



The essence of life sciences business planning and its relevance for hot dog stands

by Dr. Patrik Scholler (posted on LinkedIn on March 10, 2017)

The centerpiece of a life sciences business plan is often poorly elaborated, which in turn does not necessarily prevent pharma companies from lining up at the front desk of a freshly inaugurated startup enterprise which may just have attracted a hot dog stand to its direct proximity.

Do you ask yourself, why we need the hot dog stand in that sentence?

Well, here it comes:

There are hundreds of useful business planning templates, reference examples, guidelines, tips and standards available on the internet. They are gladly used and all topics are obediently addressed with nicely phrased prose, diligently enriched by market figures, typically big figures. In the case of a life sciences business plan you can easily find something like: Global Cancer Drugs Market expected to reach USD 161.30 billion by 2021 (source: Zion market research, the first Google search hit). One may question the relevance of this information for a business plan that is based on a leukemia blood test, whereas the fact is kept secret that cancer can potentially affect everybody in our 7.44 billion world population.

When in need for venture capital, it appears appropriate to show big figures in the billions rather than a dissected niche segment in the millions, because the cash request is in the

millions already. Would a jobless entrepreneur in Detroit trying to get a bank loan for a hot dog stand argue with the annual interstellar consumption of hot dogs? More likely, his economic pressure will keep him down to earth with his market description naming one niche location right in the middle of a biotech startup campus.

Let's face it, market size is relevant, but it is only one small piece of a comprehensive market analysis on target customer segments, growth rates, business mechanics, buying behavior, the direct and indirect competitive environment, mega-trend effects and more. High-tech startups typically do not worry much about that at the beginning. Slowly waking up from an academic slumber mode softly bedded in public sponsoring, they are full of adolescent optimism when they first face the paradigm shift from cost-based project funding to selling products with a profit.

After having submitted patent applications, chief inventors may feel motivated to continue research, yet, in a more exposed and respected position, where financial success comes on top of scientific reputation. Not only for that reason, their business plans tend to lack precision in what is regarded the essence of a business plan: no, it is not the market analysis as such. It is the economic business model that should be based on that very analysis and how tangible (or intangible) deliverables at the end of product



development fit in. In that sense, a license to a granted patent or a well set up service offering could be the product, and one exclusive co-marketing partner of a theoretical maximum of three could be the target customer etc.

The simple question of how exactly one intends to earn money or in more concrete terms, (1) **when** and (2) **how** does one sell (3) **what** (4) **to whom** and (5) **why** they buy, is relatively straight forward to answer for a hot dog stand, but less so for many life sciences businesses, where a precise analysis of (1) to (5) may result in quite fuzzy terminology, such as:

We will start generating net sales in 2018 (=when) via business development managers (=how) who will negotiate non-exclusive licenses in 5 to ∞ indication areas (=what) to the pharma industry (=whom) because their innovation rate is in a constant decline (=why they buy).

Such vagueness in the business model has frustration embedded. However, the experienced hot dog stand owner, disrespectfully called Hot-Dog-Sam, is starting to see a flourishing lunch business, as the drug discovery startup will get their funding and the founder will soon carry the melodious title Chief Executive Officer and employ lots of hot dog eaters.

Fair enough and naturally, entrepreneurial scientists have never learned how to segment a market or comply with customer buying behavior, respecting appropriate sales approaches and typical lead times. Even they cannot imagine that there is any value in doing that, because if the ultimate drug is lurking in a microtiter plate to eventually cure all cancer patients and its animal model PoC data are published, big pharma will immediately line up at the front

desk. Quite frankly, why then worry about marketing and selling exercises?

I must confess that I was in that world of thought prior to having seen another side of the industry, where sustainable business is carefully cultivated, where marketing and sales experts struggle planning and delivering net sales, admittedly not quite relieving humankind from cancer, but still in successful healthcare business. Why would a newcomer get away with less diligence?

After all, I see two general approaches for a life sciences business planning exercise:

- (1) invest significant efforts in designing a realistic business model based on in-depth market analysis
- (2) develop a drug candidate powerful enough to make all pharma companies line up

In the latter case, major business planning efforts are not required and the investor pitch can be limited to one sentence:

We need ~\$10 mio to develop the ultimate drug candidate that makes pharma companies line up at our front desk and ensures that an on-campus hot dog stand owner will be cash-positive.

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