BioPartner Discussion Forum Notes

Thursday 8 July 2010, Ettington Park Hotel, Stratford upon Avon, Warwickshire

Internationalisation how, when and where?

UK Lifescience companies need to look abroad for collaborations, sales and funding – but they need the tools that will get them to the right places.

The internal market is insufficient for a UK lifescience company to develop a technology, market a product or sell a service at a rate or volume that will return investor value - internationalisation is essential. At the second annual BioPartner Discussion Forum, a panel of internationalisation experts led the debate and sought opinion from delegates on the drivers and process of reaching outside the UK and obstacles facing companies in the early stages.

Pre-requisites.

As with almost everything for an early-stage company, the central requirement is to have sufficient finance. But, however well-funded, a company must also possess the internal competency to internationalise. Its key employees need to demonstrate "inter-cultural fluency" in order to successfully build working relationships with clients/customers. The business model should also be considered carefully in the context of target markets.

Radical variations in business processes were described; for instance until quite recently it was not customary in Spain to issue invoices, which created accounting problems for UK partners. Interdependencies with UK partners or systems may not serve an internationalising company well – or at all – for example: a Scottish company providing a healthcare service discovered early on that its model did not even fit the English system let alone anywhere outside the UK.

For larger companies, expansion is the modus operandi and the opportunity markets of China and India are being taken seriously. Their search for acquisition targets has not diminished either.

Knowledge of customers' requirements was identified as a major and often neglected issue. It is not always possible to evaluate potential clients' needs, described as "known unknowns", so it is vital to get out to the market quickly in order to pressure-test one's proposition. Pharma companies are particularly frustrated – and frustrating - in negotiations with smaller companies where the 'fit' of a technology may be hard to ascertain.

Drivers

Growth is the underlying objective, and there are different ways in which internationalisation helps this to be achieved. In the UK, the lifesciences sector is drip-fed financially, and management's adaptation to this environment presents incremental growth as an opportunity. Some companies have indeed grown incrementally as a means of expanding internationally. Others have made use of the under-valuation of UK companies in the US and this can be very helpful in obtaining capital. Another useful way to expand is by partnering with a big player in the market. This step function runs counter to the incremental approach as a small company can easily be dominated by its global partner to the exclusion of smaller deals that could serve to spread risk. However, the ultimate aim in most cases is a profitable exit – and investors may be suspicious that too many foreign agreements and tie-ins can militate against this.

Paradoxically, lack of capital can become a driver in itself to a company expanding internationally. Similarly, if the bulk of the company's expansion targets (customers, partners) are overseas then the company can be forced at a much earlier stage to internationalise. The downside for UK plc is that this makes it more likely that a company will decide to relocate overseas and in all likelihood will not relocate back to the UK, with the consequent loss of highly skilled jobs and revenue to the UK. Similarly, if overseas expansion is easier than building a strong company locally, the current pattern of exit through non-UK acquisition will continue.

In the UK, the largest purchaser of medical lifesciences and health technology products is the NHS. However, NHS purchasing is as complex as it is diverse; sales are made separately to each of the current 100 Trusts and the inability to get to grips with this time-consuming process has become a driver to seeking to access overseas markets. Ironically, it can be easier to sell into the NHS through one's American subsidiary than to sell direct.

Trade destinations

All of the companies represented in the forum were trading outside the UK - in many cases, well over half of their business consisted of export trade. A show of hands indicated global coverage, with equal numbers active in North America and continental Europe and slightly fewer companies trading in the Far East. Some companies had set up locally incorporated divisions when seeking to expand internationally, and in order to access local money instead of UK funding, which is currently not available. This has allowed companies to obtain matched funding from other countries' equivalents of regional development agencies.

If lifescience companies decide to relocate, where do they go? The natural focus is on clusters where the money and skills are located, typically Boston and the San Francisco Bay Area, where companies have set up on the assumption that the VCs are there. However, this is not always the case: virtual operations can be set up in attractive places that are less developed and therefore cheaper; and R&D Pharma companies are now setting up large units for clinical research and manufacturing in India and China because of the growth potential there.

There are some lessons that could be learned from other companies expanding overseas. A common initial mistake for US companies entering the European market has been to overestimate the federal nature of Europe, running into problems when having to address a new set of requirements for each of the many member states. Indeed, it can be extremely important to understand regionalisation, as there can be marked differences within countries. It was felt that a European one-stop shop would greatly benefit US investors, and there is no known EU body able to fulfil this function. The European Enterprise Network was described as a useful resource in this regard, but a small proportion of attendees were aware of it.

