Applying Game Theory to Negotiations and Business Development

Spotlights on Deal Making and the Elevator Pitch

BIO CEO & Investor Conference – New York
February 12, 2020 - 8:30 AM – 1:00 PM

Stefanie A. Schubert - Professor of Economics – SRH University Heidelberg
Harm-Jan Borgeld - Head Alliance Management – Merck KGaA
Objective of the Workshop

By participating in this workshop, you will learn how to:

- Improve your **decision making** by acquiring a systematic framework for decision making using **Game Theory**.
- Improve your **elevator pitch** to enhance your negotiation outcome and enhance the impact on your stakeholders.
- Achieve better negotiation results by applying **advanced negotiation techniques**.

Methods:

- Applied learnings from advanced business development practice
- Real-life pharma/biotech cases
- Game Theory
- In-class exercises

The attendees will leave the workshop with a **Game Theory, Elevator Pitch, Negotiation and toolkit** specifically designed for Senior Management.
Game Theory as the Cornerstone

GAME THEORY

STRATEGIC DECISION MAKING

ELEVATOR PITCH

NEGOTIATIONS
Game Theory

- Is the science of strategic decision making
- Offers a useful framework for assessing the options and analyzing decisions
- Unveils your partner’s choices
- Enables you to influence the outcome

Look ahead and reason back to achieve the desired outcome
How to make a Great Elevator Pitch?

- How game theory shapes your perspective: predict your counterpart/stakeholder’s preferred outcome.
- Create an engaging opening sentence
- Tailored body language:
  - eye contact
  - use meaningful gestures
  - smile
- Focus on only one core message
- Create multiple versions 15/30/60 seconds
- Follow-up
Who does well and who could do better?
Look at All Options *at the Same Time*

- Harvard Business Review: examine one option at a time (sequential DM) or review all our DM options together
- People were on average 22% more likely to choose the best option when they viewed all options together rather than one at a time
- Websites – companies tend to show one product at a time……
- To make better choices look at all your options at the same time

Basu and Savani, HBR, June 28, 2017
John’s first meeting in the afternoon was with Carla Christiansen, Head of Clinical Development. Carla would like to receive John’s approval for the Phase III study design for the company’s lead oncology compound, Diatuzumab. The company had conducted a successful Phase II study and for both active arms, the high dose (40 mg/kg) and the low dose (5 mg/kg), the endpoint was met. Carla has been impressed by the data and makes her case that Diamond Pharmaceuticals should go forward with a Phase III study with a high dose arm. The efficacy of a high dose is impressive. Ovarian cancer is a difficult cancer type to treat, but Diatuzumab might be able to overcome the hurdle where many other compounds failed. John asks Carla to show the slide with the efficacy data. On first sight, the high dose was the best option but the low dose was not far off. ............tbc

Should John decide for either the high-dose or low-dose arm?
### Case Study: John and the Phase III Study Design #2

<table>
<thead>
<tr>
<th></th>
<th>High Dose</th>
<th>Low Dose</th>
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</thead>
<tbody>
<tr>
<td>John</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>1,1</td>
<td>2,0.5</td>
</tr>
<tr>
<td>Low</td>
<td>0.5,2</td>
<td>1.5,1.5</td>
</tr>
</tbody>
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**John’s payoffs:**

If he decides for … - **Kylie** decides for…:

- **High - high**: 50% of $4B-$1B costs = 1
- **High - low**: 75% of $4B-$1B costs = 2
- **Low - high**: 25% of $4B-$0.5B costs = 0.5
- **Low - low**: 50% of $4B-$0.5B costs = 1.5
Case Study: John and the Phase III Study Design #3

What if Kylie is informed about John’s decision?

Solving the game: Look ahead and reason back
Useful in collecting information from the partner

Be creative and provide multiple options that have the same value

This signals cooperation

Use MESOs if the counterparty:

- is not willing to share information
- does not reveal priorities
Group Negotiations

In-Class Exercise: Diamond Pharmaceuticals Wants to Buy Safire Biotech

- You will have **25 minutes** to agree on the following:
  - **Location** of the HQ, either San Francisco or Guangzhou
  - **Price** that Diamond (Market Cap: USD 40B) is going to pay for Safire (Market Cap: USD 26B)

- Two persons will represent **Diamond**
  - One person has to negotiate San Francisco as HQ
  - One person has to negotiate the best price

- Two persons will represent **Safire**
  - One person has to negotiate Guangzhou as HQ
  - One person has to negotiate the best price
Course Facilitators: Stefanie Schubert & Harm-Jan Borgeld

- **Professor Stefanie Schubert, PhD CA-AM**
  - **Professor of Economics** at SRH University Heidelberg. Expertise: strategic decision making, managerial economics, strategic alliances/networks. Consultant for strategic management
  - Previous position: Assistant Professor of Organization Theory and Management at WHU (Vallendar/Düsseldorf)

- **Harm-Jan Borgeld, PhD MBA CSAP**
  - **Head of Alliance Management** at Merck Healthcare KGaA, Darmstadt Germany. Responsible for the Commercial, Development, Research, and selected Regional Alliances.
  - Received his MBA: RSM, NL/Haas Business School, USA; Ph.D: Faculty of Medicine, University of Nagoya, JP

We are looking forward to seeing you in...