BioSpectrum the business of Bio & Health Sciences

Choose the right business model to beat recession

06 May 2009 | News

Image not found or type unknown

Choose the right business model to beat recession

Economic slowdown certainly makes business management difficult however choosing the right business model can make it easy.

The economic slowdown has affected all the business sectors, even the major drug manufacturers like Dr Reddy's Laboratories, Wockhardt and Biocon have not been spared. The new start-ups and the mid-sized companies felt the greatest sting. The numbers may be small but the trend of small start-ups closing down in the recent past can lead to a much feared catastrophe of stagnation. The reasons for setback could be attributed to lack of focus, lack of marketing skills or lack of cash flow into their venture.

The mistakes

A lot of start-up biotech companies dig their own grave much before they commence their operations. This coupled with lack of proper focus and planning ultimately leads to their premature death.

According to Sandeep Saxena, founder and CEO, Acton Biotech, Pune, "Many biotech companies burn a lot of cash right from the word go. We often see that from the very beginning, these small start-ups make huge investments, employ a lot of people and sales force with a hope that their business will pick up with such heavy investments. Hiring highly skilled sales force from reputed institutes has its benefits but that can be a hitch at times. Due to their high qualifications, these employees demand for higher salaries and perks that can drain out a lot of cash from the company. Moreover despite this many a time the sales force lacks marketing capabilities. Many companies have a sound technological team but fail to put in place a strong marketing and sales team."

Dr Rama Mukherjee, managing director, Ara Healthcare, Gurgaon, said, "Outsourcing of work to India is not going to stop, but it will reduce. Ara Healthcare has been working on a number of molecules because that is the best way to keep a multidisciplinary scientific team engaged. Companies today are having equity or valuation problem, with share values of some of the best companies dropping. Getting equity at the right value of the company is difficult. The government agencies have been very helpful. We are expecting positive signs from Biotechnology Industry Partnership Program (BIPP), this along with contract research in cloning and expression of recombinant proteins will keep our revenues afloat. Our diagnostic services are our biggest revenue generator. We might be facing an economic downturn right now, I am sure that in another six months time the situation will change."

The available capital to fund biotech companies has all dried up. Many companies are drastically cutting their budgets and freezing investments in order to preserve their capital to focus on their most promising projects that have the shortest path to market. Several other companies kick start without any focus on their business plan and invest their eggs in many baskets. "Biotech companies start with something, then get a better related opportunity and move to that, leaving the first objective incomplete. This is coupled with launching their products without understanding the dynamics of the market. So, it is very important to take inputs from customers in order to have a better understanding of the market," opined Saxena.

The main hurdle for a biotech company is the financial support. Many companies close down mid way because there is no financial backing for their ambitious plans and in India the concept of venture capital (VC) is not popular.

With respect to start-ups or early stage biotech companies, there can be several general as well as company-specific reasons for this crisis situation. According to Anand Daga, founder and managing director, Aumgene Biosciences, Surat, some of the significant reasons are:

- Disparity in commitment levels of the management team and/or company founders, particularly in the early stage of the company when the cost and time involved in product development are overwhelming. To withstand this all the team members must be willing to go not just one but several extra miles.
- Faulty or poor assessment of risk involved in the venture. Many start-up companies miscalculate the time and resources required for product development, regulatory clearances, and manufacture, market and sell biotech products. So even if the management team is strong and committed they run out of gas to cover the extra miles.
- Choosing a wrong financial partner. This may be a venture capital or angel investor or any partnering company that does not understand biotech or is not as long term committed as the entrepreneur.

The ideal model

Experts opine that issues in cash flow occur because the industry is not well versed with the art of saving despite the factthat a biotech venture requires a huge amount of investment than any other industry. "Companies should gear themselves up to have their beginnings from a garage where they can save a lot and use up those savings for buying further material," observed Saxena.

