Creating Joint Value

In Biopharma and Many Other Industries, "Not Invented Here" Is SO Last Century

By Ben Gomes-Casseres

Look at any of your alliances. How do you actually realize the joint value that was promised when the deal was made? How do you "get from here to there," so to speak? Charting the course may be the core of your job if you are an alliance leader, manager, or executive sponsor. From the point of view of the C-suite, all that matters is getting to that destination.

7 HABITS OF SUCCESSFUL ALLIANCES

1. Provide incentives for collaboration at all key levels and functions. Collaboration with an outside party is not natural for many employees. Salespeople, engineers, and managers of business units need to receive tangible benefit from working with the external party. Some experienced companies give salespeople equal credit for selling a partner's product or the firm's own product.

2. Scope out clearly what is in and what is out of the alliance. "Co-opetition" may sometimes be necessary, but it will not work without boundaries. This demands excellent contract design, as well as careful thinking about strategic direction. Pharmaceutical companies are able to do so because much of their technology is in explicit patents that can be licensed for limited therapeutic or geographic areas. Information technology alliances have a harder time defining boundaries.

3. Define partner roles. A division of labor, and sometimes a division of decision-making authority, can focus each partner on what they do best. Corning International, for example, let Samsung run local factories in their Korea joint venture, but maintained strict control over technology decisions. The partners shared planning and investment decisions.

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Take a simple lesson from everyday life. To cross a busy street, you learned to look left, look right, and walk in a straight line to your destination. In business combinations this translates to: **Look outside your company, look inside your company, and then connect the dots between assets.** Let's see how this works.

Three Steps To Joint Value

The search for joint value has three steps. The first step is to scour the business landscape to find organizations that might complement your own. In economic theory, two goods are "complements" when having one increases the value of having the other. Examples from daily life are bread and butter or gasoline and cars. In business, joining the resources of two or more companies increases the worth of each organization. This is the essence of what you seek. However, finding and combining business complements is not as easy as pumping gas into your car.

Therefore, the second step on the way to joint value is to dive inside your businesses and closely examine prospective partners to identify the components of each business that need to be connected. Every business has fixed assets, intangible assets (know-how, brands, and intellectual property), relationships with buyers and suppliers, and the processes and activities that transform these components into final sales. It's when you connect these resources from inside each partner that joint value can be created. That is the third step.

How do you connect those dots? Start by realizing there is no "best" way to do so. There is no "best" form of alliance – depending on the task at hand, a licensing deal might work best, or a minority investment, a joint venture, a consortium; or the combination may not even be an alliance, but a full merger or an acquisition. In all these cases, the objective is to create joint value by combining complementary resources. In every case, you must look outside and inside your own and your partner's organization to determine which combination will work best for all parties involved.

Creating Joint Value In Healthcare

For healthcare and life science companies, this search for joint value is becoming more complex by the day. In the early biotech days, a nearly foolproof model was to match the capital and market power of a large pharmaceutical firm with the promising finds of a biotech startup. Today, the biotechs are no longer small and big pharma is no longer as powerful as it was. The players are not just drug makers – payers, providers, retailers and a host of other ecosystem members are critical to creating value in the market place. As a result, deals to create joint value now come in many shapes and sizes, and often involve much more than just licensing promising drug candidates.

When Sanofi acquired Genzyme for over $20 billion in 2011, it was in part searching for new drugs. But Sanofi also sought to establish a new base of operations in Cambridge, Mass. and to build its research in biologics. It reasoned that with a new dedicated research team in Cambridge, Sanofi could collaborate more effectively with smaller firms in the area and with American universities. Genzyme and Sanofi did complement each other in terms of the drug pipeline, but they did so even more in terms of merging the internal components of their businesses. A few years earlier, Takeda had made a similar move in acquiring Millennium – it netted the Japanese company a valuable cancer drug, and, perhaps more importantly, helped it launch its cancer research business in the United States.

Deals between big pharma, too, have become more complex.[1] The big mergers of the last decade were brute-force efforts to build scale in R&D and marketing; examples are Sanofi and Aventis, Pfizer and Wyeth, and Merck and Schering-Plough. The joint value in many of these massive mergers often proved hard to pinpoint and realize. Perhaps because of that, today's deals look different. Large pharmaceutical companies are seeking precise ways of matching their assets with the complementary assets of others.

Take the recently announced deal between Novartis and GlaxoSmithKline (GSK). The deal mixes and matches the resources of the two companies in interesting ways. Novartis will sell most of the assets of its vaccines business to GSK, to bolster GSK's offerings in that segment. GSK will do the same with its oncology business, selling it to Novartis. The rationale for moving these assets to different owners is that each new owner is

1. Further discussion of the issues in this and the next few paragraphs is in my blog post "What's Different About All These Mergers," *Harvard Business Review Blog Network*, June 17, 2014, http://blogs.hbr.org/2014/06/whats-different-about-all-these-mergers/ (last accessed July 1, 2014).

7 HABITS (continued)

4. Create processes for making joint decisions. The flexible contracts that are typical of alliances rely on excellent decision processes in the alliance itself and between the parents. For joint ventures, these processes are often defined in corporate by-laws. In other, looser alliances, good practitioners develop corresponding playbooks of how decisions will be made, what will get escalated to the parents, and so on.

