Driving Innovation

An Interview with Fred Hassan,
Chairman of the Board and Chief Executive Officer, Schering-Plough Corporation

Fred Hassan

EDITORS' NOTE *Prior to assuming his current position in April 2003, Fred Hassan was Chairman and CEO of Pharmacia Corporation, having joined its predecessor company Pharmacia & Upjohn as CEO in May 1997. Previously, Hassan was Executive VP of Wyeth, with responsibility for its pharmaceutical and medical products business. He was elected to Wyeth's board of directors in 1995. Earlier in his career, Hassan spent 17 years with Sandoz Pharmaceuticals (now Novartis) and headed its U.S. pharmaceuticals business. Hassan is the past Chairman of the Board of Directors of the Pharmaceutical Research and Manufacturers of America, and is the immediate past Chairman of the HealthCare Institute of New Jersey. The recipient of a B.S. degree in chemical engineering from Imperial College London and an M.B.A. from Harvard, Hassan is currently President of the International Federation of Pharmaceutical Manufacturers & Associations, and additionally serves on the board of directors of Avon Products, Inc.*

COMPANY BRIEF *Schering-Plough Corporation (www.schering-plough.com) is an innovation-driven, science-centered global health care company based in Kenilworth, New Jersey. Through its own biopharmaceutical research and collaborations with partners, Schering-Plough creates therapies that help save and improve lives around the world. The company applies its research and development platform to human prescription, animal health, and consumer health care products.*

How is Schering-Plough's business performing today and how do you see it going forward?

We performed well in '08 and go into '09 with strength on many fronts. We saw good results because our company has been focusing on the essentials.

In our business, we focus on growth and strength for the future, and that growth comes from innovation. We only have a relatively short period of time during which an innovative new medicine is protected by a patent – a kind of temporary monopoly that allows us to recover our big R&D and other investments. We need to replace that product with new innovation once the patent expires.

It's a very simple business model in one respect, but it's also complicated in that you cannot predict how you will replace the innovation. This is not just a matter of coming up with a new product based on an existing template, as is often the case in other businesses. Usually, we have to come up with an entirely new construct or a new framework. A new molecule is a completely new development. That is what makes this business very exciting, but difficult, because you cannot predict what is going to come out at the other end once you have done all the hard R&D work.

One thing that is very different now compared to five years ago in our company is that our R&D pipeline has been upgraded dramatically. Five years ago, we were seen as having a weak late-stage pipeline. We're now seen as having a robust R&D pipeline – even as an industry-leading player in late-stage R&D. That is something I'm very proud of.

Some people in this industry refer to 2011 as a "cliff," because that's when a lot of the big-selling drugs go off-patent. But your pipeline appears to be strong, so will you be able to move past that point?

It's hard to predict exactly where the cliffs are for individual companies, because we are seeing that you can no longer count on patents' exclusivity. There has been a growing pattern of generic companies seeking to break patents, and, in some cases, launching generic products "at risk" – launching copies of patent protected treatments in violation of the patent. This is very troubling because it undermines the incentives for creating new, needed health innovations.

But that aside, we do have a well-protected existing product portfolio that gives us confidence about our future. We do have a good late-stage pipeline that should also help us replace our products when they eventually do go off-patent.

How did Schering-Plough become such a leader in innovation?

When I arrived here, this company was in dire straits – there were a lot of difficulties on many different fronts. I take a lot of pride in the fact that while we had to make the painful sacrifices – such as cutting the dividend to protect our balance sheet and freezing salary increases and waiving bonuses – we did not short R&D. We knew we'd have to create a long-range strategy that would make this company strong for the long term. By design, we decided not to give short-term numerical guidance, because that can put the focus on the short term. This is an industry model that runs on 10- to 15-year new product cycles. A quarterly or even a one-year numerical guidance model is somewhat dissonant with that 10- to 15-year new product cycle, so we decided to focus on the future, and see if we could transform this company for the long term.

So we developed a long term strategic agenda called the Action Agenda. We set certain milestones we had to reach along the way, and we've been on track with those milestones. We completed the stabilize and repair phases and then the turnaround phase, and now we are in the build the base phase – the period when we work to get stronger and better on many fronts. By staying true to our Action Agenda, we have transformed our company.

A key move was our November 2007 acquisition of a Dutch company called Organon BioSciences, which included a strong human prescription unit and a strong animal health unit. This action has greatly increased our strength in markets around the world, and it has also strengthened our R&D engine and late-stage pipeline.

We finished last year with adjusted sales of nearly $21 billion. That compares with sales of about $9 billion five years ago. And we have 12 projects in late-stage R&D – more than double what we had five years ago.

How exactly will your pipeline strengthen your market position?

It's all about answering unmet medical needs – building off existing strengths and building new areas of strength. For example, in our human prescription segment, we have a late-stage compound for treating deadly blood clots that could transform cardiovascular care. This would build off our existing strength in cardiovascular. Another late-stage compound could be a huge advance in treating hepatitis C – another area where we are already strong.

