

THE CHALFONT PROJECT

ORGANISATION ARCHITECTS

Guest Opinion: Out-of-the-box pharmaceutical structures - the Internal New Product Incubators

Consider this short vignette: Imagine an organisation made up of a number of excellent scientific and technical brains working together in the same place with business professionals who are experts in discovering new technologies and assessing business opportunities, and who conduct in-depth due diligence on those opportunities. (4/21/2003)

These professionals make deals and invest money. They are good at taking risks and willing to trade off some failures for unique successes with high returns. They are fast at scanning the environment, hunting for ideas, discovering opportunities, assessing them and making decisions (declare interest, acquire, develop, etc.).

If they don't have all the technical or business expertise required for a particular case in-house, they have their own unique network of experts to call upon. This organisation has gained a good reputation as a highly attractive place to be for science or business professionals (it's not uncommon to see both qualifications in one person) because it's a hub for discovering innovation, developing ideas and testing them fast before committing to a significant development budget.

These professionals are very much results driven and, not surprisingly, this organisation defines itself by its output: the number of new deals, new opportunities assessed and taken forward or rejected, etc. This organisation is, in summary, a scientific-technical and business hybrid (not a scientific branch and business branch working together) with a specific ethos: high levels of enquiry and curiosity for the environment, little bureaucracy, high I.Q., fast paced (in particular fast decisions), high risk, high reward, output driven, and operated in high entrepreneurial mode.

I have tested this vignette with many clients in the main stream bio-pharmaceutical and health care arena and obtained the following spread of reactions:

60 % - "You are talking about a Venture Capital company"

25 % - "A very nice, theoretical case, don't believe it; where is it any way?"

15 % - "It feels like a biotech"

10 % - "Is this a sort of new company, spun off from academia?"

What if I told you this could be part of your own medium-size or large pharma company - something inside the firm, hosted somewhere in your own R&D or as a separate structure, but still your company!? It hadn't even occurred to any of our clients (with the exception of the ones whom we've helped to create it) or friends or colleagues that such a "structure" (qualified by many as "rosy", "professional nirvana" or "impossible dream in pharma") could be part of one's own enterprise. And that's part of the problem in itself.

From medium to large companies, we all seem to be resigned to some sort of organisational architecture straight jacket where, one day or another, the best entrepreneurial brains will leave in the quest for less bureaucracy, more freedom and the ability to "make a difference." Indeed, most of the business teaching and supposed current wisdom (Drucker, Galbraith, Christensen) would tell you that if you want to have such an entrepreneurial organisation, develop new business or do something along the lines of what I have described in the vignette, you would be better off

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creating a “new company,” a “spin off”, or a separate (legal) entity. In other words, you can’t have both “models” inside one business, they say, assuming with this statement that we are talking about a normal sort of running of the business (with the apparently inevitable bureaucracy) and those other things that “don’t fit.” After all, “isn’t that the reason entrepreneurial people leave to create their own companies?”

But yes, both models can co-exist. Not only that, you will create an extraordinary competitive advantage if you develop these internal “structures” that live symbiotically with the rest of the enterprise. The above vignette describes a real, internal “New Product Incubator (INPI)” that sits somewhere in the firm, in some cases R&D, in others, neither R&D nor traditional commercial structures.

The key point: NPIs do not fit into any traditional pharma organisational structure. If they reside in R&D, it is more a host than a permanent home. NPIs borrow the best of business incubators, technology incubators, the best of the internal dynamics found in some venture capital firms, and the best of traditional “exploratory development” functions. NPIs marry those ideas and characteristics to New Business Development and/or In-licensing to create an internal engine for new opportunities, from leads to molecules to technologies.

The “structure” is, in itself, different from any standard pharma architecture, It also works on different “rules of the game”. The high risk/fast decision approach of NPI means it’s not just acceptable, but desirable and expected, that key strategic decisions on how to proceed, say, after an external candidate has been considered, are based upon levels of statistical confidence that would create enormous antibodies in a standard Biostatistics division.

And this is the key: for this to work, internal NPIs must work on a completely different “operating model” (planning, decision making, resource allocation, priority setting, accountabilities, knowledge transfer) from the rest of R&D or commercial structures, and this must be “protected” by senior management.

Some so called “discovery” organisations, part of a modern R&D that usually splits itself between Discovery and Development, are supposed to work on some of these parameters. The difference between standard Discovery and NPIs is that the later contains (not “it’s associated with” or “works closely with” or “works together in a matrix with”) business development and in-licensing and also has its own Phase I/Proof of Concept Unit. In other words, imagine that all the constituencies responsible for filling in your pipeline are in a room and part of the same structure - not the classical “working as a team” from different parts of the organisation – but this is the team! Period.

The overriding business assumption behind NPIs is very simple: most pharma companies acknowledge that internal Research will not be able on its own, to fill the pipeline in the way required to satisfy a flow of compounds going through full development. That’s why strategic alliances with “boutique research” and business development /in-licensing come in.

The problem is that the solution to the “multi-source” exercise is usually very fragmented and sequential. Business development, for example, that usually sits somewhere in strategic commercial structures comes up with ideas or due diligence work. R&D people are called upon to help and assess, usually a task that comes on top of their normal duties. R&D grows progressively detached from opportunity scanning and assessment, and usually is called in “late” and “in a rush”, just to go back to their labs as soon as the exercise is finished.

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NPIs have an all-in-one capability. That does not mean, however, that they must have a huge staff. Depending on the size of the company, NPIs could be relatively small (as many venture capital firms are) and use resources from other parts of the organisation either on a permanent basis, or as secondments or internal subcontracting. NPIs get secondments from research, toxicology, pharmaceutical development, regulatory affairs or strategic marketing, for example. NPIs also can outsource a great deal. Variations are possible. What NPIs have in common is the philosophy. How some specifics work for a particular company, need to be worked out on a case-by-case basis.

Pharmaceutical leaders need to be courageous enough to accept that they may need to think out-of-the-box and investigate alternative organisational architectures, if the promises of productivity and output are to be fulfilled. The above example is one of the many that can be established. NPIs are not theoretical, an academic exercise or are interesting concept. It works.

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