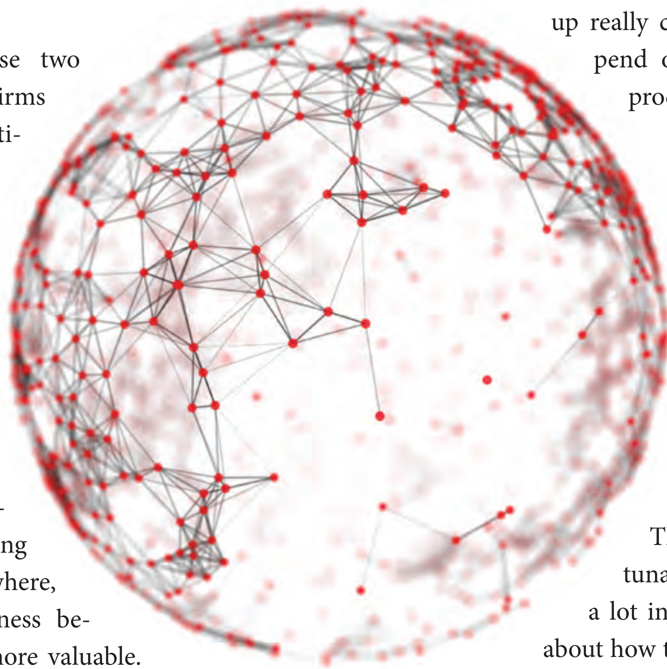
5. Manage the joint business as well as the relationship itself. The two tracks, or roles, may demand different skills and personnel. Pharmaceutical companies have become good at distinguishing between the scientific success of an alliance, and the health of the relationship itself – and managing each separately.

6. Purposely build and maintain trust. To do this, negotiate good contracts, deepen personal contacts, and act reliably and with reciprocity. Yes, all this is easier said than done—but the key issue is that trust does not appear magically; it must be built and nurtured by using concrete management tools.

7. Allocate sufficient resources to alliance management. None of the above can be done on the cheap. Yet, under-resourcing alliance management is the single most common mistake that I have seen even large and rich companies make.

likely to be a better "parent" for that particular asset, because it already has experience and resources committed to that area, and intends to invest more. Although these asset swaps are not classic alliances, the underlying logic is the same.

GSK and Novartis are also both active in consumer healthcare, but here they decided not to swap assets. Instead, each will put its assets from that business into a new joint venture. This part of the deal is an alliance that will give GSK about two thirds of the equity and Novartis one third, and will create joint value by increasing the scale and scope of the business. In this segment of the healthcare industry GSK was second behind Johnson and Johnson in sales revenues, and Novartis was a distant seventh. The Novartis-GSK joint venture will be much closer in size to the consumer healthcare business of J&J.



The fact that these two pharmaceutical firms are working to optimize their consumer business is, in itself, a testament to how the logic of value creation is changing in healthcare. With so many big-name drugs coming off patent and healthcare delivery being restructured everywhere, the consumer business becomes potentially more valuable. But without patent protection, these are tough businesses; the winners will be those that

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can get the most out of their assets. One route is to strip down the costs of the business to bare essentials, as some acquisitions aim to do. Another route is to build new value as did Novartis and GSK, by recombining resources.

To succeed, Novartis and GSK will need to manage carefully the process of de-integration, re-integration, and joint operations. It's like the business equivalent of genetic engineering, where genes from one cell are inserted into the DNA of another.

Furthermore, Novartis and GSK will be interconnected for the foreseeable future. The consumer-healthcare joint venture is a straight partnership, while the asset swaps include ongoing royalties and payments, some of which are contingent on milestones or on the results of future trials, just like in an alliance. In other words, even when these deals are closed, as is expected in 2015, they will be far from done. Whether they end up really creating value will depend on how the post-deal processes are managed.

How To Connect The Dots

Deal-making was always a hot profession, attracting top consultants and lawyers; while deal-managing usually took a back seat. This is changing. Fortunately, we have learned a lot in the past two decades about how to make post-deal processes work, for both acquisitions and alliances. In the last decade or so, many firms have built up capabilities in alliance management, respecting it as a profession, with its own methods, training needs, and career paths.

Pharmaceutical companies have been in the forefront of this trend. Their investment in learning started with a battle to be "partner of choice" for those promising biotech drug candidates. Eli Lilly set up its office of alliance management in 2001, after a board member asked, "If partnerships have been and will be increasingly important to Lilly's future, what is management doing to improve the organization's partnering capabilities?"[2] Other pharmaceutical companies had parallel efforts, and still more copied the successes of these early movers.

In the process, we have learned much about how to connect the dots between resources to create joint value. What we have learned applies not only to the life sciences, but also to many industries just starting out in search of joint value creation.

In my research I have discovered **seven habits of successful alliances.**[3] (See sidebar) For the next wave of organizational combinations, these habits will prove even more valuable than they were in the early biotech deals. So will your investment in learning and refining these habits. You already have the new perspective it takes to master partnership skills. You value ideas and products generated outside your company, and you know that "Not Invented Here" is a 20th century disease.

Now you need to focus your skills on how to create value the 21st century way. Look inside your company to identify your needs and resources. Look outside your company to find assets that complement yours. Then find ways to connect the dots.

It's like when you learned to cross the street, really. Except in business there are no crosswalks and crossing guards.

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2. Quoted in James Bamford, Benjamin Gomes-Casseres, and Michael Robinson, *Mastering Alliance Strategy: A Comprehensive Guide to Design, Management, and Organization* (San Francisco: Jossey Bass/Wiley, 2003), p. 383.

3 From Benjamin Gomes-Casseres, *Create Value by Combining Assets in New Ways* (working title; Boston: Harvard Business Review Press, forthcoming).