

MIT OpenCourseWare
<http://ocw.mit.edu>

15.912 Technology Strategy
Fall 2008

For information about citing these materials or our Terms of Use, visit: <http://ocw.mit.edu/terms>.

Events 1979-1981

Evolution of the Project Portfolio: 1979

- In 1979 TTS Scopolamine moved into Phase 3 clinical trials and became a “Ciba-Geigy project”
- OROS Theophylline dropped before clinical testing
- IND filed for TTS Nitroglycerin
- In general: “Ciba-Geigy had become aware that Alza’s systems, in particular OROS, were not suitable for immediate use with a wide range of compounds.... As a result, much more emphasis began to be placed on basic... research....”

Emerging Tensions: 1979

- Alza presents a number of proposals for third party contracts to ARAT. ARAT “consistently complained that these were phrased too generally” while Alza “claimed that detailed proposals would yield information on competitors” -- 75% of proposals eventually approved but with very substantial delays
- Alza personnel wanting quick decisions tend to bypass the Ciba-Geigy hierarchy. “As a result, a lot of activity by-passed the liaison desks... misunderstandings occurred which many at Ciba-Geigy felt must have been deliberately induced”
- Alza complained that information on the behavior of systems in clinical trials run by Ciba-Geigy was not getting through to them
- Ciba-Geigy complained that Alza was publishing articles which gave away information that should be restricted
- Alza financial situation precarious. Projected cumulative cash deficit of \$57m between 1981 and 1986

1979 Alza Restructuring

- All manufacturing consolidated into a single building, sale of vacated premises.
- Money raised (\$8m) was used to reduce the \$20m bank debt, reducing interest payments.
- Alza was encouraged to raise new funds through third-party research contracts.
- All deviations of more than 10% from project budget must be authorized by the JRB. “Underspending was taken as an indication of lack of commitment.”
- Revised form of standard quarterly progress report demanded of Alza project leaders with “milestone” reports charting progress against objectives.
- Research conferences abandoned. Partly replaced with project specific conferences.

Project Progress: 1981

- TTS Scopolamine testmarketed in Florida, ready for US launch
- TTS Nitroglycerin and Estradiol ready for final testing: but CG sponsors refuse to hand them over to CG for final testing and handle final testing themselves in conjunction with Alza personnel.
- Both sponsors are “scientists of some standing” and remain “unaffected by the complaints of the departments that (they) bypassed.”
- No Oros projects in clinical trials. All are in direct competition with existing Ciba-Geigy products and are being managed through conventional Ciba-Geigy channels

Evolution of the Project Portfolio: 1981

- Non drug-specific research took only 10% of Alza's budget in 1978 but nearly 50% in 1981.
- ARAT felt that Alza's resources were being spread far too thin and that they needed to focus their efforts more tightly.
- Alza complained that its research resources were not being fully occupied.

Information Flow and Technology Transfer

- By 1981 “Ciba-Geigy scientists... felt that they knew as much as Alza about the testing and development of new drugs in Oros and TTS systems and considerably more than Alza about scale-up to production.”
- Alza was demanding details of CG’s progress, but CG was concerned that despite confidentiality obligations, the knowledge would be used by Alza with CG’s competitors.
- “Neither side could be said to be completely open to the other. Progress reports were exchanged which were clearly designed to pass on as little information as practical.” (With TTS-Nitro as a major exception.)

Alza's Financial Position and Prospects: 1981

- Annual operating losses \$5-6m.
- Of cumulative sales projected 1978-1980 of \$43m, only \$8m realized.
- Third party contracts yielded only \$3m in 1981.
- Sales of TTS Nitroglycerin and Scopolamine through 1987 should be about \$626m and will yield royalties of around \$23m.
- Alza unlikely to be profitable until 1984, and estimated a requirement for additional capital of \$6-10m over the next three years.
- Outside investors potentially interested since ADDS increasingly accepted in the market place, but position with Ciba-Geigy needs to be clarified.

The Alza / Ciba-Geigy Decision:

- Should Ciba-Geigy make further investments in ADDS?
- If so, was Alza the appropriate vehicle for this investment?
- If so, what support should be offered under what conditions?
- If not, how should the withdrawal be arranged so as to preserve the interests of both Ciba-Geigy and the other stockholders?
- What is Alza's preferred option?
- How much independence does Alza prefer?

Negotiation:

- **Should the relationship continue? (If so, how? What are the new terms of the relationship?) (If not, then how to exit?)**
- **Some things to think about:**
 - financial arrangements...stock, costs, royalties...over time
 - projects/drugs to focus on
 - organizational arrangements
 - people
- **Will this be successful? Define success. What's the likelihood of success for your firm? For theirs?**