BusinessWeek RESEARCH SERVICES

Collaboration Strengthens Healthcare's Pulse

By Deborah Asbrand

For more than a decade, pharmaceutical companies, biotechnology boutiques and medical centers have been stepping up the pace of collaboration. They've busily worked with partners to speed new products and services to market as well as to optimize sales and healthcare delivery.

Impressive, yes, but you ain't seen nothing yet.

Over the next several years, these companies will dramatically expand their partnering efforts even further. They'll be crossing borders and industries in their pursuit of new ideas, markets, opportunities and efficiencies, according to a new survey of C-level executives by BusinessWeek Research Services (BWRS) focusing on third-party collaboration.

Of the 353 respondents to the survey, 14 percent were CEOs, CIOs, CFOs, CMOs and COOs of large and midsize pharmaceutical, life sciences and healthcare organizations in North America. As a group, the median level of outsourcing by the companies in this sector in 2008 was 13 percent of their operations. However, within three years that percentage will increase by almost 50 percent (see Chart 1, "Outsourcing Surge").

Relying on third parties for 20 percent of their operations in three years first means a boost in the budgets for joint R&D. Three-quarters of the survey respondents identify access to new skills, products and ideas as among collaboration's key benefits. As a result, nearly 75 percent partner with other companies on R&D now, and that percentage will increase. One-quarter of respondents say that in three years they'll be collaborating to a large extent on R&D.

The Changing Nature of Business

"The very nature of what it means to deliver value to a patient is changing and requiring new forms of partnership and new ideas," explains Stuart Kliman, a healthcare specialist at Boston-based Vantage Partners, a consulting firm that specializes in partner relationship building. "Pharma companies realize it's no longer enough to create medicine for diabetes, for example. Instead, they need to ensure patients who have diabetes are getting healthy—and that's a whole different goal, and one that requires those companies to reach out and create partnerships with others who have complementary assets. The healthcare company is no longer fully integrated; rather, it becomes the integrator."

Indeed, the healthcare sector will become more reliant on third parties for everything from the mundane—logistics and distribution help in emerging markets—to the esoteric—new ways of improving outcomes, not just selling more prescriptions—(see Chart 2, "More Third-Party Reliance for More Functions").

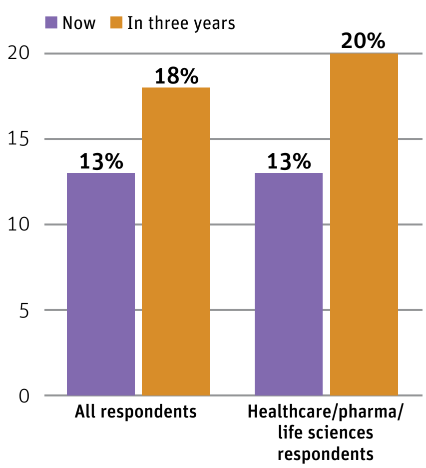
This strategic shift might mean creating electronic games to teach patients how to manage their diabetes, for example, or allying with consumer packaged goods

> "The very nature of what it means to deliver value to a patient is changing and requiring new forms of partnership and new ideas."
>
> – STUART KLIMAN
> VANTAGE PARTNERS

Chart 1

Outsourcing Surge

(median % of operations outsourced to third parties)



Source: BusinessWeek Research Services, 2008

companies to develop co-branded foods appropriate for this market. It might also mean operating portals through which patients, doctors and drug companies interact.

"The whole definition of the business of pharmaceutical companies is changing, and changing fast," Kliman says. "And that's spurring the realization that the capabilities necessary to drive value to end customers don't exist among these companies."

New Markets, New Potential

So companies have set out to obtain the necessary capabilities via alliances, especially when the capital market turmoil precludes mergers and acquisitions. Plowing into new markets is essential to healthcare, pharmaceutical and life sciences companies. Collaboration is a way to get there. Six out of 10 BWRS survey respondents list entering new markets among the top three benefits of collaboration in the future (see Chart 3, "Collaboration Benefits").

One reason for such fervor is that a more complete solution provides a better return for the intense and costly R&D investment. Consider the evolution of the collaboration strategy of Nektar Therapeutics, a San Carlos, Calif., company that opened its doors in 1993 to develop new pulmonary drugs and then license them to other companies.

"You hand over technology and get a small piece of action," says Senior Vice President Rinko Ghosh. But it was a limited business model. Nektar's collaborations were "transactional," Ghosh explains.

