ARCHITECTING SUCCESS FROM THE START:

HOW TO BUILD ALLIANCE VALUE INTO STRATEGIC DEALS

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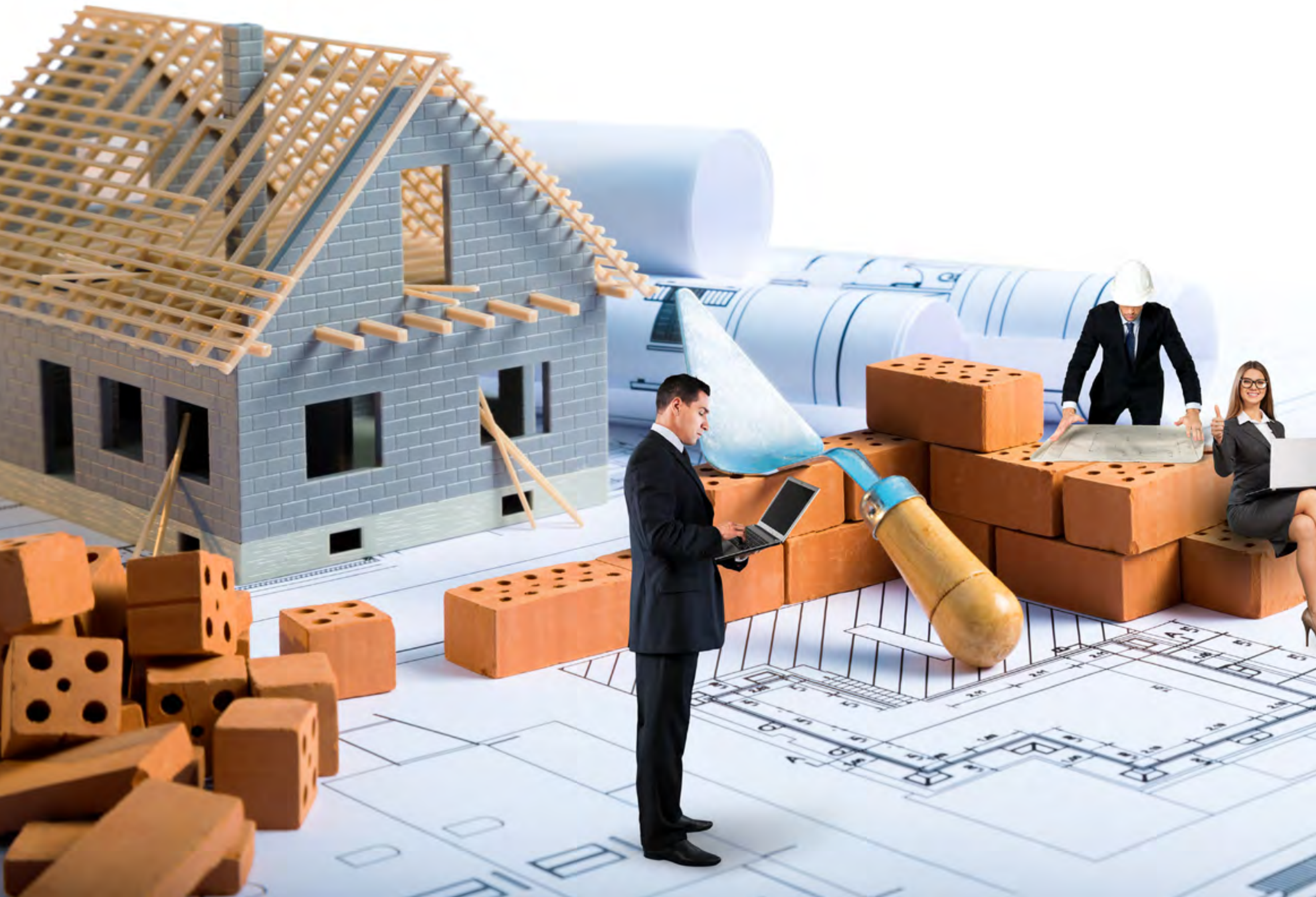
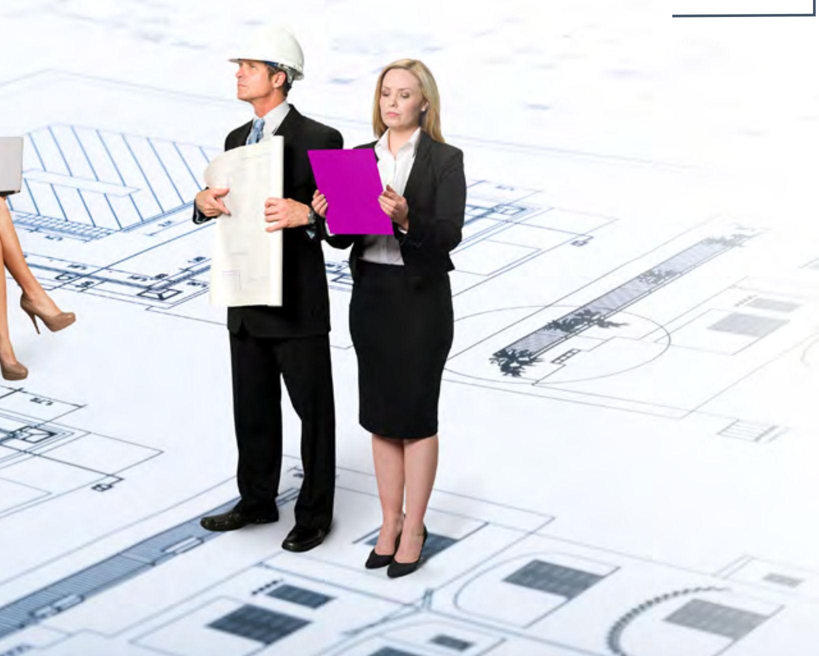


