷ Holtbrügge.

¹⁸ Whipple & Frankel.

¹⁹ Strategy lecture 2004, Professor E. Autio, HEC Lausanne University.

²⁰ Hoffmann & Schlosser.

Phase 3: Implementation and management of the partnership

In literature, very often top management involvement is considered as one of the most important and critical success factors to an alliance.²¹

The role of the top management is to build and maintain a good and steady relationship with the partner and also support the cooperation within the own company. This is particularly important to make specific resources available to the partnership.²² In the case of Novartis this would probably be the role of the divisional managers and chief researchers.

However, even if the sharing of resources is one of the critical success factors, the company might want to pay attention to the drain in expertise by not protecting its core resources and competencies.²³

A fast implementation can help to gain quick results which in return will help defending the idea of the partnership.

Steady control mechanisms should be installed in order to detect a deviation from the desired path of collaboration as quick as possible. Otherwise the collaboration might work in a wrong direction without the partners realising it.²⁴ Control mechanisms should be in place to be ready to take corrective actions in case of deviation from the intended plan.²⁵

Phase 4: Termination of the partnership

There need to be an agreement on the termination of the alliance already in the designing phase. Termination can be agreed upon when the aim of the project has been reached, when competitors have been quicker or in any other cases. You have to write down some regulations about it in order to terminate the collaboration only upon approval of all the partners.

Also the relationship after termination should be determined. Is there a tacit partnership going on until there will be a new project or will the partnership be frozen?

In order to prevent an early termination of the partnership, the areas of potential conflict have been defined in an early phase. Scenario-planning can be a useful instrument to detect those areas of problems.²⁶

²¹ Whipple & Frankel.

²² Hoffmann & Schlosser.

²³ Hoffmann & Schlosser.

²⁴ Hoffmann & Schlosser.

²⁵ Strategy lecture 2004, Professor E. Autio, HEC Lausanne University.

²⁶ Strategy lecture 2004, Professor E. Autio, HEC Lausanne University.

The following table will give you a quick overview of the most important mentioned success factors for alliances:

<i>1. Search for the right partner</i>	<i>2. Design the partnership</i>	<i>3. Implementation and management of the partnership</i>	<i>4. Termination of the partnership</i>
<ul style="list-style-type: none"> • Trust as an initial condition, • Complementary resources that provide synergies, • Agreement on fundamental values. 	<ul style="list-style-type: none"> • Clear and realistic objectives and fixed milestones, • Clearly defined roles of the partners, • Good communication system between the partners 	<ul style="list-style-type: none"> • Top management involvement and back-up in the workforce, • Quick implementation, • Control mechanisms installed. 	<ul style="list-style-type: none"> • Agreement on the termination, • Determination of the relationship after the collaboration, • Scenario-planning as a helpful instrument.

7. Finding R&D Partners

As phase 1 above can be considered a very important step towards successful collaborations lets now break it down a little more and discuss the process of finding and evaluating the right partners in some more detail and a bit more tailored to Novartis. Again, we are dividing this step into four phases:

- *Preselection Phase:* The question here is how to find a bundle of potential partners to examine further. Questions should be asked such as whether the potential partner possesses some rare resources or capabilities that do add value to Novartis. Or whether Novartis is having the capacity to manage the partnership and learn from it and how it will contribute to the long term vision of the company. An other important question is the one about the opportunity costs of the partnership. Does it hinder Novartis to follow any other opportunities?
- *Initial Evaluation:* The number of potential partners must then be cut down by evaluating the first selection of partners more carefully. Some more criteria than before need to be taken into consideration and some basic calculations on what the value added might be must be performed. Is there a cutting edge combination possible with the partner under question?
- *Full Evaluation:* After again having eliminated the weakest partners Novartis needs to perform a full evaluation which will require some more efforts. In this stage personal talks and visits at the partners site are inevitable and some more complex and serious calculations about the expected value and risk of the partnership to Novartis need to be conducted. An evaluation of the culture of the partners is also of great importance as well as building trust between the two entities.

- *Negotiation Phase:* In this final phase before the partnership is running last differences must be removed and any details of the collaboration needs to be determined according to the already mentioned Phase 1 in the Success Factors part of the paper. Objectives and conditions of the partnership must be clearly determined and agreement on fundamental issues must be clearly reached. It must be clearly defined which partner is contributing with which resources to the partnership in order to build an overall successful and long lasting partnership.

8. Become the "Alliance Partner of Choice"²⁷

A key question for Novartis in order to build a good network of alliance partners is not only how they do have to look like and how to make the alliance work but even before that Novartis needs to become a preferred partner for potential collaborators. How can they attract the best research partners? How can they be perceived as the most potent alliance partner for all the leading institutes around the world?

