



Alliance Potential

Becoming the target of choice in
big pharma's portfolio.



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Introduction

Being chosen by big pharma doesn't ensure alliance success, nor does simply having great science. In this paper, Oaklin's Nick Palmer describes the key behaviours needed to ensure your partnership goes the distance.

So, what can a small or mid-sized biotech do to increase the likelihood of success in its alliances with large pharmaceutical companies?

For decades, alliances have been a wellspring of innovation in the pharmaceutical and healthcare industries. Patients and their families benefit from new lifesaving treatments. Large pharmaceutical companies drive profitability and growth. Entrepreneurs and investors in biotech "do well by doing good."

The essence of a successful alliance is "I have something you need and cannot replicate, and you have something I need and cannot replicate." These may include assets, market access, brand, intellectual property and tacit knowledge. Money, at least only money, is rarely the 'something' unique a firm brings to an alliance. Money is available through loans, equity and other means without the costs and complexity of an alliance. While a larger firm may bring resources or 'deep pockets' along with its other capabilities, it is those other capabilities that turn the relationship from a transaction into an alliance.

Small and mid-sized biotech firms frequently rely on larger pharmaceutical companies for the capabilities necessary for drug-development, approval, marketing

and distribution. In most cases the smaller firm brings something very specific, unique and of extremely high 'quality,' while the pharmaceutical company brings its full suite of capabilities and assets.

Our Target of Choice research in 2023 focuses after a deal is done: the two companies are now in an alliance. Success depends both on the quality of the science and on how well the partners coordinate their efforts to bring the drug to market. Each needs the other. Much of what each needs is difficult to measure or monitor. Effort is difficult to track. Enthusiasm is even tougher.

Finding themselves in an alliance, what can the leaders and managers of the smaller firm do to increase the likelihood that their particular collaboration will succeed? Obviously, the behaviour of the larger firm will have a significant impact. But that is out of their direct control.

This paper presents our advice to leaders of small and mid-sized firms on how, in a crowded, dynamic field, to remain a high priority to their larger partners. First, the attitudes that differentiate the consistent winners. These are less rules than leanings that underpin success. Second, a few actions that can work if used selectively. Yet these actions have downsides, both short and long term. You must carefully consider risk-reward trade offs. Finally, a basic homework assignment that too many smaller firms fail to keep up to date and detailed. This deprives them of important context for decision making and action.



Reality: It's a Discipline

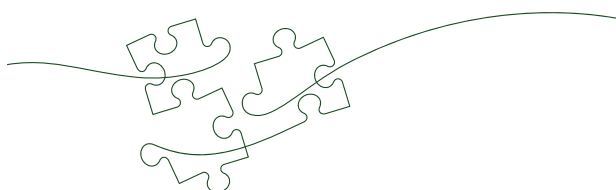
Collaborative ideals – trust, alignment, win-win, 1+1=3 – are all nice. They're true. In part. They also gloss over real difficulties: high-stakes endeavours between multiple parties with differing, changing interests and priorities. Human endeavours subject to human foibles.

Alliance management is not glorified project management. It is a discipline in its own right. It complements project management. Project management deals with the 'engineering' side, alliance management with the human side. It is distinctly *not* just the soft stuff.

Unlike projects, alliances continue often for long periods encompassing many smaller phases. An early-phase pharma/biotech alliance may pass through Discovery, Pre-Clinical, Clinical Trials, Commercialisation, Scale-Up and eventual Wind-Down phases. This could last several decades. A simplistic but helpful perspective is that a project is an 'event', while an alliance is an 'ongoing process'. Partners must have an eye both to the shorter term and the long-term relationship. At many points partners must explicitly and implicitly recommit to the alliance.

The Four Core Attitudes

Proper attitudes, shared across your firm, set a tone for and guide day-to-day alliance choices.



They are not feelings or emotions, which are often beyond people's control. A commonly cited example in alliances is 'trust' – supposedly critical to success. Yet real trust is an extremely complex attitude, shaped over time in response to experiences. It is unrealistic, and unwise to suggest that you should trust your alliance partner prior to any experience working together.

The research reveals four attitudes or biases to guide interactions with your big-company partner. You can use them to test your decisions and to temper your reactions in high-stress situations. They are not rules. These are particularly important when working with a new partner where you do not yet have well-tested relationships and collaborative experiences.