Look around for opportunities

The landscape of doing business for life science companies is changing with a number of implications for the international perspective. Looking to the future, the central University technology transfer models of early stage spinouts and/or IP licensing are unlikely to last, except in cases where strong and continuing support from the parent institution is provided as a means of assuring a financial return. Despite our very strong science base, the UK lifesciences sector is classically inept at exploiting knowledge. Early stage currently means 'too early to survive' and patents written around academic research are often informative more than protective, serving as a beacon for opportunists who can independently work up their own IP in order to escape royalty obligations.

Pharmaceutical companies are therefore increasing pre-competitive collaborations, for which there has been encouragement and support from the EU and European governments, including the UK, for some time. Pre-competitive research may bring a more open approach to the early stages of drug development in particular. For licensing purposes, this should generate more robust and more varied IP from which to choose, as well as bringing IP together between centres of academic excellence – internationally as well as locally. In the US there have been successes; for example, the University of Rochester has a process of gathering up technology in a range of areas and licences technology from other Universities. This had enabled Johnson & Johnson to be able to exploit a product and provide it with freedom to operate. This is not widely seen in the UK where Universities guard their secrets ever more closely; however in Scotland a precedent has been set in the form of the Translational Medicine Research Initiative (TMRI) which has pulled off an extraordinary feat in bringing together 4 universities, the NHS and a multinational pharma company in the cause of generating IP value.

This can work the other way around. Big pharma companies are beginning to espouse the practice, used by Eli Lilly for some time, of making available technologies which they do not wish to use but could be licensed by other parties. This process has the potential, if applied widely and fairly, to smooth the transition of technology to start-ups, replacing the current birth-by-attrition trend in which technologies are rescued from acquisitions and bankruptcies.

Further downstream, the setting up of the UK Technology Strategy Board has succeeded in getting more collaborations going between companies and Universities in order to embed innovation into manufacturing and product development.

Assistance – government and agencies

For small companies, networks and agencies can provide the initial step into internationalisation. The Enterprise Europe Network (formerly the Innovation Relay

Centre network), is now 15 years in existence. Companies seeking expertise in respect of a scientific programme are able to place a request on the Network for free. Despite its long-term existence, the network is little known, but for some companies it has effectively broken down the initial barriers to internationalisation and facilitated knowledge and technology transfer.

It was mooted that a centralised means of representing UK technology opportunities might help attract more international interest. However, the size and diversity of the UK sector makes this an unlikely prospect and these initiatives can result in more harm than good, by diverting resources and competing objectives.

Delegates were interested in getting assistance from inside their target territories. An agency singled out in this regard was UK Trade & Investment (UKTI). Those that had made contacts with Trade Officers in the US (Boston), Japan (Tokyo), Korea and some European countries, particularly Sweden and Denmark, remarked that they had been invaluable from the perspective of local knowledge. Their market report service was well received and it was pointed out that the real strength of these is in establishing a starting point in unknown territory, providing initial contacts at the beginning of a long road which are essential even though they are inevitably not the ultimate destination.

Public finance cuts were at the forefront of many delegates' minds, so it was put to the audience to comment on what parts of UKTI were the most helpful. Some commented that there seemed to be too many UKTI staff on the ground at events, which seemed a waste of resources; whereas there were others who did not know about UKTI's role in providing assistance with internationalisation. Whilst some felt that UKTI had been very useful in obtaining the right contacts in overseas jurisdictions (see above), others were ambivalent: the quality of service is variable, and once a company has established a foothold in a new territory, they have no further need for UK government involvement. UKTI staff, although well qualified, are usually generalists and there is only so far they can go in helping companies with sector-specific requirements. There was little doubt, however, that assistance 'on the ground' in new territories is the favoured option.

It was pointed out that UKTI's principle key performance indicator is the measure of increased trade resulting from their interventions at exhibitions and conferences, against the costs of providing them. Unfortunately for our sector, the measurement is carried out within a few months of each event, too soon to capture even small deals let alone pharma or clinical research agreements that come to fruition on timescales of 3 years or more. Thus the larger part of UKTI's success in promoting the UK's lifesciences abroad goes unrecorded, and it was felt surveys should reflect this longer timeframe.

Personal introductions to high-value players and senior executives are very important to our sector and there was a high level of approval for continued funding of smaller events and occasions where there is a concentrated presence of these individuals.

Finally

Internationalisation is an ongoing process, and there are many routes to success. The Forum identified some of the essential aspects of starting out on the route to overseas success and we hope to engender further debate through the publication of this report.

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Organisations mentioned in this report:

Eli Lilly & Company	http://www.lilly.co.uk
Enterprise Europe Network	http://www.enterprise-europe-network.ec.europa.eu
Johnson & Johnson	http://www.jnj.com/connect
NHS	http://www.nhs.uk
Technology Strategy Board	http://www.innovateuk.org
TMRI	http://www.tmri.co.uk
UK Trade & Investment	http://www.ukti.gov.uk
University of Rochester	http://www.rochester.edu/aboutus

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