

Growing an international biotechnology company

Some factors to take into account when establishing a European startup.

Pascal Brandys

While many of those attracted to European biotechnology are motivated by the perception of operating in a less competitive environment than the United States, there are a number of particularly European challenges that the bioentrepreneur must face that are not likely to be at issue elsewhere. The lack of a well-developed infrastructure for biotechnology has forced European bioentrepreneurs to found their companies as international businesses from the outset. While many may consider this to be a superior business model, the task of creating and implementing a global strategy, while at the same time dealing with many of the local issues that are germane to a startup on either side of the Atlantic, make managing a European company equally, if not more, challenging than growing a biotechnology company in the US. The balancing act for the European bioentrepreneur, then, is to build a solid foundation for his or her company on the three legs of finance, management, and strategy.

Finance

Financing a biotechnology company traditionally has been a next-to-impossible task in Europe. Because investors could not depend on public stock markets in Europe for recouping their investments, the risks in investing in Europe were high. Ten years ago, startups like Genset (Paris) or Qiagen (Hilden, Germany) could only expect one or two million dollars from a few brave venture capitalists. European venture capital was unable to participate beyond a second round of financing.

Things changed almost overnight with the deregulation of European financial markets in 1996. This created, in essence, instant competition for the listing of biotechnology companies between the NASDAQ, EASDAQ, AIM, Nouveau Marché, and Neuer Markt exchanges. The successful initial public offerings of British Biotech (Oxford, UK), Genset, Innogenetics (Zwijndrecht, Belgium), and Qiagen in these markets paved the way for demonstrating that there was a sustainable growth strategy for European biotechnology.

Pascal Brandys is CEO and president of Genset, 24 rue Royale, Paris 75008, France (pascal@genset.fr).

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These successes led to an expansion of venture capital activity, but this activity has not affected seed and startup financings. This remains the main limitation on the growth of the European biotechnology industry. Experienced management on the investment teams is also a key element that is too often missing. So-called “angels,” private financiers with past operational experience are still a rarity in Europe, as are hands-on venture capitalists. This makes financing startups as difficult as ever. The challenge for European bioentrepreneurs is to convince experienced venture capitalists to invest as heavily in Europe as in the US.

Management

Establishing the right combination of technical and managerial skills is probably the single most important challenge for biotechnology startups. The breadth of the technology base in Europe is such that most companies are loaded with technical talent but very light on managerial expertise. The mobility of scientists between the academic public sector and biotechnology companies is still very low in most European countries, but this is compensated for by an influx of new postdoctorates looking for fast-track careers in the biotechnology industry.

The situation for managers is more critical. In Europe, most of the initial management teams are still either from big pharma or from academia. For example, UK companies usually follow the British Biotech model and are created by former executives from the pharmaceutical industry. On the continent, management is primarily handled by founding scientists from the academic sector. The real problem for culling management skills from within European biotechnology companies is that most are less than 10 years old—equivalent to a first-generation Cetus or Genentech (South San Francisco, CA) in the 1970s.

With few experienced European managers available, companies have been forced either to hire US executives or to develop key functions such as business development by establishing US subsidiaries. In either case, the management of these two cultures adds an additional level of complexity to running European biotechnology companies. This complexity, if mastered, can also confer opportunities, as it gives these companies a global business perspective they can turn to their advantage.

Strategy

European companies have also been struggling with evolving business models. Here there is a striking difference between Europe and the US. Whereas US companies have favored a binary model in which the success or failure of a company is entirely dependent on one technology, one business model, and often one molecule, European companies have maintained diversified strategic portfolios that very often allow them to change their business models several times before maturity.

For example, many European companies have initiated activities with a mix of commercial products and research activities. European companies have abandoned unpromising fields of research earlier than their US counterparts, and have always been concerned with generating revenues. This willingness of management and investors to adapt to an ever changing environment in Europe contributes directly to a lower mortality rate among European companies than their US counterparts. One can argue that this European model is now gaining favor in the US, as “platform technology” companies recently have performed better than drug discovery companies on the financial markets.

Conclusions

After a slow start, European biotechnology is now booming. One measure of this is that by the end of 1998, the number of European biotechnology companies will number well over 700—approximately 50% of the US total. By meeting the challenges of positioning their companies as global competitors from the outset, biotechnology is taking a leading role in introducing new values in the local European economies. These innovative companies will transform the traditional job-preservation culture in Europe to one of job creation. //