

nature biotechnology

Hybrid rigor mortis

Hybrid companies are strange chimeric beasts. Part cash-guzzling R&D innovator, part revenue-generating engine, they are now very much in vogue in the life sciences. This is an immense shame because hybrid models only work when a company is large enough to be, in effect, two companies occupying a single corporate overcoat and if both sub-companies can independently be viable businesses. In biotechnology, however, hybrid enterprises tend to be worth much less than the sum of their parts.

One source of hybrid companies is the ever-increasing ranks of enterprises that have piloted failed or premature therapeutic approaches. Take gene therapy, for instance. After burning cash on clinical studies, the inadequate therapeutic vectors and their underlying gene expression technology have been transformed by some companies into 'tools' for functional genomics. Candidate genes characterized genomically can be expressed in cells, tissues or whole animals to test target hypotheses. The inadequacies of the vectors in gene therapy—poor control of expression, immunogenicity and so forth—become irrelevant in the new setting. The gene therapy company 'goes hybrid' and stays in business, deflecting attention from its therapeutic failure.

Another type of hybrid company is a firm that has attempted to add the sizzle of drug development to its moribund technology platforms. To compensate for the loss of revenue due to obsolescence of technology or its migration to clients, these companies create or boost their internal drug development programs and/or bridge their pipeline with in-licensed compounds.

Investors that have existing stakes in companies appear to like the evolution to a hybrid model. Cash burn is generally lower than that of companies just developing products—a desirable quality in the arid funding desert of 2003. In response to this positive investor view, startup companies are adopting a hybrid business model from the get-go. CEOs like the longevity of the hybrid company and the fact that this may give them a stronger bargaining position with big pharma—which have to think harder about waiting for a biotech company to become cash-starved and desperate in order to drive a deal price down. CFOs of hybrid companies make much of their frugality and of the care that they are taking with their shareholders' money. Hybrid companies appear to have a 'plan B,' a commercial insurance policy that is activated if 'plan A' fails. It's a two-for-one deal, a bargain that is harder for investors to resist.

And yet it is not at all clear that hybrid companies make a whole lot of sense. The reality is that the company fails if either plan A or plan B fails.

As the word 'hybrid' suggests, platform/product companies are, in effect, two entirely different beasts. They may both draw from the same technological well, but in every other aspect they are divergent. Their businesses require different skills and different people. The CFO of a revenue-generating company will need an awareness of good accounting practice, credit control and an appreciation of pricing. The primary role of a therapeutic company CFO on the other hand is to raise finance, which requires an egregious, institutionally well-connected

and opportunistic individual. Similarly, the strategic research needed for drug development is hardly likely to complement the problem-solving research needed to satisfy repeat-business clients of technology platforms. The partners required in drug development are not those who buy services: business development aims are therefore stretched.

Except perhaps at the very outset of the adoption of a hybrid model, there is very little common operation ground between the two halves of the company. The difficult growing pains of a biotechnology concern will be exacerbated by the inevitable stretching and tension of trying to run two companies under one roof. In most companies, the most difficult part of management is maintaining focus as other unanticipated opportunities arise. It is always a frustrating question of balancing desirability against resources. But in a hybrid company, the strategic intent dilutes resources, juggles opportunities and blurs focus.

Hybrid companies obfuscate and conceal. The revenue-generating arm alone has insufficient growth potential to attract venture investors. The growth potential of the product development arm will be diluted by the more pedestrian service side of the company. M&A involving one half of the company, for instance, may be hampered by the existence of the unwanted appendage. Equally, a cutting-edge service business could lose clients who fear that a drug development arm of the same company represents a potential competitor. Investors looking anew at a hybrid company would find it hard to define the company's focus, but existing investors are more interested in cash preservation. Allowing a company to 'hybridize,' therefore, may cut off access to the cash that is available.

The duality of the hybrid company reduces the number of hard decisions that biotechnology executives and their investors have to make. But it multiplies the risks that biotechnology companies and their investors face. Hybridization papers over the cracks in an ill-conceived or unworkable initial business plan. In biotechnology, failure ought to be an acceptable corollary of taking risk. But the irony is that hybrid companies increase the risk of failure by muddying clarity of thought and of action.

Getting a facelift

Readers will notice some design changes to the journal. Apart from sprucing up the way we look, the nomenclature used for content has been standardized to address inconsistencies that arose over the years due to the independence of editorial teams at different *Nature* journals. *Nature Biotechnology* will now be considering research submissions for Articles and two other types of content: Letters and Brief Communications. Letters (see p. 687) describe significant technical advances that improve the efficiency/utility of a methodology (formerly Technical Reports). Brief Communications is a format for short, topical reports of broad interest (see p. 635). A complete description of our revised formats can be found at http://www.nature.com/nbt/info/guide_authors/