
Editorial

Time for a new business model?

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In the relatively short history of the biotechnology industry, new business models have emerged every few years. Some have been little more than short-lived marketing or investment-attraction devices, whereas others have had endured as viable options. Given the dramatic changes in the economic climate and potentially the regulations affecting biotechnology, is it time for a new business model?

A SHORT HISTORY

First there was the FILCO, or fully integrated life science company, business model. This model, employed by some of the first biotechnology companies, positioned firms to capture the revolutionary advances of biotechnology and to build large vertically-integrated companies. Companies like Amgen and Genentech were able to fulfill this endpoint, but many other companies were not so fortunate. Another early model was to improve existing products, rather than to build an entire franchise around discovering and commercializing new ones. This model is exemplified by Alza, which was founded to improve medical treatment through controlled drug delivery and focused on improving existing drugs rather than developing new ones. This same model is still employed today, and shares some similarity with the technology platform business model, where companies focus on developing technologies that can be sold to other R&D firms, rather than independently developing consumer applications.

Newer business models did not replace the older ones, but rather enabled new firms to focus on the unique environment in which they were founded. Examples include the hybrid model that combined product development with a technology platform, which could be sold or licensed to others, and the no research, development-only model that as a derivative of the specialty pharmaceutical model, saw newly founded companies buying drug leads off of other companies to complete late-stage clinical trials. These models enabled new firms to meet the respective needs of risk-averse and cash-rich investors.

WHERE ARE WE NOW?

I've previously written that the global economic crisis has been (and still is) transformative for the biotechnology industry. The aforementioned biotechnology business models rose to prominence in conditions that favored them. For example, the hybrid model emerged in a funding drought and was favored as it enabled companies to build internal revenue streams while still maintaining the possibility to realize the upside of product sales.

What are the factors influencing biotechnology companies today? In the United States, beyond the general economic climate there are still unresolved questions about the availability of early stage financing, the ability to recruit foreign workers, and – post-commercialization – data exclusivity, generic biologics and the potential for price controls. Internationally, some nations are still undergoing dramatic economic reorganizations, while others are making significant investments in building biotechnology R&D capacity.

So, the question remains: Is the biotechnology industry ready for a new business model, and is there a business model that can accommodate the myriad domestic challenges faced by many countries while addressing the increasing globalization of activities?

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