Though many have been concentrating on cost reduction, a few others have been exploring all opportunities and focusing on innovation programs and setting up additional product lines or processes to buffer the business from the slow down. Above all, instead of burning cash at an early stage, companies should have their focus right from the beginning. Getting into niche markets and arena can offer a wider range of opportunities than tapping their investments in many segments at the same time.

According to Dr Rajeev Soni, president and COO, Premas Biotech, Gurgaon, "It is pertinent that start-ups focus on a niche area rather than playing in a crowded space. This will help them to maintain healthy margins where most other companies are adjusting by dropping prices. The biotech companies should shift their focus to long term contracts rather than short term projects to take advantage of this scenario. The long term project ensures continuity thereby allowing us to continue recruitment and investment. Premas Biotech has also added a few more competencies to enhance the capabilities of the company."

"Companies have to keep their core projects insulated so that they are not affected. Depreciation of rupee is a major issue that upsets the revenue of the company. Outsourcing has also come down, many companies, mainly contract research organizations, are not getting the projects that they have been anticipating. We need to focus within the company, and a greater cohesion between industry, academia and department is required. Public private partnership is the way out; the module adopted by the Department of Biotechnology (DBT) is exceptional," stated Dr Rama Mukherjee.

However, Dr Soni believes that start-up CROs are in a growth phase and hence have not been impacted by the current recession. "Recessive times bring in more prudence and most enterprises look at optimizing their expenses. In this scenario outsourcing gets a boost as cost cutting becomes essential and not optional.

Entrepreneurs should maintain a fine balance between the company's finances, products, operations and marketing capabilities. Companies should have their marketing concepts and fundamentals in the right place. "It is very much like the case of Apple and Microsoft with despite the former being a high-end Operating System failed to have an outreach in the Indian market, while Microsoft which had the upper edge in its marketing capabilities has a wider reach and still rules the Indian market. It has been noticed that there are biotech companies that have a not so good profile but have excellent marketing capabilities and end up doing well in the market," added Saxena.

"From my experience a biotech company should try to create a cash cow business along with pursuing a mid to long term product development goal. This might seem like an unconventional suggestion because a start-up company having limited resources cannot ride on multiple boats and also by doing so would lose its focus. Having a cash cow type revenue generating biotech business such as manufacturing or just trading in less regulated and faster marketable products can be a good strategy to mitigate risks in biotech company in an early stage. The biotech companies should also be prepared to cope with both current as well as future recessive periods, when there will be more pressure in controlling costs especially in high risk R&D based product development," opined Anand Daga.

Sameer Savkur, managing director, ORG IMS Research, Mumbai, said, "Recession like this does impact all stakeholders in the value chain that includes patients, manufacturers, distributors and healthcare providers. Growth might be impacted but in the process companies should not exit commercial areas where there are growth opportunities. In terms of approaches, companies need to revise their business strategies, rethink their R&D strategies, look at their product portfolios and make their sales forces more effective."

Recruiting skilled manpower is one of the effective models. Recession provides a great opportunity to recruit highly talented people who would otherwise be employed. While commenting on this Anuradha Acharya, CEO, Ocumum Biosolutions, Hyderabad, said, "Downturns have always proved good for Ocimum, this is the apt time to get really good talent for very cheap. I cannot really dream of getting those people of those levels during normal times."

While commenting on the recruitment strategy Saxena opined "With the savings available the biotech companies should hire people in a step-by-step process. And for start-ups, it is not necessary to hire people from Indian Institute of Management (IIM), even graduates can be equally capable."

Experts also suggest that more than reducing costs, successful resource efficiency increases the utility of products and services. It can also ensure more cost-effective compliance while promoting competitiveness through product differentiation. The challenging times offer new opportunities for biotech companies to get stronger. This is an apt time to evaluate present business model and look for new openings in the competitive landscape by finding new solutions to fulfill customers need that other firms are not addressing.

