

M² + C = The Essential Elements for Startup Success

There's a significant failure rate for startups in the life sciences. It ranges from 80%-90%. The startling thing is that even companies backed by venture capital still fail at a rate of three out of four. However, taking money from a corporate venture capital (CVC) firm (an investment arm of a large company or strategic player in the same sector), increases success twofold. This was illustrated in data from Thomson Reuters in the PwC/NVCA MoneyTree™ Report in 2015, that showed that between 2001 and 2015, CVC firms participated in 23% of biotech financing but they were equity holders in 48% of the sector's IPOs and M&As. So, technology by itself is not enough and neither is money, but money with experience can make a difference. I'll come back to this point a little later.

The life sciences encompass a broad range of activities that include human and animal health, but there are large differences between investments in human health and those in animal health. There are also differences within animal health itself. For example, companion vs. production animal markets are usually lumped together but they are very different in focus and drivers. Nonetheless, my attention here, given the venue for the article, is going to be animal health in general.

I am often asked by clients, interested investors and entrepreneurs, what makes a successful startup in the life sciences? To me, the answer is uniform although nuanced. First, what is success? In my view, success is evident when a technology is commercialised. Some people may define success as closing a capital raise round or licensing a technology to a strategic partner. I agree to some extent because those are steps in the right direction, but success in getting a driver's licence can't be assumed to have been achieved by simply getting a ride to the test location or even driving the test course. I am a little old-fashioned in that I still like to see something at the end that people or their pets can actually use.

Over the years and through the experience of working with investors, strategics and entrepreneurs, I have distilled the elements of success, that is getting something commercialised, into three main drivers. This is not to insinuate that these are the only elements, but they appear to be time and time again what make a particular startup opportunity an eventual success.

The elements that are focused on here are not given their due and usually rank behind the seemingly unending fun that is "raising capital" which is closely followed by "having a great technology" at least in the eyes of the startup entrepreneur(s). It's important to emphasise here that raising capital and having a good technology are indeed both important. But I've seen plenty of startups with solid but not necessarily earth-shattering technologies using smaller injections of cash over time that have paid dividends in spades to the founders.

The first element and the most important is the **Market**. The foremost question in investors' minds is "how big is the market?". This question is usually (or should be) either number one or number two in the sequence of questions that are asked for any given investment opportunity. Of course, the market must be demonstrably big and pass subsequent due diligence. Larger markets command attention from investors and business development specialists in large companies much more than any other aspect in an investment. If one is lucky enough to have a reasonable technology (doesn't have to be "great") in a large market, where there's a dearth of options and especially where there's a market leader that other companies want to compete with, this usually opens many doors. This seems to be true even if the technology is at an early stage, when the majority of potential strategic partners would normally shy away.

Investors often talk about the "addressable market" and in most cases the calculation is made on the back of an envelope by multiplying the number of, say for the sake of argument, total dogs in the US by the fraction of dogs with the condition of interest, by the estimated fraction of dogs whose owners will pay for the treatment by the price of the treatment. That is the simplistic, and often incorrect, way of estimating the market. There are many variables that must be considered. For example, we see many companies that are developing technologies that could be used to treat cancer in dogs. Invariably, we see the calculation as outlined above. This does not consider important factors such as the willingness of a pet owner to put their sick dog through any kind of therapy, knowing that the animal will still have a somewhat diminished quality of life and only live for a few additional months. Not to mention the burden that a sick pet places on the owner. Furthermore, unless the treatment is "vastly" superior to mainstay chemotherapy, the chances are your average generalist veterinarian will not even consider it as an alternative. These hurdles, combined with the potential added cost, will severely impact the true market size. This issue is not unique to cancer treatments but applies across the board to varying degrees.

In addition to the points made above, other considerations would have to include that only about 60% of all companion animals ever go to see a vet, and a significant portion of these pets will only go once a year or for emergencies only. This then has to be squared with the owner's "ability/willingness to pay". Even though we hear that people will pay "anything" for their pets that are regarded as family members, real calculations of cost start creeping in, for both the vet as a business owner and the pet owner, somewhere around the \$3000 mark. This is true even for people who may consider themselves fanatics when it comes to their pets. Market estimates from the production animal side are no less complicated.

