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# Living INNOVATION

Merck has been leading and influencing the global healthcare and chemicals industry for more than three centuries as it continually evolves and invests in innovations.

Images courtesy of Merck

**A**n enduring emphasis on innovation and its strong family culture has seen Merck lead the global healthcare and chemicals industry for countless decades, building on a legacy that stretches back nearly 350 years.

The company's executive board consists of five people, led by the chairman of the executive board, Karl-Ludwig Kley. Merck operates two chemical and two pharmaceutical divisions. The latter divisions are headed by Stefan Oschmann, who joined the company in 2011.

Delivering vital health solutions through its prescription medicines, biologic therapies, and over-the-counter drugs, Merck's two pharmaceutical divisions Merck Serono (prescription drugs) and Consumer Health (over-the-counter medicines) have been protecting and preserving the health of people around the world. The Merck Serono division offers treatments for debilitating diseases like multiple sclerosis and some types of cancer.

*The CEO Magazine* spoke to Stefan Oschmann, CEO Pharma of Merck, about the two divisions' impressive longevity and evolution in this intensely competitive space.

***The CEO Magazine:* What did you see as your primary objectives when you joined the organisation in 2011?**

**Stefan:** I had been working at a different large pharmaceutical company for 21 years and I joined Merck in January 2011. That was obviously during a period of crisis within the pharmaceutical industry. We are quite a special company. We are the oldest pharmaceutical and chemical company in the world, founded in 1668.

We have a somewhat specific structure in the sense that on the one hand we're a listed company so we deal with investors and analysts like any other company, and on the other hand we're primarily family owned. The Merck family owns approximately 70 per cent of the company and they're now up to the thirteenth generation. It is a very unusual thing.

I joined in 2011 after we'd had several setbacks in the pharma pipeline and the owners of the company felt that it was time for a significant restructuring in the company to bring it into the 21st century.

I joined the executive board that consists of five people: three new people, and two executives who had been with the company before. That's another thing that's very special about our company: that senior management, a group of five people, are being appointed as partners in the company, so technically we are not employees but we are partners. The Merck family would say that we are cousins adopted over time.

We are fully personally liable so if we did something that would really damage the company our private wealth would also be affected. I think what I found so exciting about this job was this responsibility that comes with it—a truly entrepreneurial responsibility and also a responsibility for our people. I am very proud to be in a position to manage two divisions of a company that has been in >

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existence for almost 350 years and one that has been such a regular innovator in the chemical and pharmaceutical industry.

However, in 2011 the company was in difficulty. We had an unsustainable cost structure and a very low output from our research and development groups so we were determined to change that.

**What changes did you implement to address this?**

At our company we had three major problems, and to address these we developed a program called Fit for 2018, so 2018 will be a special year and it's going to be our 350th anniversary. We organised a restructuring and efficiency program and then a growth program under this Fit for 2018 banner.

In the efficiency program, besides others, we restructured research and development. We had a situation where we spent a lot of money on internal programs and infrastructure and not enough on the actual R&D programs. We flipped that ratio so that the majority of the money spent is on research projects and not buildings, machines, and people.

Additionally, we exchanged quite a few people in the organisation and the leadership ranks. We created three separate discovery and early development units that work more like a biotech company within Merck Serono. They have a lot more freedom because we think that for innovation, while planning and project management and discipline is important, one also needs a certain degree of freedom.

They need to have the opportunity to avoid bureaucracy and take speedy decisions and react very fast to scientific developments. We created separate groups for immunology, oncology, and immuno-oncology as well as a late-stage development group, which is much more about efficiency, quality, and speed.

On the commercial side, we have globalised our approaches. We



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were still a very decentralised company and we globalised our key franchises with globalised support functions. We've done the same with the third project in key support functions and group functions, such as HR, finance, and other related areas, and that led to much better profitability.

At the same time as we were implementing the most far-reaching restructuring program in the history of the company, we were able to continue to grow faster than the market. We are quite happy with the results.