Holding these attitudes together is an overarching theme: Humble Pride. It is important for smaller-firm execs to remember: **if you have an alliance with big pharma, you've already succeeded.** Few firms reach that position. Confidence in your firm combined with an eagerness to collaborate with your partner should guide your approach.

A cynic might find the attitudes on the following page subservient or Pollyannaish. We disagree. Taken as rules, they might be. But taken as attitudes they are the proven path to successful alliances with large companies. Temper each with good judgement. Learn as the alliance progresses.



The four core attitudes of successful Targets of Choice are:

1. Expect Excellence – you have committed to this partner, trust your decision.

2. Learn Less – learning is good, achieving alliance objectives is better.

3. Do it Their Way – identify what needs to change, ignore the unimportant.

4. Stay Upbeat – there will be setbacks and conflicts, keep the energy positive.

1. Expect Excellence

This appears obvious. Of course, you expect excellence. But do you behave as if you do?

Frequently alliance participants – both large and small – second guess their partners just to be safe. They add extra checks. They duplicate analyses. This seems only prudent. Yet it adds cost and creates delays. It betrays an attitude of wariness antithetical to high-performance collaboration.

The great promise of most alliances is “bringing together the best of two top-notch organisations” to achieve something uniquely better. Each partner brings something to the alliance – its own capabilities, IP and people. At their best, alliances smoothly harness this potential.

At their worst, mistrust and conflicts, duplicated effort and poor coordination sap such collaborations of much of that potential. Most alliance experts cite ‘trust’ as critical to success. But what is trust, and how should it be manifested in an alliance?

In well-running alliances, each partner does what it does best.

Each party expects others to deliver on-time, on-spec and reliably. In this environment progress can be rapid and clear. Work is efficient.

In most cases, the larger firm’s contribution is more broad-based while the smaller partner brings a few very specific, unique assets and capabilities.

Weakened trust between small and large partners is endemic. Minor disagreements escalate as work proceeds. Small partners, once burned, second guess larger partners, not trusting them to meet commitments. Larger partners concerned about the rigor of a smaller firm’s approach become defensive and over-monitor. While the smaller firm’s executives worry about cashflow, the larger firm’s leaders worry about the impact of a problem on their brand and reputation. The risks each perceives are different, and significant.

Partners do let things slip: deadlines, quality, other commitments. Nevertheless, our ‘Target of Choice 2023’ research indicated that small companies that manage their work and relationship expecting their larger partner to deliver excellence find alliances



more efficient and effective. While this can lead to some setbacks, most believe the overall impact to be positive. **Trust and verify.**

An important part of *Expect Excellence* is to develop and track a very detailed understanding of the collaborative work. Here are some questions to consider. We recommend discussing them openly with your partner as early as possible in your collaboration. Share war stories — both the bad and the good:

- What are the two or three big items you need from your larger partner?
- How do you define quality in these areas? Timeliness? Responsiveness?
- How can you monitor progress without excessive cost or intrusion?
- What are your fallback options if the partner fails to deliver as promised?

The Four Ds

In discussing this finding, some have objected, citing failures on their larger partner's part. We get it. May we suggest some perspective? First, it's unlikely that your own firm has performed perfectly. It's a challenging program and things rarely go to plan. Second, be careful not to attribute a larger partner's failure to some Machiavellian motive. Psychologists call this a 'cognitive distortion'. Often a mistake or shortcoming is no more than human error. Once you attribute a problem to a dark motive, your entire alliance relationship sours. Finally, if a partner is consistently slipping, put in place



the least disruptive contingency plans to compensate. Explicitly and together. You want to succeed. Design your plans to do so efficiently. Longer term, factor in a company's history with you and their reputation with other firms when choosing an alliance partner.

To adopt *Expect Excellence*, step back a letter and consider Four Ds:

- 1. Draw a picture:** Diagram the alliance Operating Model in detail. Do this with your partner. You'll need more than a simple process map. Be creative.
- 2. Detail expectations:** It's hard to expect excellence if you haven't agreed on what you are expecting. This is an extension of your governance down to a finer level of detail. Specify who does what and how you will judge quality, timeliness and adherence to standards.
- 3. Discuss concerns early** before they become problems. Your alliance manager should build communication channels that allow frank discussion of concerns.
- 4. Deliver excellence yourself:** Live up to your own high standards. If your firm is coming up short, bring the situation to your partner's notice with proposed solutions.



