Interview with Elmar Schnee , President of Merck Serono and Member of the Executive Board and General Partner of Merck KgoA, Merck Serono

29.07.2012

Tags: Merck Serono

As a majority family owned group, Merck is also the oldest pharmaceutical company in the world and known throughout the market for its long-term vision. How would you compare this vision and company culture with the recently merged Serono´s and how has this affected the overall long-term strategy of the group?

The merger with Serono didn't really mean a dramatic change in the group's overall vision and strategy; on the contrary, it came in line with our aim of continuously bringing innovation to patients.

Therefore, Serono's acquisition enabled Merck to gain enormously in biotech experience and expertise in therapeutic areas such as neurodegenerative diseases and fertility where Serono was a world leader. Besides, before this move Merck had no active sales in the USA.
This is why I classify this move as a 'knowledge merger', not as a simple gain in critical mass. True, Merck-Serono gained in R&D scale; but the merger didn't mean that we had to cut fat and force synergies. With the union of the two companies we kept the people and the knowledge inside the new group in order to secure even more innovation and solutions for our patients. The merger contributed to the vision that Merck-Serono has of being 'the best – not the biggest.'

The merger gave birth to Merck's largest division – Merck Serono is responsible for more than 50 percent of the groups' revenues and workforce. How challenging is it to direct a division that alone represents more than the rest of the group?

For a long time Merck had been divided into a pharmaceutical and a chemical business. This is part of our DNA and changing your DNA is difficult! Hence, this is not a challenge because throughout Merck's history the company has been divided between the chemical and pharmaceutical business and will remain as such no matter the size of each division.
To have a division that is bigger than the rest of the group is not a problem since there is no rule of equity between the different divisions of the group. Merck is driven by opportunities and the acquisition of Serono was in pace with the strategy put in place in 2006 of increasing the innovative business – as you can see it went very well.

Merck Serono is mostly concentrated in the European market with more then 50 percent of its activities in the continent. However, it is growing steadily in other markets such as Latin America and Asia at rates of more than 25 percent a year. How will this reshape the international strategy of the company and what is your strategy to further penetrate fast growing markets?

Naturally, European companies are traditionally stronger in Europe than elsewhere. However, Merck Serono's strategy is to keep expanding and increasing its presence is fast growing markets and in the USA, where our business is relatively small for the potential of the company in the American market.

Merck Serono has full-fledge organisations in Asia and Latin America, where we are among the top ten pharmaceutical players. It seems that everybody in the industry wants to grow in the BRIC countries. As a result, some Europeans are not so happy with the prospect of losing investments due to Europe's overall stagnant market and price constraints imposed by governments. Nevertheless, the fast growth showed by emerging markets comes at much lower margins than those offered by mature economies. This increases dramatically the importance of European markets, but unfortunately for Europeans those price differentials won't last forever.

Already, the pharmaceutical industry is witnessing the progressive relocation of its manufacture base and even R&D activities from developed nations to emerging markets, thanks to their cost-competitiveness and size. How is this trend affecting Merck Serono and what role will Germany play in the new international scenario under way?

There is no doubt that India and China have fantastic people coming out with an incredible amount of PhDs joining the market every year. Besides, with their booming economies now you can see

Chinese who dreamt of making America returning to their home country and building the new Chinese dream.

This makes it very attractive for any truly global innovative company to base itself in big emerging markets and not simply export drugs from the home country. For instance, Merck Serono has recruited more than 500 people last year only in China and we will continue to strengthen our presence in this country in the coming years.

That said, Germany is still a fabulous place to have business thanks to its great educational system, very good universities and highly skilled workforce. The greatest challenge the country faces is the political environment, which makes it difficult to invest. For instance, in the last 20 years Germany had almost 20 healthcare reforms or laws. It is not surprising that the country has lost its position as the Pharmacy of the World ever since.

Those measures are especially regrettable because they affect a key industry in Germany's goal to develop itself as a knowledge-based society. The German pharmaceutical industry is highly innovative-based and even though it can't compete with developing countries regarding production costs it is far ahead in intellectual property. However, if the innovation that the industry creates doesn't get the needed rewards by the healthcare system, the innovative pharmaceutical industry will face hard choices ahead. However after the voting in of the new government, the healthcare industry seems to be recognised as a source of wealth and economic growth possibility.

The fact that Germany lost its position as the Pharmacy of the World is reflected in the declining position of its companies. How is Merck Serono overcoming this trend?

In Merck Serono's case what really matters is not its position in any ranking; our main objective is to bring innovative medicines to the patients that truly need them. In order to do so Merck Serono invests more than 20 percent of its revenues – meaning more than EUR 1 billion – in R&D. If we have success in offering the best medicines, we will guarantee an outstanding financial outlook and be a very profitable company.