**What are the key areas of focus for you and your team over the next few years?**

From my point of view, the most exciting development is what people call immuno-oncology. Another technical term that is being used in this context is checkpoint inhibitors and these are biological compounds that help the body's immune system to identify cancer cells and fight these cancer cells. It is an exciting development. There are several companies in that scientific race and some really big competitors.

We are very happy that we are also at the forefront of this and within the next 12 to 24 months there

will be plenty of news in this area. We are certain that this will be very good for patients because it would provide totally different options in cancer treatment and we think it is also going to be good for our company.

**What do you believe sets Merck's pharmaceutical businesses apart from its competitors?**

In the pharmaceutical sector, we have two divisions. We have Merck Serono, which is our prescription biopharmaceutical division, and here we have a strong focus on biologics; that is, large molecules that are produced in living cells. We focus on oncology and immunology. Our strategy is that we focus on specialist indications where there are high unmet medical needs. We are not going into the broad GP indications.

We also have a special expertise in combining drugs and devices to create intelligent solutions. For example, our multiple sclerosis product Rebif is being marketed as an intelligent injection device, which would send data to the physician or to the national health scheme about adherence rates of patients.

On the one hand, we have the profile of a biotech company, and

on the other hand we are a truly global company. Given that we are part of a larger company, we have a commercial infrastructure in basically any relevant market in the world and we have a very strong foundation for our business in the emerging markets.

In consumer health, which is our other pharmaceutical division, we are focusing on a few key brands. We have a particular reliance on probiotics and probiotic vitamin combinations. It's a smaller but very successful business that we have.

**How have you worked with your suppliers and partners to form stable partnerships?**

When we talk about supply chain, in our case we obviously have a lot of external supplies issued to us to make biologic drugs and we rely very much on high-quality supplies. This is a very, very delicate issue. With biologic drugs you need to achieve standards of quality that are practically unheard of in other industries and these products are being injected into humans.

In that respect, while we're driving efficiency we're going for real partnerships with our suppliers. We co-develop some of the products with our suppliers. However, the supply chain in our company is primarily about the physical distribution of our products.

**As the company continues to develop, how do you envision Merck's pharmaceutical businesses evolving in coming years?**

We have redirected our organisation to market our products towards healthcare professionals in a medically meaningful way. We have moved away from this huge salesforce that the industry has been previously. We are dealing with highly specialised professionals and we want to have people in our marketing, sales, and operations who can really add value to physicians and other healthcare providers. Our customers want to

have a quality discussion about therapeutic trends and what our products can deliver.

The real topic for us is scientific excellence. We've worked very hard on achieving this. We need to have people and groups that are extremely connected with the people on the cutting edge of science. We need people that work in more of an open innovation type of model.

Look at how cancer therapies are being developed today. Ten years ago a pharmaceutical company would be doing the trial, while in today's world one works openly with key scientists. In these areas, you have 10 or 20 leading centres around the world and these scientists are totally involved in designing our research programs. We are in constant exchange with them and I find this extremely fruitful and also exciting. It also enhances speed of decision-making, and from my point of view that's a major topic in our organisation.

We have strengthened responsibility and accountability on the side of individuals and teams and we have also put a lot of emphasis on collaboration. We had too much of a silo mentality so a lot of our leadership and management time is dedicated to making people collaborate better. Drug research and development is such a complex task with many goals across so many different functions. Scientists can sometimes be a little unidirectional. They are interested in science but they're not necessarily trained to be great leaders or collaborators, and so we are helping our scientists and other colleagues to collaborate more effectively.

The other big thing that we did was that we strengthened our corporate responsibility programs. We find it so important for our employees and it's a big motivator. With the World Health Organization, we are working hard to tackle Schistosomiasis and we've pledged to donate up to 250-million tablets of Praziquantel—one of our products.



This year we are planning to distribute 70-million tablets in Africa and this is so important for the people in Africa but it's also important for employee motivation. We think that a company that works in this delicate area of health needs to make a significant effort in this area. •