So the company took a different approach. The more information Nektar could offer potential partners about the drugs it was creating, executives realized, the more of a premium it could command for them. As a result, Nektar moved into taking its products through more of the necessary clinical trials.

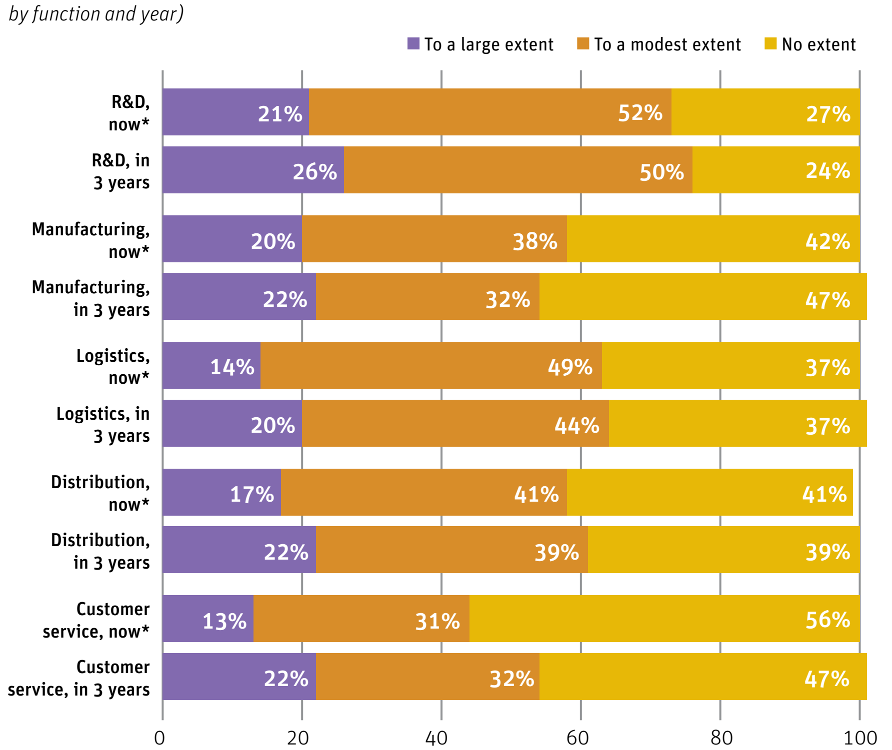
Now when the company partners with big pharmaceutical firms, it is able to reserve a larger piece of the action for itself. Nektar's recent deal with German giant Bayer HealthCare is emblematic of the $273-million company's lucrative change. In addition to milestone payments to Nektar, Bayer and Nektar will jointly develop a new inhaler application and co-promote it within the United States. For sales outside the United States, Nektar gets a 30 percent royalty.

Six out of 10 BWRS survey respondents list entering new markets among the top three benefits of collaboration in the future.

Chart 2

More Third-Party Reliance for More Functions

(% of healthcare/life sciences/pharmaceutical respondents indicating level of use of third parties, by function and year)



** Totals may be under or over 100% due to rounding.*

Source: BusinessWeek Research Services, 2008

Competitive Benefits

When it comes to the benefits of collaboration, 35 percent of executives responding to the BWRS survey credit their partnerships with boosting the velocity of new products or services. They also report an increase in customer satisfaction. Almost four out of 10 say their customer satisfaction scores have improved relative to their competitors due to their collaboration with third parties.

Other research confirms that the healthcare/biotechnology/pharmaceutical sector has made important strides in improving its understanding of customer needs. In a 2008 report on innovation, Boston Consulting Group singled out executives in these industries for developing a deep understanding of customers.

Obstacles in Collaborative Partnerships

Concerns about government regulation and its impact on collaboration weigh heavily on the minds of C-level executives in the pharmaceutical, healthcare and life sciences industry. More than a third of respondents point to government strictures as a major concern, while only a fifth of the overall survey population express such fears.

Respondents also show caution over intellectual property ownership. Almost 43 percent of pharmaceutical/healthcare/life sciences respondents indicate that IP leakage is a substantial risk of collaboration with third parties, while only 37 percent of the overall survey population share that level of concern.