2. Learn Less

Most alliance announcements and launch meetings call out learning as a key objective. Particularly for the smaller firm, learning from the larger partner can be a high priority. Each partner brings unique abilities. Larger firms generally have an excellent command of the entire drug-development-and-marketing business system. Smaller firms looking to grow see great benefits from learning.

Yet, the principal objective in most alliances is technical and market success. This requires focus and efficient management. Unnecessary delays threaten this aim. **Time is perhaps the most undervalued contribution in an alliance — both key individuals' time and project time.**

Real learning requires time, too. Focused time. While all projects create a healthy amount of learning by doing, this learning is not free. Too many executives see learning as something that 'just happens'. A view of learning as magic is naïve.

Smart targets of choice must drive toward alliance objectives while maximising other benefits, like learning. They can work with their partners to create a learning plan by discussing questions like the following:

- What, specifically, are we looking to learn?
- How can we structure our approach to make that happen? What can each partner do to streamline learning?
- How will we track or monitor learning? What trade-offs — time, money, etc. — might we make to facilitate learning?

Such discussions can unearth creative ideas that both accelerate progress and improve learning. One small biotech with several new employees agreed to assign those people to work as assistants in their larger partner's facilities, breaking a staffing bottleneck there and training them in the process.

Once you have a plan — hopefully specified in the alliance agreement, but at a minimum discussed and agreed with your partner — manage people and time to facilitate that learning. **What isn't measured won't happen.**

3. Do it Their Way

Each partner brings its own approach and expectations to the work. These are rarely the same. Successful companies develop their own approach and even vocabulary. From inside your company, it can be easy to feel that yours is THE way. In fact, much is nuance and even some larger details vary across successful firms. Simply saying "we'll just adopt best practice" is a sure recipe for conflict.

Many large/small alliances aim to accelerate the development process by capitalising on the smaller firm's unique approach or technology. In theory, great. Making it happen takes a good deal of work coordinating and reconciling processes across the companies.

Research suggests that as many developments are actually slowed by partnerships as are accelerated.



Partners ought to discuss and agree on process issues. Up front. While it may feel grating, smaller firms should lean toward using the larger firm's processes except where it's critical to alliance success. Delays and conflicts trying to reconcile less-critical aspects create needless friction.

Large firms typically have well-established end-to-end processes. Many have invested significant effort creating alliance-management processes and structures. In large-small alliances it often behoves the smaller partner to take advantage of the larger firm's business and alliance-management processes. At times, the smaller firm bringing a new technology comes equipped with a novel approach to elements of the development process. That's where the work begins.

The most useful concept for understanding, evaluating and designing consistent, high-performance alliance processes is the **Operating Model**. The Operating Model is a framework to describe how the various elements of the alliance will operate. More than just a catalogue of elements, the Model describes how each element *interacts* to create the capabilities necessary for success.

Almost never is there a single correct Operating Model. The US Navy and the British Royal Navy, both world-class organisations, each has a different Operating Model. Likewise, most alliances could use any of Operating Models. While there is more than one good model, there are far more bad ones.

In most cases, our research suggests taking the larger company's Operating Model as a starting point. Most large firms have invested significant effort honing their models over time.

This does not mean simply to take that model. The smaller firm brings much new and valuable to the alliance. Finding ways to integrate those new ideas is usually much simpler when starting from a proven model. Adapt, don't adopt.

Approached collaboratively, partners can find creative process hybrids that do, indeed, capitalise on each partner's best. Small firms with good reputations in particular therapeutic areas may receive more attentive review by regulators. Larger firms may be able to use well-tested protocols to speed testing. Such successes are built on clear thinking, frank discussion and deliberate design. They rarely emerge on their own.

Compromise and reconciliation do not mean averaging. Driving down the middle of the road is a poor compromise between the UK left-side and the US right-side conventions. Finding the right approach takes effort, creativity and above all, good will.

"Part of our approach, from an M&A and Alliance perspective, is for me to develop strong working relationships at senior executive levels. These connections create multiple points of contacts for communication and issue resolution."

*- Rusty Field, President & CEO,
Upsher-Smith Laboratories*





4. Stay Upbeat

Show your ‘humble pride’. Your alliance is a sign of the strengths of your company and its people. Channel that into positive energy. When partners enjoy working together, success is more likely.

This advice goes beyond simply your attitude. This is a recommendation for action. Larger companies tend to be bureaucratic. While this alliance may be one of only a few for your firm, colleagues at the larger partner likely face multiple, conflicting demands on their time and attention. If you and your team inject energy and enthusiasm, it will inspire reciprocity.

