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Don't bank on biotech boom

06/27/02

Zach Schiller

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nly a few years ago, Gliatech Inc. was one of Northeast Ohio's best-known commercial hopes in the growing biotechnology industry. Now, it's broke.

The failure of this small company, which sold a gel used to prevent scarring after back surgery, was quickly dismissed by leaders of efforts to build a biotechnology industry in the area.

True enough, any high-tech industry is going to have its casualties. Gliatech's bankruptcy indeed would mean little if there were many other companies like it in the region. The trouble is, there aren't. In fact, the Beachwood company's failure suggests a need to re-examine the model that underlies attempts to build a biotechnology industry here.

That model goes something like this:

Brainy scientists at Case Western Reserve University, University Hospitals or the Cleveland Clinic will come up with a discovery that leads to a new therapy. Managers will be found to start up a new company based on this research, and it will attract initial investments to get off the ground. After they have established a track record for their venture, they will seek to raise more capital by selling stock to the public.

The stock will rise, making them and other local investors rich and creating a reputation that Cleveland is a place for entrepreneurs to create new businesses and make money. This will happen again, and again, until Northeast Ohio is home to a thriving biotech industry.

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There's just one problem. It's not happening.

During the late 1990s and early into the new century, we missed the biggest biotech investment boom in history. In the year 2000 alone, the industry raised \$33 billion in new funds and 56 companies sold stock in initial public offerings (IPOs). Yet not a single Northeast Ohio biotech company sold stock to the public for the first time.

Two companies tried, and saw the financing door swing shut before they could jump through. One, software writer NetGenics, since has been swallowed by a German rival. The other, Athersys Inc., has kept growing as a private company, though it won't be an anchor for high-tech industry in the Midtown area as backers of such development in the city of Cleveland had hoped. This month, The Plain Dealer reported that it would be moving from its Carnegie Avenue location to expand in Chagrin Highlands.

Athersys, which has raised \$100 million in capital from private sources, could well go public and become a more substantial company. That is yet to be seen. Obviously, the development of more companies like it can only benefit the region.

But realistically, how much can be expected from the IPO approach? Can we look forward to another wave of investment as big as the last one, and is it likely to produce enough results to be an important factor in the local economy?

Truthfully, based on years of experience, the answer to those questions is probably not.

Altogether, the local biomedical-products business is not a very big part of the Northeast Ohio economy. And as of 2000, we had fewer biotech workers than the national average - 86 percent as many, to be exact.

Even if the industry were to grow substantially, it's unlikely to replace the thousands of relatively well-paid manufacturing jobs that have been disappearing from the region. As of a year ago, the number of jobs in the pharmaceutical and medical-device businesses in the Cleveland-Akron area was 5,886. According to data from the Ohio Department of Job & Family Services, that was an increase over six years of 991 jobs. That's a nice increase until you realize that the eight-county area lost nearly 25,000 manufacturing jobs during that period.

A study released this month by the Brookings Institution pointed out that even in metropolitan areas where the biotech industry is concentrated, it accounts for a small percentage of jobs. Policymakers should keep this in mind when deciding on spending public resources directly to promote this industry.

Schiller is senior researcher at Policy Matters Ohio, a nonprofit research institute based in Cleveland. His study of the Northeast Ohio biotechnology industry can be seen at www.policymattersohio.org/biotechintro.html

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