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Lessons in partnering from Biocon-Pfizer deal termination

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In March 2012, the termination of a multi-million dollar deal between India's top biotechnology company Biocon and global pharmaceutical company Pfizer shocked the industry. It has given the industry and the analysts much to talk about and, perhaps, some lessons to learn.

The shelving of the deal can be a huge learning for companies seeking growth through partnerships at a time when an impending patent cliff is putting pressure on the revenues of big pharmaceutical companies and the Asia Pacific region is emerging as the favored destination for drug discovery and manufacturing to counter high costs of R&D and manufacturing.

Sharing his thoughts on the Biocon-Pfizer deal call-off, a representative from Genentech, says, "Mishaps happen when interests clash. In this case, it is assumed that the priorities of Pfizer had changed because the cost advantage went lower than their expectation, and they did not see much profitability in this partnership."

Dealing with partnerships

Pharmaceutical companies have two ways of entering into partnerships. It can be a business model for cost advantage that can be done through outsourcing or it can be a partnership for innovation. For instance, if an MNC is looking to leverage the benefits of the China market, outsourcing could be the most viable option. However, a long-term partnership is the right way for innovation.

"Specialty drugs and biosimilars are new avenues that have high profitability in the long run and partnering in these innovative areas can be viable opportunity for both the parties. However, the opportunities are very big and the challenges are highly complex," pointed out Ms Kiran Mazumdar Shaw, CMD, Biocon. She was speaking at the two-day BioPharma Asia convention held in Singapore on March 20.

The need to maintain marketing control can often restrict the choices available for strategic partnership, added Ms Shaw. "Also the need to explore products from a therapeutic perspective influences the choice of partner. The parties need to identify the requirements and then move ahead."

At a recently held biosciences conference organized by BioSpectrum in Singapore, Ms Cheryl McCaffery, deputy director, Industry Development Group, A*Star, Singapore, spoke about the various sides of collaborations. She mentioned that in the process of selecting a partner, a research company should understand the structure of the industry trends and niche areas where the technology could be applied. "One should analyze the strengths and weaknesses of the partner and then begin courting," she said.

Market dynamics are also huge in Asia, as one region differs completely from the other. There is a big difference in pricing, policies, trends and market needs. Also, local competition is strong; the generics business being especially competitive. Adapting to the regional markets of Asia too is a complex process.

Besides, there is a threat to licensing as demonstrated in the case of Nexavar in India. "One of the biggest challenges that Asian companies have to face is the lack of Intellectual Property (IP) protocol. Partnerships with MNCs help in bridging this gap and getting IP protection for their innovative products," says Mr Wang Jian, president, BGI, China.

Trending strategies

Pharmaceutical companies are looking at new strategies to overcome the challenges of an impending patent cliff, declining R&D productivity, profit erosion and price pressure. "The need of the hour is to capitalize on Asia as a source of growth and innovation for pharmaceutical companies to narrow the gap in their pipeline. This can be done by understanding the market trends in Asia, the need of the industry and by getting closer to local players," says Dr Anders Ekblom, head of Science and Technology Integration Office, AstraZeneca.

Product diversification into diagnostics and devices and reducing costs in R&D and marketing are also strategies to balance profit erosion. Another trend in recent past has been partnerships for local manufacturing, such as between Roche and Emcure (India) for Herceptin, and Pfizer and Hisun (China) for APIs.

In similar tie-ups, Novartis and USV (India) are doing joint marketing for Galvus, and MSD and Sun Pharma (India) are doing it for Januvia. Some MNCs have also entered into licensing agreements with regional players, such as GSK and Dr Reddy's Laboratories, and Pfizer and Aurobindo Pharma. Merck and WuXi (China) have partnered for research services and Biogen and Samsung (Korea) have agreed on co-development.

The emerging markets are brushing up their potential to invite pharma companies to join hand with them amid all the challenges. India and China have over 150 USFDA-approved plants, and Korea and India have the largest biologics manufacturing capacities outside the US.

Biocon also has strategic relationships with multinational companies in different areas. It is in collaboration with Bristol-Myers Squibb for research services that leverages high quality scientific talent; co-development for Mylan that enables risk and resource sharing; and R&D partnering for Optimer that accelerates innovation in a cost-effective manner.

In the long run, partnerships between global companies and Asian firms will lead to uniformity in drug pricing, strong IP protection and global harmonization. And if there is a clash of interest and priorities, the companies need to have other avenues, for example a strong brand, to sail through the situation as is being expected of Biocon.