Drug development is a challenging, high-risk endeavour. There will be setbacks. There will be conflicts. Other priorities scream for attention. These create stresses. Because of the size difference, however, the stresses will manifest themselves differently in each partner. At your company, a setback may spur a greater drive to push forward. Perhaps to accelerate some activities. That same setback may put pressure on your larger partner’s alliance team to refocus its energies on another project or even another alliance.

Adaptable people recognise tensions in themselves and others, and help their partners resolve those stresses. It is not easy. A missed deadline may imperil a milestone payment your firm needs to make payroll. It can be easy, even reasonable to fixate on the threat to your company.

Facing pressures of their own, day-to-day partner personnel may appear unconcerned about your problems, or of the threat to your company.

It may be natural to become pushy, even insistent. It can be dangerous, too. Very often they find themselves in a difficult spot — their management has made its concerns clear to them. Even if they don’t agree with decisions taken by that management, they face the unpleasant task of presenting those decisions to you.

By bringing options and solutions, rather than problems, small biotechs can create better working relationships with their larger partners.

Show your ‘humble pride’ and big pharma partners will enjoy and look to constructively work with you. You will see benefits in your current alliances and find yourself in greater demand for future collaborations.

Escalation Management

Perhaps the most common area where norms-related differences create problems is escalation. A solid governance model defines how and when to escalate decisions. Take note, escalation decisions carry emotional baggage. In most companies, the feelings about escalation are shaped by deeply shared, often unseen cultural norms. Violations of such norms, even accidental violations, can trigger violent reactions. And long-term enmity.

Not uncommonly, a senior executive or board member of a smaller firm knows someone very senior in the larger partner’s company. As tensions rise, there will be a



temptation to ‘go around the process’, escalating the conflict outside of the agreed governance channels. This is a perilous decision, not to be taken lightly. It will create resentments. In some companies it may represent an irreparable break with protocol – a breach of trust. While we would not say ‘never’, smaller company executives must understand that such an end run is likely a one-shot decision, not easily undone. If you choose to do so, be aware of the repercussions.

Several involved in our research noted that too often a small firm’s need to escalate around the agreed structure masks an unwillingness to engage the right person in a difficult conversation. There is clear evidence that difficult conversations, pursued with respect and honesty, actually improve relationships, clearing the way for increasing success.

As a general rule, smaller firms need to be comfortable being aggressive to establish ground rules up-front in the alliance. **It’s far better to fight battles *before* the collaborative work begins in earnest.** Several companies in our study explicitly keep key executives, including CEOs, out of these early, often contentious working sessions. Then, once the actual work begins, those people are not associated with that process.¹

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¹See “*The Right Kind of Conflict Leads to Better Products*” by Thompson, Butkus, Colquitt and Boudreau in Harvard Business Review, December 2016

Where’s the Umbrella?

People have a deep-seated sense for what is fair. Many arguments, from children on the playground to executives in the boardroom, boil down to, “You’re taking advantage of me.”

Coupled with this sense for fairness is the nearly overwhelming urge to get even when treated unfairly. The title for this section comes from the tale of the exec who filed an expense account after a successful business trip. She included \$11 for an umbrella which she needed in an unexpected rainstorm. Accounting rejected the expense account deeming the umbrella a non-reimbursable expense.

A day later, the exec resubmitted the expense form with no umbrella, but with the overall total unchanged. She handed it to the Accounting saying, “Find the umbrella!”

Likewise, the participants in an alliance each bring a sense of what is fair. When one feels that he or his firm has been taken advantage of, you can be sure that he will be looking for opportunities to get even. This sets up a destructive back-and-forth dynamic that wastes time and energy, diverts focus, and undermines trust.

In an alliance there are myriad opportunities to get even. Most of the underpinnings of success are, as noted earlier, difficult to measure or monitor. Has your partner assigned a top medicinal chemist to support the alliance? Or are you getting a second-tier player? Does the commercialisation team put in a few extra hours each evening? Or head for the exits at 5:00?



In getting—even conflicts, even useful tools become weapons. A common example in pharma–biotech alliances is the audit. Regular audits are often specified in contracts. Sound contracts include audit provisions. They provide partners confirmation every few years that all i’s are dotted, and t’s crossed.