Outlook for IT

IT infrastructure is another major area of concern for the sector. More than half of the survey respondents indicate a lack of satisfaction with the expected technology infrastructure to support their organizations' collaboration needs over next three years, a higher percentage than for the overall survey population (see Chart 4, "Technology Not Where It Needs to Be"). It appears that this inflexibility is the legacy of the industry's legacy systems.

Many pharmaceutical and biotechnology companies have "primarily built their own systems or had them custom-built for them," explains Ruchi Mallya, an analyst for market research firm Datamonitor Inc. "They haven't used off-the-shelf software, which is often more configurable and easier to integrate with existing IT systems. So when they start working with partners or acquire other companies and try to integrate, they have a hard time." As a result, she says, a lot of companies are turning to commercial software.

As for healthcare, hospitals, too, are trying to connect with everyone else. "But they're having issues with who'll pay for the technology," says Datamonitor Analyst Christine Chang, "and how do you sustain funding over a period of

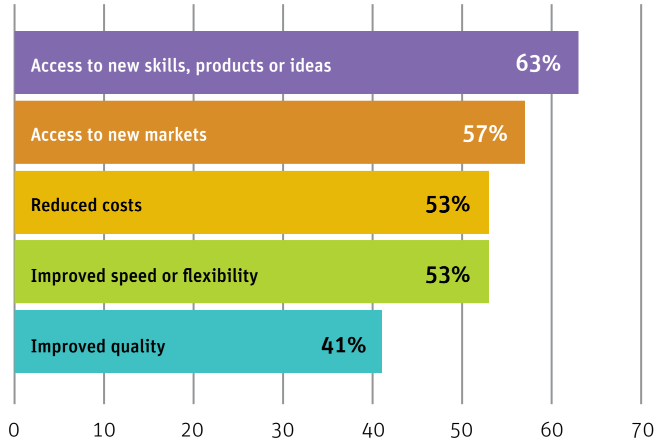
As for healthcare, hospitals, too, are trying to connect with everyone else. "But they're having issues with who'll pay for the technology."

– CHRISTINE CHANG
DATAMONITOR INC.

Chart 3

Collaboration Benefits

(% of healthcare/life sciences/pharmaceutical respondents indicating that a particular benefit will be among the top three in importance in three years)



Source: BusinessWeek Research Services, 2008

time?" Although it's the doctors who purchase and use the new electronic health record systems, she points out, it's insurers and government Medicare and Medicaid programs that actually benefit the most from the cost reductions.

Concerns for Process Visibility

Process visibility is another cross-industry worry for this sector. Almost three quarters of the overall survey respondents say they're concerned that insufficient access to information will cloud their view of partner processes and impair collaboration. Among healthcare, pharmaceutical and life sciences companies, though, that figure jumps to 83 percent.

As a result of these infrastructure and process ills, C-level executives in this sector are much more likely to revamp IT and integrate processes to enhance visibility.

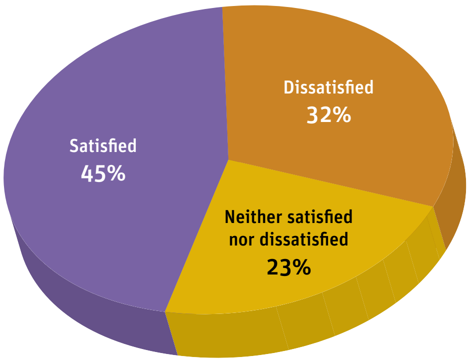
The changes required for collaboration, both in IT and company-wide, represent "a huge challenge and cultural shift," Vantage Partners' Kliman says. "They go to the notion of how we do business. It's one thing to deal with information sharing and the IT infrastructure needs with one alliance. It's another to figure it out for a portfolio of alliances and to think about it in the context of the value chain."

Indeed, collaboration and the resulting beefed-up business network are both challenging companies and transforming them. These capabilities are leading firms away from the outdated style of command and control and preparing them for a global marketplace where the business network is the company. ■

Chart 4

Technology Not Where It Needs to Be

(% of healthcare/life sciences/pharmaceutical respondents indicating level of satisfaction with IT infrastructure's ability to support the expected level of third-party collaboration in three years)



Source: BusinessWeek Research Services, 2008

Deborah Asbrand is a senior editor for Triangle Publishing Services Co. Inc. of Newton, Mass. Her articles have appeared in The Industry Standard, The Boston Globe, Corporate Dealmaker, *Forrester Reports and MIT's* Technology Review.

This research project was funded by a grant from SAP.