Interview: Christopher Tsai, Chairman, Bionet, Taiwan

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The chairman of Bionet reflects on past market challenges and the growing strength of Bionet's reach both domestically and globally, and why Taiwan is the perfect size for a biotech start-up, despite its strict regulatory environment.

Bionet is a cord blood banking pioneer in Taiwan. What is the story of this company?

Some of the biggest technological breakthroughs in the stem cell and genomics fields came at the end of the 1990s, with the success of the Human Genome Project and the cloning of Dolly the sheep. When I started this company, I was not necessarily interested in cord blood banking or genetic testing specifically. Rather, I saw the broader picture: if we, as a country, want to compete over the long-term in biotechnology, where should we position ourselves?

I spent ten years living in the US, Japan, and Singapore, and became familiar with the wealth and resources of Big Pharma. I knew that it would be extremely difficult to compete with them. Their accumulation of patents, talent, and knowledge makes their position almost insurmountable. If a newcomer wants to play, we have to look at a new market or a new technology—something where everyone shares the same starting line. I chose stem cells and genomics, and founded Bionet. I believe that these are the right niche markets for Taiwan to compete in internationally for the next century.

We decided to work on stem cells first, with a focus on cell therapy. But just as we were getting this company off the ground, Taiwan's economic situation deteriorated. The Internet bubble had burst, exposing the failings of the capital market. In light of these circumstances, we augmented our business strategy. In the beginning, we shared the ambitions of many of our stem cell therapy peers in the US at the time: working on spinal cord injuries, diabetes, stroke, and etc.—all the most difficult applications you can think of. But around 1998-1999, investors lost their passion for money-burning companies. They wanted cash flow. They wanted a solid business plan that could provide sustainable, long-term growth.

We looked for a product that we could turn around within three years, and that could serve as a cash cow for us while we invested toward our future. We approached the market from a consumer point of view, which I feel is a major differentiator for Bionet. In my view, many biotech companies seem overly science-centric, and are headed by researchers that love their technologies but have little sense of what the market needs. I have always felt that consumer insight is more important than technology insight. Among all stem cell technologies, cord blood banking jumped out at us as something the public needed, and something that could generate steady income.

To what extent did your strategy prove successful?

I think it is fair to say that we achieved pretty much everything that we set out to do. We had a vision of bringing cutting-edge technologies to clinical application, and we did so much better than any other Asian company in our field. We were able to make truly valuable contributions to society, and generate the revenue we needed to branch out into other areas.

We took the company public in 2007, following the development pattern we had seen in Taiwanese IT companies before us: go public, gather resources and talent, and leverage that foundation to go global. We built our headquarters and high-standard lab in Taipei without borrowing a dollar from the banks. It was all public capital.

Taiwan proved a great incubator for us to prepare for internationalization. The population size is perfect for a biotech startup. If we look at smaller countries like Singapore, we see that companies in our industry are practically *forced* to take their business overseas before they can even stand up—the domestic market is simply too small. Countries like Taiwan and South Korea are small as well, but they are not *too* small. The domestic market can support you while you get started.

Neither is Taiwan prohibitively large, like the US or China. The Taiwan market is manageable. The resource input required for branding, establishing distribution channels, and etc. is reasonable. In a larger country, by the time you get your name out there, you may have run out of money!

How would you characterize your approach to internationalization?

We first began to look abroad because of regulatory issues. I mentioned that Taiwan has the perfect market size for a biotech startup, but the caveat is that its regulatory environment is very challenging. We have some of the most, if not *the* most, stringent rules in all of Asia.

Tough regulation is great for treatment quality, but it also makes it difficult for a biotech to try new things. We couldn't wait for the environment to change—indeed, it still isn't perfect to this day—so some of our first services were conducted overseas, and some of our first accreditations came from the US.

We have employed a number of strategies to expand abroad. One is joint venture (JV). Some of Taiwan's technologies are five years behind the US yet Instead of trying to catch up, we have looked for partners that can help us get a jumpstart. One of our first JVs was with a US player that had operations throughout the world. By leveraging their technologies and network, we gained access to a range of global opportunities.

In China, on the other hand, we took a different approach: going in ourselves. A country like Panama, meanwhile, was limited to technology transfer, because it is too far away for us to really dig into the market. We are an opportunistic company, and because we've identified strong opportunities, our global reach is getting stronger every day.

Among experts we've interviewed in Taiwan, some have said that China provides easy access for Taiwanese companies; others have said that China is formidable even for its neighbor. What is your opinion?

I think both opinions are correct. Is it easier for Taiwanese companies to do business in China than it might be for companies with less cultural, geographical, and political proximity? Absolutely. But that doesn't mean we have a free ticket. Penetrating China is still very, very difficult.

As it once was for banking, today China is particularly challenging for foreign companies in the medical, media, and telecom fields. There are major barriers in the regulation, the national security infrastructure, and the idiosyncrasies of the Chinese approach to business. Moreover, each of the three industries I mentioned is controlled, at the top, by a small pool of stakeholders.

Which foreign market is most significant for your business today?

It depends on the product. For stem cell applications, we are doing particularly well in Indonesia, and Asia overall. In any case, the stem cell field tends to be a localized business. I would call Bionet a regional leader in stem cells.

For genetic testing, the sky is the limit. We can become a truly global player in this field. We are not there yet, but I would say that no one is—all the players in genetic testing are relatively young companies. Again, we are all on the same starting line, which is great. We will likely consolidate with our peers and form global groups to take on the international market.

Your genetic testing subsidiary, Genesis Genetics Asia Corp. (GGA), went public in 2012, under what must have been strikingly different market conditions than you found in 2007 as Bionet. The biotech market seems very hot right now in Taiwan. Would you say it was easier to sell GGA to the public?

Yes and no.

Yes, because as you mentioned, capital investors in this country are very interested in biotech companies today. The picture was truly very different in 2007. Although our IPO was successful, it was extremely difficult to explain the nuances of the biotech business back then. Last year, there was a big crowd waiting for us, with a much better understanding of this industry and a much better methodology for assessing value.

No, because ultimately, each segment of biotech needs its own introduction, and has its own learning curve. Just as Bionet was the first stem cell company to go public in Taiwan, GGA was the first genetic testing company. People had limited understanding of GGA’s business model. It took us quite some time to educate investors.

What’s next for Bionet?

Last year, we looked at the data from January to June, and found that in Taiwan, 51 percent of families with newborn babies were our core customers. We made the valuable contributions for healthcare to the society. We thought: should we now target 55 percent? 60 percent? But we decided we didn’t want to make the same mistakes that were once made by Taiwan’s IT industry. These companies always looked for scale, scale, scale. They looked at business from a provider’s point of view, and ignored consumer insight.

Instead of focusing on volume growth, we decided we could provide better personalized medicine services for each individual customer. I believe that the promises of personalized medicine will come to fruition over the next 15 years, because of advances in areas like genomics and Big Data. And actually, leveraging those advances, and providing a better service, will grow our volumes as a result. Look at Amazon or Facebook: these companies make it their goal to provide a great experience for each and every customer. They don’t pursue scale, but rather enjoy a shortcut to scale by being great at what they do.

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