The short version of all of this is that market is an extremely important consideration and entrepreneurs must pay more than a passing glance to it, or they will disappoint their investors.

The second element that is extremely important for success is the **Management**. In many cases, especially for



startups, the management is the inventor of the technology or people around the inventor of a technology. This is where trouble starts. Being a good or even great scientist does not mean that one can manage a company, or people, or negotiate a licensing deal effectively, in fact, in the majority of cases, the opposite is true.

Whomever is at the helm is especially important for venture capital groups, because they have to deal with the individual(s) on an ongoing basis and if they don't feel that they can do that effectively, well there's plenty of fish in the sea; they will pass on the investment. For a strategic partner company where a technology will be eventually in-licensed, who is the management is less of a problem (although it could be painful to negotiate with them). But it's more of an issue for the startup company with the technology because, not knowing when they are out of their depth in, for example, how to approach a licensing deal and where to push back and what to accept could be detrimental.

The most successful outcomes are achieved when the clients have come to the realisation that they need help and that they may be experts in their field of invention, but running a viable company is a completely different beast that requires an entirely different skill set and temperament. Having the right people in the right positions within any company (all the way up to the very big ones), is absolutely essential to how that company will fare in the market.

Who manages a company has implications all round and although the risk can be mitigated by, for example, a strong board, it's still, in my view, number two in the elements that define success of a startup. To emphasise this point, I go back to the initial paragraph in this article – taking money from a venture capital firm is a big step forward, but is not enough to ensure that a startup is successful, and 75% of venture-backed companies still fail. But taking money from the investment arm or a larger company as a stand-alone equity investment or an equity investment/licensing deal combination can move the needle significantly because it brings to the table additional experience in regulatory, manufacturing and consumer-facing aspects (sales and marketing) that are, in my view, essential for success.

This brings me nicely to the third element of success, which in my view has to be focus on the **Consumer**. Most biotech, pharmaceutical, biologic and diagnostic developing companies forget this important element. This is mainly because they feel that they will be selling their wares through a distributor, a veterinary office or out-license altogether to a larger company and simply forget about it.

Losing sight of the consumer is not just a problem with startup companies but also the majority of larger companies who seem to think that, for example, the vet is the consumer because they sell to the vet. On the face of it, this is correct. But dig slightly deeper and you'll find that you do this at your own peril. Vets are not trained in business. Some vet schools

now do offer a business class or two to their students before graduation, but the reality on the ground is that the majority of vets learn how to run a business as they are doing it and many of them flounder. This is no different than hiring a sales team that can't sell but you can always replace a sales team.

If you do some market research and ask vets about who influences their decisions, their answer invariably is going to be "the client". This is particularly true for products designed for companion animals. But the same principle also carries through to the feed lot manager or the farmer. In general, consumers of animal health products are looking for value demonstrated by having clearly effective products, that fill their need at a reasonable price. It is no surprise that tick and flea medications are veterinary blockbusters because the consumer need is enormous, and the products are evidently effective, very easy to use and available at prices that consumers can justify. From a production animal point of view, a technology that fits seamlessly within the daily workflow will score big points with farmers and feed lot managers.

So how do you take the consumer into account if you are not directly selling to them? The answer is first, create needed products that people will want and can afford to buy. Second, enable vets and distributors to sell more effectively by understanding their limitations and providing the necessary support and training; and third, continually communicate with and educate the consumer (directly or indirectly) on what the product(s) can do. Having an effective management team will have a great influence here because they have to be able to recognise what the market need is and how to differentiate their technology from competitors in the eyes of the consumer.

All in all, money and technology do not alone lead to commercial success in the absence of a good market, good management and focus on the consumer. Focusing on these elements will not guarantee success but will create the best conditions for achieving it.



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