When one partner decides to wield the audit as a weapon, however, escalation ensues. An executive may feel the other partner is doing something wrong. Rather than talking, that exec invokes the alliance’s audit provision. These vindictive audits invariably backfire — short term or long term. Sometimes the audit, which by design looks at both partners, finds that the initiating partner has actually overcharged or undercompensated the target partner. In almost all cases, the vindictive audit will trigger future audits, erode trust and impair alliance performance.

On the other hand, an executive we know tells of an alliance she managed a few years ago. Her company owed a progress payment to the partner. The partner company had a shaky accounting department and had failed to issue an invoice for the payment. Several of her colleagues suggested that it might be best for cashflow if they waited for the partner company to realise its slip up. She insisted that they contact the partner’s lead executive and ensure the payment on time. Over the course of the alliance, this goodwill paid dividends in the companies’ working relationship. The alliance became a great value creator for both companies and the basis for future collaboration.

There will be situations where ‘winning’ is vital to your company’s interests. As a leader, however, you must be sure that the goals of aggressive actions are sufficiently important to warrant longer-term consequences. These are senior-level choices.



“My primary role is making sure that my Alliance Managers feel comfortable making all 50–50 calls in favour of our partners.”

– *Nelson Sims, Founder of the Eli Lilly Office of Alliance Management*



Do Your Homework

If you have an alliance with a large pharmaceutical company, congratulations! You're in rarefied company. While you may not be that company's most important alliance or programme, your partner sees clear value in the relationship.

Now, be realistic. Typically, a large pharmaceutical company's top ten drugs account for close to half of its revenue. Most large pharmaceutical companies manage over a hundred alliances. Maybe yours will achieve Terrific Ten status. But if it doesn't, it can still be great — for you and for them.

As you work with your larger partner, keep a detailed understanding of how your company, its assets and its capabilities fit in your partner's overall plans. This requires more than knowing, for example, that they have a strong franchise in CNS and that your compound would replace their number-two selling CNS drug.

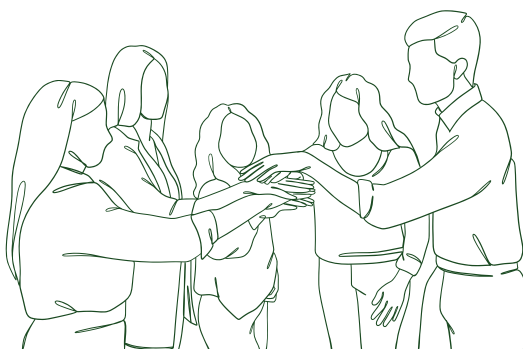
You must also recognise and monitor how that fit may change over time. David S. Thompson, Chief Alliances Officer at Eli Lilly & Company, highlights strategic drift. Over time partners' portfolios, priorities and strategies change.

People change, too. The position of your company at a larger partner will change in response to those and other events. You must monitor of such changes and understand their implications for your alliance.

Be prepared. Do your homework. Where does your alliance fit into your partner's universe? Which therapeutic area? What other compounds or programs does that partner have in this area? Does your compound offer your partner new markets, or will it cannibalise existing sales? Does the partner have other alliances that might impinge on or compete with yours?

Be transparent with your partner. They will share things with you. They want to succeed, too. Do not be surprised or offended to find they are working with your competitors to ensure multiple options in vital areas.

Build relationships at multiple levels and places in your partner's organisation. Enlist and engage multiple sponsors for your alliance. As personnel or circumstances change, such relationships provide important continuity. You will ensure that the purpose, value and history of your partnership do not get lost.





Conclusion

These are the lessons from the master practitioners of pharma–biotech alliances. It's too easy to claim, "It's more art than science." There's plenty you can learn. Alliance management practice has advanced significantly over the past three decades.

Smaller–firm executives should understand these lessons, not follow them slavishly. They must adapt to the behaviours and reactions of larger partners. Yes, there is a basic asymmetry: the larger firms almost always have the greater resources and more options. Yet they, too, have a stake in seeing their smaller partners succeed.

Larger firms can learn from this as well. By remaining open to the challenges your partners face, you can sustain a more creative, outcome–driven collaboration. There is a reason that some large firms are more consistently successful in alliances. It's not all in the science.

It's in the management.

Unconventional Wisdom: Attitudes for Becoming a Target of Choice

1. **Expect Excellence.** You have committed to this partner, trust your decision.
2. **Learn Less.** Learning is good, achieving alliance objectives is better.
3. **Do it Their Way.** Identify what needs to change, ignore the unimportant.
4. **Stay Upbeat.** There will be setbacks and conflicts, keep the energy positive.



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