A question of focus

Focus is best thought of as an emergent property of a startup company, says Aris Persidis.

It's a familiar scenario. The energetic chief executive officer (CEO) of a 12-month-old startup company has just completed an impassioned presentation to a leading venture capital company.

The audience is one principal with pharmaceutical experience, and an associate with a life science graduate degree. The CEO has just explained how BestBioCo is developing a proprietary platform for protein-protein interaction analysis to show unambiguously how two proteins physically interact with one another at the molecular level. It's powerful stuff, says the CEO, because insight into these specific interactions will lead to better drug design.

BestBioCo is now creating a bioinformatics database of three-dimensional protein-protein interactions, and is engaged in a collaboration with a leading research scientist to map the interactions of the six proteins considered intrinsic to glioblastomas (brain cancers). Once the protein interactions have been mapped,

BestBioCo intends to use a combinatorial library of small molecules to inhibit these interactions, hoping to find a lead for the treatment of the disease.

The business model, says the CEO, is to make money in three ways: first, by licensing the protein-analysis platform in specific areas on an exclusive basis to companies looking for a competitive advantage, while offering nonexclusive licenses to other companies; second, by renting out access to its bioinformatics database; and third, by identifying lead drug candidates against glioblastoma, testing them in animal models, and then either taking them to phase I directly, or licensing them to the highest bidder. This, concludes the CEO, is only the beginning; the pipeline also includes compounds to treat other cancers and diabetes.

The principal then asks the killer question: "But what's your focus? Are you a toolkit company or a drug developer? Are you working within the structural biology,

bioinformatics, or neurology arena? And how, exactly, will you make money from all of this? There is a lot of competition out there. Come back when you have focus on what your main R&D effort will be."

Irrespective of whether it is a bear or a bull market, startups that are one to three years old cannot avoid the tricky question of focus—albeit for different reasons. If the funding climate is bad, there are those who believe that without well-defined focus very early on, the path to money-making, for the investors (through exit strategies such as public offerings or merger and acquisition), is longer and more uncertain. However, if the funding climate is good, then the question of focus will be used as part of the discussion of a company's valuation.

Prospective investors often argue that the more "unfocused" a company, the more difficult it is to estimate its valuation by making comparisons with "like" companies. The challenge of benchmarking an "unfocused" startup to a more mature, focused company renders projections of the startup's cash flow more imprecise, assumptions about revenue more debatable, and ultimately generates difficulties for the company to merit a higher valuation.

A difficult choice

So, what's an early-stage company to do? What is the "best" way that BestBioCo can describe itself to potential investors? After all, the CEO accurately listed the company's current capabilities and future plans. If the CEO tries to shoehorn BestBioCo into a box labeled "neurology", "bioinformatics", or "tools", would this not diminish the power of the story? Isn't it also true that by having a "three-point" business plan, BestBioCo is better able to manage risk: if the glioblastoma leads fail, the company could work in other therapeutics areas, while making money from its tools and the bioinformatics database?

The counter-argument is that BestBioCo does not really know what it wants to be when it grows up—so how can anyone invest in such an unclear story? Prospective investors will also argue that the company appears to be diluting its efforts across mul-

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multiple fronts, enhancing the uneasiness about where its future valuation lies. This is when these investors begin listing examples of companies that BestBioCo needs to think about.

Amgen (Thousand Oaks, CA) is a perennial favorite: the company had superb early-product selection capability, and by choos-

ing, and only gradually evolved its expertise as a genomic database provider for a wide base of customers in both industry and academia, acquiring new technologies, such as Synteni's microarrays, on the way.

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However, if as they matured, they had strived too hard for focus, they would have failed. Today, these companies' shareholders do not debate the question of focus—indeed, the companies have been diversifying for years—and are very satisfied with the companies' performance.

Companies should thus not continually strive for focus simply for the sake of it. The enemy of focus is risk—abundant within high-technology arenas—and companies that stick rigidly to their original focus can be more susceptible to the risk and consequence of failure.

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ing carefully early on in its development, it succeeded in getting products to the market. However, Amgen's apparently smooth (in hindsight) path to success—starting more than 20 years ago—is not an appropriate comparison for today's startup. Indeed, more recently, companies with what seemed to be an equally superb early-product focus as Amgen have suffered major setbacks when the leads failed in clinical trials; British Biotechnology (Abingdon, UK) and its matrix metalloproteinase inhibitor program illustrates the point. Amgen and other successful biotechnology companies might make good role models—just as there are lessons to be learnt from companies weathering failures—but forcing a company such as BestBioCo to mimic such businesses can mean it loses its identity, and its potential to succeed in its own manner.

The evolution of focus

There is no doubt that being good at one thing and doing it well is an excellent position for any company to be in. Many companies projecting a highly focused image have been very successful—take Sugen (South San Francisco, CA), Enzon (Piscataway, NJ), Morphosys (Munich, Germany), Cambridge Antibody Technology (Cambridge, UK) and Vertex (Cambridge, MA), for instance. In principle, we could sum up the focus of these companies in just a few words, but have they always been this focused?

For the above companies, the answer is yes. Sugen, for example, has from its inception been in the business of developing leads targeting signal transduction pathways and has persevered so that it is now a widely acknowledged success story. But other companies have actually started with quite a different focus from their final business, which has emerged only later. Incyte Genomics (Palo Alto, CA), for example, started out as Incyte Pharmaceuticals, focusing on high-throughput complementary DNA sequenc-

company can discover its focus as it develops and gains strength in particular areas. After all, even the business plan of a startup at inception is rarely, if ever, the same as that after even a year or less, and that's the way it probably should be.

Once companies become more mature and have established themselves in a particular area, very often they diversify into other areas. Thus, several established companies that are often used as a comparison (for startups) in capital-raising events could not be described as focused today, although they did start off that way. Millennium (Cambridge, MA), for instance, works in genomics, proteomics, bioinformatics, and target validation, and is also now trying its

Focus summed up

So the pertinent question for companies is not what to focus on but when, and the companies mentioned above provide valuable lessons for startups. Should they focus from the start, or allow focus to emerge? Focus is a question of timing and degree—when to become focused and how focused to become. So, what is our beleaguered BestBioCo CEO to do? There is perhaps no single ideal solution. The process of deciding on a sensible development plan, however, is infinitely more important to BestBioCo than whether its focus in its first year will be the same as that in its second and third years, and whether this focus will work for investors too. Focus then becomes

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hand at drug development. Human Genome Sciences (Rockville, MD) develops drug leads in several diseases, but also has a genomics effort and bioinformatics database. Genzyme (Cambridge, MA) works within several disease areas, and has tracking stocks and subsidiaries that concentrate on transgenic animals and tissue repair. None of these companies could satisfactorily answer the venture capitalist's question: “What's your focus?”

All three companies began their illustrious careers focusing on more specific areas, taking advantage of whatever initial asset mix they had at the time—for example, outstanding people with vision and expertise in certain areas, early proprietary technologies—and built on them. The companies convinced early investors that they could execute their plans by leveraging their assets and managing whatever risks arose.

more an issue of balancing the risk-reward profiles of a focused versus a diversified initial development plan.

Early-stage companies that are clearly not focused should not pretend to be so. They should provide a simple, straightforward answer to the focus question posed by venture capital investors. Startups must not try to become something that they aren't. A company's uniqueness and individuality is its strength. If this originality comes from juggling multiple projects—and the company can convince its investors it can deliver on them—then everyone will be happy. A company can succeed with or without a clear, unambiguous focus. Although focus can emerge over time, however, it should not be the driving force for a business. The driving force for all companies is to build valuation—by leveraging whatever assets they can.