BUILDING ALLIANCE VALUE FROM THE GROUND UP

Have you ever been asked to build a strategic alliance that you first became aware of shortly after the contract signatures were dry? If so, you know how it works. To bring yourself up to speed, you start reading the agreement. Soon, you spot some major gaps: "Why doesn't the contract cover this? Why isn't there a term for that? How is this going to work?" Rather than providing assurance that the important issues have been covered, the contract seems to raise more questions than it answers.



As this example illustrates, bringing the alliance manager in after the deal is done is akin to asking a builder to construct a new home without consulting an architect. While not everything can be covered in the four corners of the contract, it certainly enhances implementation when the alliance manager is involved at the front end of the deal-making process. An alliance manager can influence the design of an alliance so that it can be its most effective and efficient—and at this key value inflection point, an alliance manager's efforts pay off much more dramatically than they might at other times. (For more on value inflection points, see Q1 2012 *Strategic Alliance Magazine,* "Managing Alliance Conflict.")

So as an alliance professional, how do you stay informed regarding which deals are in the works? We recommend that you participate in each of the three deal phases: pre-deal; term sheet and continued negotiation; and contract drafting and signing. Given that these three phases typically are owned by a business development function, a logical starting point would be to reach out to your business development colleagues. We recommend closely monitoring the list of potential deals during the pre-deal phase. When business development assigns a name to a deal that's in the works, it should trigger a notification to the alliance management function, among others, of a potential new deal. At that point, alliance management can track the deal and determine when to engage with the business development team.

GET IN EARLY—PRE-DEAL

In the pre-deal stage, the parties are beginning to get serious. Using the "building a new home" analogy, the homeowner (think alliance owner) is identifying the location, budget, square footage, and key features. To achieve a strategic business goal, a prospective owner must decide whether to build, buy, or form an alliance. Once a partnership seems likely, the owner guides the general shape of strategic benefits for each party and the type of framework required to get a deal done.