Image not found or type unknown

Image not found or type unknown

Jahanara Parveen with inputs from Nayantara Som and Shalini Gupta

This as an opportunity to become stronger

-Su Image not found or type unknown

It was a cold and windy evening in the second week of March 2008 at downtown Manhattan, when we walked into a Café to unwind after a day's hectic business deliberations. RFCL Team was visiting the US to explore its expansion plans. The hustle and bustle at the largest financial capital of the world seemed as usual, only to be proven wrong next morning when the pink papers carried the story on "Bears and Sterns" bankruptcy. We were fortunate to hear early warnings of global recession while sitting in the midst of the global financial capital.

This distress signal came to us at the right time when we were finalizing our budgetary plans for the fiscal 2008-09 and the epithet was loud and clear:

- Our growth plans should not dry up liquidity at the company.
- Focus on operational efficiency and thereby generate more cash.
- Engage good people (people in context of future and not past).
- Accelerate the speed of implementation (most often overlooked or not given priority).

The above guidelines became our operational philosophy for the next six months and continues to be so till date.

Come October more and more financial investment companies who had risked high on reverse mortgage came with financial results which wiped out the assets created over years and decades. This indeed triggered recession all over the corporate world.

Even as management after management looked for ways and means to deliver as per guidance, the worm of recession had slowly crept into the psyche of the corporate world. All over the corporate world cash was pronounced as king and capital expenditure as a forbidden fruit.

I observed that sitting around the lunch table at RFCL the discussion would invariably move to global recession. Suddenly some one said let us make a conscious effort not to talk about it and honestly it has helped. May be not in keeping

recessionary trend at bay, but it has surely helped in creating a mind set within the organization to search for solutions and most importantly to strive towards learning the balancing act to manage growth and costs.
Has it helped? Honestly yes. At RFCL we have registered a growth of 29 percent on organic basis and 48 percent on inorganic basis for the fiscal year just concluded.
In fact the present global crisis can be converted into an excellent opportunity for Indian companies and for Indianenterprises as the competing economies will be busy in their cleaning act. The successful companies of the future will be the efficient companies and they will emerge stronger through this downturn period thereby differentiating and polarizing boys from men.
It is the right time for brave actions for those who have the skill and willingness to outpace market growth. We certainly are not immune to the events unfolding in global market but a focused leveraging of our strengths will mitigate the effect. India will be much quicker than the West in regaining tempo of growth. We as a country have a history of giving our best in adversity.
Furthermore, pharma, biotech and health care as an industry is more immune to this recession and as such the impact feltby the players in the industry would be relatively smaller. For a company like ours which gets almost entire revenue from domestic operations the global slowdown gets marginalized because of a majority play in the domestic market. Interestingly, I would like to add that it is ironical that our exports in the last 12 months have more than doubled, increasing the revenue contributions from two percent a year ago to five percent of sales for just concluded fiscal year. Does it vindicate what we said earlier with respect to developing a positive mindset even in challenging times?
A focus on operational efficiencies is the key, especially for mid-sized companies with moderate or no reserves. So it is not only important but pertinent to:

- Flush out unneeded costs (cost savings through waste elimination and process improvements).
- Ensure efficient management of inventories (increasing MAT percentage)
- Ensure that growth is also driving the costs downward.
- Encourage innovation (balance between efficiency and innovation as innovation will bring returns only in long term).
- Managing performance (clear cut distinction between strong and mediocre performers)
- Right sizing the organization.

The most vital point for the leadership team is to communicate the need for all of the above to employees and especially of the importance of reducing cost to sales ratio. Organizations must develop well-planned communication strategy. To maintain employee morale and to allay fears, organizations should develop unified, consistent and continuous communication. People are realistic and appreciate truth.
Finally, it is important to remain focused in this time of crisis and use this as an opportunity to become stronger and remind ourselves that India is going to be one of the key drivers of global growth and we should feel fortunate to be in this market as long as we can be efficient and nimble. I would say “reach out for stars with feet on the ground.”