In order to attract good potential R&D partners, Novartis organises some events, so that the participants can discuss potential partnerships with the senior management team. To date, Novartis has set four successful events: one in Japan, two in the United States (Cambridge and San Francisco) and it has also made an event in India (Mumbai), in March 2004, since it belongs to the leading countries in pharma R&D.

In these events, Novartis' key managers explain to the potential partners:

- How they can reach one of the largest research networks to which Novartis belongs
- Novartis' new technologies that they can use for the research
- How Novartis' drug discovery process leads to the drug's commercialisation at a faster rate than the competitors.
- Novartis' creative approach to pursue clinical trials
- Their capacity to set global brands thanks to their marketing and sales force.

To all the existing partners, Novartis has been attractive for the following reasons:

- Novartis has high R&D expenditures. It is ranked as the seventh pharma R&D spender (and seventh pharma company), with \$3.8 billion in 2003.
- It takes less time than the average industry to introduce a new drug into the market. Indeed, it takes seven years whereas the average is nine years.
- Novartis is very committed to the partnership. For example, key managers are involved in the collaboration.

In addition, research centres and universities have mentioned other incentives for their alliance with Novartis. They say that Novartis provides them with additional funds in order to pursue their research: if Novartis succeeds in the development and commercialisation of the new drug, they usually receive milestones and royalties on sales. Furthermore, given the fact

that they have little or no expertise in capturing the market value of their discoveries, Novartis gives them the opportunity to put their discoveries into the commercialisation process. This is one of the synergy advantages that their collaboration with Novartis brings.

Finally, universities like U.C Berkeley's College of Natural Resources feel highly satisfied from their alliance with Novartis because they still have their academic freedom. In other words, Novartis doesn't take the opportunity from the collaboration to pick up their scientists. Moreover, they can own their discoveries and Novartis only gets commercial rights on them.

To further improve its good reputation as the “Alliance Partner of Choice” Novartis needs to take some more active steps in order to market its name and competencies to potential partners. Our recommendations are going further than just the exceptionally held informational events. Even though these events are very important and the showing up of top executives gives the partner the feeling of being taken seriously, there can be done more in order to differentiate from competitors:

- Top universities must be attained by a specific marketing campaign with regular visits of Novartis scientists on the campus to build trust and communicate the incentives for a cooperation. A university and research institute relationship manager can be installed at Novartis to coordinate all the activities.
- As personal relationships are known to be a very important factor in building a partnership, relationship officers should be responsible to build trust and later in the partnership facilitate communication.
- Specific marketing campaigns must be launched for potential partner companies followed by an invitation to an informal discussion or presentation of the company.

9. Recommendations and conclusion

Ideal number of alliances

There is no ideal number. It depends of the needs, which should first be analysed. One recommendation is not to have two partnerships for the same need or the same research project. Another one is to diversify the type of alliances. Each need should be answered by another partnership.

We can observe a trade off. When the number of alliances increases, there are more chances of success, less risk, less dependence on a few partners, but more costs and more management complexity. The balance is sometime difficult to reach.

²⁷ www.novartis.com.

Mode of payment

How to pay the partners? It should be an incentive to work well. A fixed salary is indeed not a good system, because there is an open-way for opportunistic behaviour, known as the Moral Hazard problem. Royalties is a possible system. One should take into account the time it takes until results are reached and can be commercialised. Hence, its not easy to let partners participate in profit that is only made some years later.

Companies that work on long term development need more financial support to survive. Companies that produce and sell their products need less money.

Duration

Partnerships should be designed for the long term, as most investments in R&D are long term investments. The longer the partnership, the greater the synergy. People know each other, they work in the same way, and that generates value.

Supervision

It is often stated hat top management must be involved in alliances. This doesn't mean that the CEO needs to supervise all the alliances, which would be unrealistic. But the top executive management of the respective department and chief research representatives should build good relationships with the partners. There must be frequent and regular visits to the partner, control how the process is going, but also motivate, advise and so on. A good relationship is one of the most important things to maintain in a partnership. Good collaboration is build on trust to a great extend, even though, the partnership project must be supervised according to clearly defined measures and milestones.

Conclusion

In conclusion, Novartis makes it well with its partners. Partnerships help Novartis to be the leader in its field. Novartis is very attractive to other partners when there are needs for another collaboration. They can even choose between the best companies worldwide to work with. However, they need to be careful to remain at the top concerning good partnerships in order to remain competitive in drug development. Partnerships are a key issue for companies that have a huge need in R&D. It distributes risks and improves creativity. A partnership is always a win-win strategy.

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11. Annex: Existing portfolio of R&D alliances in Novartis

Based on the Novartis website and the partners' websites, we summarised some key information about alliances of Novartis. Please, see the table attached.