As part of this process, a "capabilities sell" is often presented to the prospective partner. To the extent the deal is a collaboration, perhaps in the form of a license agreement with one or more assets, the alliance manager can lead the partnership capabilities aspect of the presentation. This provides an opportunity to convey the benefits of how an alliance manager's company approaches collaborations and why the company and its philosophy would be a good fit. The alliance manager can talk about:

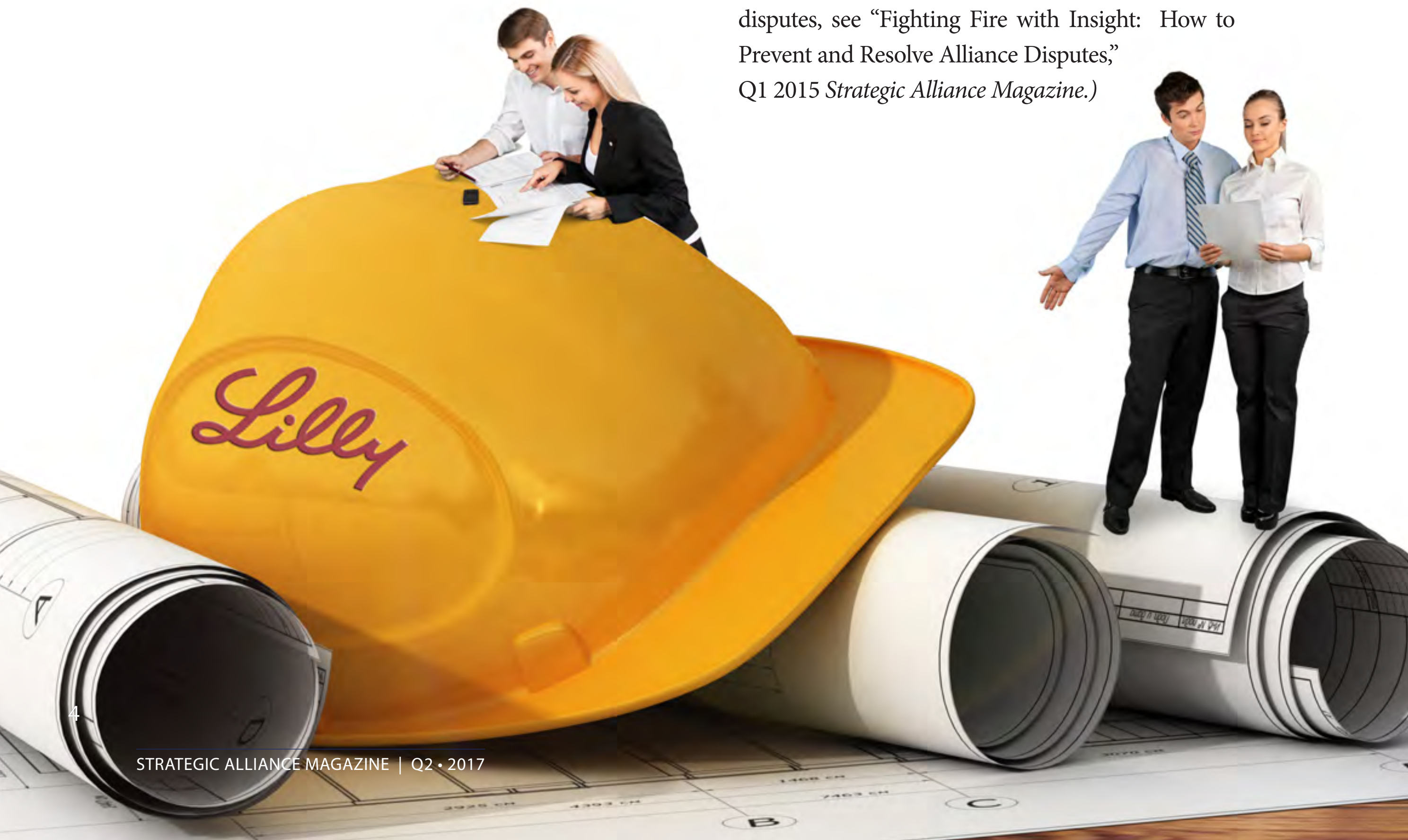
- Your company's approach to establishing and running an efficient partnership;
- How you manage business risk, human risk, and legal uncertainty to maximize the value of partnership assets;
- Your prior experiences with similar deal structures, and why as the alliance manager you think the company is an effective partner.

