

DISCUSSION QUESTIONS

1. Under what circumstances would you agree with someone who said that alliances are very risky?
2. What dimensions would you use to classify the various types of strategic alliances? Why those dimensions?
3. Which alliance motivations do you think are the most compatible with each other?
4. What do you consider to be the likely stages of strategic alliance development? Does every alliance have to go through each stage?
5. What is the difference between an alliance problem and an alliance symptom, and what does this difference mean in terms of managerial intervention?
6. When can you tell if your partner is not likely to have a cooperative orientation?

CASE: Strategic Alliances in the Pharmaceutical and Biotechnology Industry

In the past two decades, strategic alliances have become an important tool for pharmaceutical and biotechnology firms as they face increased competition, increased public scrutiny of their business practices and profits, and difficulties discovering new products. There is empirical evidence that products developed in strategic alliances have a higher probability of success in Phase II and Phase III clinical trials than products developed independently by either the pharmaceutical or biotechnology firm (Danzon, Nicholson, and Pereira, 2005). Co-development of new drugs via an alliance adds value that outweighs any potential moral hazard problems arising from the two partners sharing development responsibilities (Nicholson, Danzon, and McCullough, 2005). In 2001–2002 alone, there were 923 new (publicly announced) strategic alliances in this industry. This figure includes biotech-biotech, biotech-pharma, and pharma-pharma alliances, and each type offers different benefits to its partners.

For example, in the realm of biotech-pharma alliances, a recent report focusing on licensing alliances between biotech and pharma firms suggests that “the number of biopharmaceutical licensing alliances has remained fairly constant over the past several years, but their value trebled from \$30 billion USD to \$90 billion USD between 2004 to 2007” (Business Insights [2009]. *Evolving Trends in Biopharmaceutical Licensing: Deal Assessments, Drivers, and Resistors*. March. Retrieved August 15, 2010, from <http://www.globalbusinessinsights.com>).

Of the 923 alliances mentioned above, a large number of new alliances (217) occurred between pharmaceutical and biotechnology firms, probably reflecting pharmaceutical firms' needs for access to new products that the smaller, but more research-intensive, biotechnology firms have been generating. These are typically trading alliances that allow pharmaceutical firms to gain access to innovations, while enabling biotechnology firms to gain access to capital, clinical trial expertise, and the marketing capabilities that pharmaceutical firms possess (Danzon et al., 2005). Some support for the view that pharmaceutical firms are using alliances to gain access to technical innovations is found in the fact that almost one-third of the new alliances involved genomics, the path-breaking science that can be used to develop treatments tailored to individuals' genetic types, making them highly effective.

Of course, one can also observe individual biotech-pharma alliances evolving over longer periods of time, as is the case with Gen-Probe and Chiron (now a Novartis company), which began their alliance in 1998 to “develop, manufacture, and commercialize” nucleic acid tests and instrumentation that have been used by blood banks for screening purposes. To date more than 125 million blood donations have been screened in the United States alone, and “these tests have intercepted thousands of units of blood that were infected with HIV-1, hepatitis C and B, and West Nile virus, thereby preventing life-threatening diseases from being passed along to transfusion recipients” (Novartis Web site, press release, January 27, 2009). A striking feature of the collaboration between Chiron (Novartis) and Gen-Probe is the long-term orientation that both parties

shared. The alliance was established in 1998 and was scheduled to expire in 2013, but was recently extended until 2025 (Novartis Web site, press release, January 27, 2009).

Novartis notes in that press release that under the original terms of the agreement, Gen-Probe was responsible for manufacturing costs, while Chiron was responsible for commercial expenses. The companies shared research and development (R&D) costs and shared revenue from the sale of blood-screening assays, and the revenue sharing agreement changed over time, as well.

Note that this very successful trading alliance between the two companies has adapted over the years, with multiple time and scope extensions since its inception. Gen-Probe now looks to Chiron (Novartis) to assist with their globalization efforts, highlighting that alliances are a flexible structure (not a strategy), through which multiple strategic initiatives can be implemented.

Indeed, a high proportion of new alliances (404 of the 923 mentioned above) were between partners who already had an ongoing relationship. New agreements among established partners may signal that the relationship has matured, as indicated in the life-cycle model of alliances presented in Table 11.2.

Interestingly, of the 923 alliances mentioned above, the highest percentage (one-third) occurred between biotechnology firms. This suggests that these relatively small firms found alliances to be an especially important strategy to build the scale (and perhaps scope) needed to compete and perform well. Biotechnology firms may be creating pooling alliances that can allow them to reduce uncertainty and enhance market power.

Finally, it appears that firms are using alliances to enhance their capabilities in key markets. Most new alliances that focused on a specific therapeutic area were focused in the area of oncology, where there is both high demand for new, more effective treatments and the willingness to pay high prices for them (Reuters Business Insight, 2004).

Questions

1. What do you think are the possible major tensions that exist when a pharmaceutical firm forms an alliance with a biotechnology firm?
2. How would you try to address those tensions?
3. Identify different challenges that exist for maintaining or strengthening an ongoing alliance versus beginning a new relationship.

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