As you said before, Merck Serono is a family owned company founded in 1668 with a long-term approach, which in the pharmaceutical industry is a quite valuable asset due to its long development cycle where it takes 8-12 years to develop a new medicine from the time it is discovered to when it is available for treating patients. The constant, strong and targeted investments in R&D have rendered Merck Serono a state-of-the-art product portfolio. We do not need blockbusters to fuel our growth and we are happy with products with an annual sales potential of EUR 200-500 million.

With such formidable investments, how is your product portfolio being reshaped and what are the most promising therapeutical areas for Merck Serono?

Merck Serono has a clear focus on neurodegenerative diseases, being the leader in multiple sclerosis outside the USA thanks to Rebif®. Recently we submitted registration applications for Cladribine Tablets, which is in a good position to be the first orally administered treatment for multiple sclerosis and which hopefully will maintain Merck Serono's leadership in the neurodegenerative field and provide great benefits for patient's treatments.

Secondly, Merck Serono is well established in oncology where it holds Erbitux®, which is already approved for the treatment of colorectal cancer and head and neck cancer. We hope that Erbitux® will be registered soon for non-small cell lung cancer and we are currently developing it in additional indications such as gastric cancer and breast cancer. Erbitux® targets tumour cells and our oncology pipeline is also expanding with different therapeutic approaches such as cancer vaccines, which enhance the patient's own immune system to fight cancer. Merck-Serono is at the forefront of innovation with a cancer vaccine already in phase III trials. We also develop angiogenesis inhibitors, which attack the tumour environment.

Merck Serono is also active in autoimmune and inflammatory diseases. However, we had to withdraw Raptiva, which had indication for psoriasis, and this has robbed us of our commercial base for the autoimmune and inflammatory area. This is not yet a full-fledged area but it is emerging as such thanks to good compounds such as atacicept – where we still have to find the right indication for diseases such as rheumatoid arthritis and lupus – and FGF18 (Fibroblast growth factor 18) – for osteoarthritis. This last product has a tremendous potential as it could be used to repair cartilage tissues; meaning it has all osteoarthritis and injuries market waiting to be opened. If this product continues to deliver the same results for patients in phase III as what it showed in preclinical, it has the potential to be a big breakthrough for the industry and most importantly for patients' lives.

Last but not least, Merck Serono is a worldwide leader in the fertility area. This is a special business because different from others it deals with joy and happiness and not diseases. Our efforts in this field are to increase the baby rate thanks to integrated and innovative approaches in fertility. For that we are looking at new technologies that will enable physicians to reach the next level in fertility treatments and deliver new lives as a result.

Merck Serono has a new name, is entering new markets, and is increasing considerably its product portfolio. Therefore, how are you repositioning the company in terms of image and brand

recognition?

Merck-Serono gave us a special opportunity to rebrand the company especially in the American market since we cannot use the name Merck in the United States. Therefore, the name Serono gave us the possibility to, for the first time, redefine ourselves in the American market.
The company is also gaining visibility and recognition in other fields. Recently Science Magazine classified Merck-Serono as the sixth best employer of choice in the pharmaceutical industry. You can feel this recognition in the industry with the great number of people wanting to work for Merck Serono. This success is derived from our efforts to drive ourselves as a 100 percent innovative company that truly focus on patients. Once again, if a company builds its strategy thinking first and foremost to the patient, it will reach success.

What does Merck Serono do to keep its more than 17.000 workforce so happy and creative?

At Merck Serono people can make a difference and they know that. If as an employee you find a molecule, draw a project, or come up with a new application for something, and if those discoveries will somehow lead to the improvement of patient’s lives, you will become a hero and be extremely recognised and rewarded by that.

Secondly, as a family owned company Merck Serono has very strong values and it is loyal to its people. All those elements allow individuals to work and be creative freely, without having to worry or be scared of anything else. They know that if they respect the set of values established long ago in the company and stay committed to delivering the proposed results they will have a bright future at Merck Serono.

Looking towards the future, what are you main expectations and ambitions for Merck Serono for the next five to ten years?

First of all Merck Serono would like to launch new products, with the aim of improving the lives of patients. Secondly, the company wants to continue to be recognised as an innovation leader; and thirdly Merck Serono wants to constantly improve the company environment and be the best employer of the pharmaceutical industry so that we can attract the best talent and therefore further develop the company.

As the head of Merck Serono, what will be your final message to your colleagues and partners from the pharmaceutical industry worldwide?

The whole industry has to be aware of how health is extremely precious from an individual and collective perspective. Having that in mind, the industry has to show that it is a part of the solution

in improving people’s lives. It’s by focusing on patients and by bringing new therapeutic options to the market, taking costs into consideration, that the pharmaceutical industry will guarantee a sustainable future for itself.

However, it is necessary that regulators and authorities understand the industry’s role in building a sustainable healthcare system and decide to truly work with us to find a viable solution for both sides. That said, we from the pharmaceutical industry should be proud of our work and should work together to make people understand that the pharmaceutical industry walks hand in hand with health improvements. This is Merck Serono’s final goal and it is the result that we want to deliver.

See more interviews