This is also an opportunity to meet the prospective partner's principals and begin to gain insight on culture as well as leadership and communication styles.

COMING TO TERMS— TERM SHEET AND CONTINUED NEGOTIATIONS

As the deal progresses and reaches the end of the pre-deal phase, a term sheet typically will be developed. A term sheet captures the foundational tenets of a deal and forms the basis of the contract and a starting point for contract negotiations. Alliance managers should bring their practical experience to the term sheet process, weighing in on what works and what doesn't, just as a builder might do while working with an architect. During this stage it is much easier to influence what the structure will look like with regard to governance structure, decision making, and key financial terms.

As you know, term sheets are more malleable than contracts. The effort level required to revise a term sheet is low relative to that needed to revise a contract. This is similar to an owner or homebuilder who makes a change early in the design process versus paying an architect to change blueprints at the last minute. Governance, decision making, milestone triggers, and economics are key high-level term sheet elements that should be fleshed out early with the input of the alliance manager. In our experience, ambiguity in these areas can increase the risk of contractual disputes. (For more on how to anticipate and prevent disputes, see "Fighting Fire with Insight: How to Prevent and Resolve Alliance Disputes," Q1 2015 *Strategic Alliance Magazine.)*



SEALING THE DEAL—CONTRACT DRAFTING AND SIGNING

Whether you're agreeing to build a house or a strategic business partnership, it is during contract drafting and signing that the parties agree on the final blueprint and the associated financial commitments. Alliance managers can add value by incorporating what they've learned from previous alliance projects and by helping the team avoid predictable pitfalls. At Lilly, we institutionalize our experience in a centralized contract review document, which we update as we gain new insights. Our goal is to provide a robust, systematic method whereby alliance managers help the strategic transaction deal team develop and negotiate contracts that minimize risk, reduce inefficiencies (which are inherent in partnerships), and maximize the value of the partnership.

You can lay the foundation for an efficient alliance by eliminating high-probability issues and risks upfront. Areas to consider include: fiscal-year versus calendar-year issues; clear and unambiguous milestone payment triggers; and clear dispute resolution guidelines. It is imperative that the appropriate business and functional leadership representatives are engaged, in addition to the pertinent subject matter experts. Not only does this help with buy-in; it also provides valuable context and perspective to optimally shape the contract and the resulting governance structure. Additionally, this is an important stage in which to identify and name governance leaders, as momentum builds for deal signature and implementation. (For more on governance design, see "Governance By Design," Q3 2012 Strategic Alliance Magazine.)

Finally, alliance managers must recognize—and not waste—the moment in which they find themselves. It is easy to get caught up in the euphoria of deal signing; however, once the agreement is signed, the people who crafted it will likely move on to the next deal, and tacit deal understandings can be lost. Don't let this happen! Now is the time to:

- Capture and prepare alliance onboarding materials.
- Ask whether the deal team can be used to help with the start up.
- See whether the attorneys that drafted the contract can also draft simplified alliance guidelines with the alliance partner's attorneys.
- Record segments of the alliance kick-off meetings to be used for future onboarding of alliance employees.
- Develop an off-boarding document for those who will exit the alliance.

Alliance managers who take an active role in the three phases of alliance building put themselves in an excellent position to reduce risk and minimize inefficiencies throughout a partnership's lifecycle, thereby creating more long-term value for their companies. ■

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