In the meantime, the Organon acquisition further strengthened our prescription pipeline and brought us into two new therapeutic areas – women's health, and central nervous system therapies. One new medication from the acquisition that transforms the practice of anesthesiology is already being launched in many markets, and other late-stage projects are moving along.

We also have strong innovation in our consumer health care unit, and cutting edge R&D in animal health. This gives us further strength and diversity for the long term. For example, we keep innovating our over-the-counter Claritin allergy product line to keep U.S. leadership. We use our network to maximize the value of the brand globally, such as in China. And we also have big opportunities to turn certain prescription products into over-the-counter treatments after their patents end, which is another way to maximize the value of our innovation.

Has Wall Street fully understood the extent to which the company has transformed itself?

Our transformation journey is well understood. People know this management team, and they identify this company very closely with it. This has been very important, including in the early years, when things were difficult in this company.

At the same time, we have to recognize that the capital markets don't necessarily reflect the operational value that you create in a company – and that's not our company alone; it's the entire industry. In fact, these days, it's the entire economy. But this is a long game. We are very pleased with our late-stage R&D pipeline, which we believe represents great long term value.

Presently, the U.S. is going through a difficult time when it comes to access to innovations. A safety-first movement, which is very well-intentioned, is now perhaps pressuring people to hold off approving drugs. A log jam has developed. Companies are leaving whole therapeutic areas such as cardiovascular R&D. Our hope is to keep working with the regulatory systems so we find a pathway to get these innovations to the patients who are waiting.

What does business integrity mean for you today?

We were very explicit about this when we developed our new organizational behaviors approach. We have brought in six organizational behaviors – our six Leader Behaviors – as the foundation for changing this company over the long term. Our people are rated against those behaviors, and their compensation is affected by their ratings on those behaviors – we're that serious about it. Business integrity is one of those six. Everybody is part of this, including the senior management team. We believe that you gain strength and long-term success for the business by building trust. So it's not just compliance; it's not just about staying out of trouble. It's about using sound concepts to build trust so that the company does well for the long term.

Do you look at growth primarily from a product point of view, or geographically as well?

The industry tends to run on product cycles. Innovation often gets captured in bunches of new products. We tend to come up with global products wherever possible, and then we try to spread the benefit of those products, enabling people around the world to get access to the medicines. That's why the global network of the countries that report into the center is extremely important. It's also important to give those managers local responsibility. We can't teach them what to do in their own countries; they have to be the local experts and business drivers. So managing that matrix is a very important part of central management, and we do that very well.

We work hard on further building our strength in the U.S., Europe, and Japan. We have opened up, or are reemphasizing, about nine newer markets that are important growth opportunities. We have crossed $2 billion in annual sales in these nine new markets in 2008 – a very big achievement. This geographical expansion includes China, Brazil, and Russia. Brazil was a particularly significant reentry for us, and we have now gone past half a billion dollars in sales in Brazil. This includes the sales that we acquired through the Organon acquisition.

It seems like your focus is on the so-called BRIC countries: Brazil, Russia, India, and China.

In part, yes. However, we also are focusing on other newer markets, such as Turkey. Also, India has been a special situation when it comes to pharmaceuticals. India historically has had a very strong generic industry, and has not always respected intellectual property, which is the engine of innovation. However, we were very pleased that India joined the World Trade Organization and the patent regime recently, and there is definitely a movement toward respecting patents.

How critical has diversity and inclusion been to the culture of the company?

We see diversity and inclusion as not only the right way to work, but as a competitive advantage. Our labs in New Jersey look like the United Nations. We want all of our people to feel that it doesn't really matter what your last name or first name is, or what your preferences or identity are; what matters is what you can do. We have diversity goals, and meeting them has commitment from the top of our company. We foster an attitude that valuing diversity is a strength and a means of growing the company.

The best way to get the best ideas is to have an open culture, which enables cross-fertilization. Diversity and inclusion are central to having an open culture. That has been one of the major strengths of Schering-Plough.

This industry is known for the impact it has on individuals and communities. How critical is your focus on corporate responsibility, and how do you drive that out to your many people around the world, so that they're engaged in what you're doing?

We care deeply about being good citizens in the communities in which we operate. We used to be very focused on New Jersey, and we still value our roots, but because of the growth of the company and because of the acquisition of Organon, we now have a more global approach. That has changed our thinking, in that we're doing more things for emerging countries now, with a keen eye and ear for the issues there and where we can make a difference.

We have also reinvented conventional corporate social responsibility into what we call Shared Social Engagement. This reflects our mindset that enduring change needs to be a collaboration between ourselves and many other stakeholders. So our programs and mindset have changed and evolved over the past five years, but there's clearly a strong sense of being a good corporate citizen. When I go and speak to our employees on various occasions, asking them to participate, I say that we're not an organization by ourselves; we're part of a larger ecosystem, and therefore, we have to be in harmony with the environment around us.

With the recently announced planned merger with Merck, what made you feel this is the right opportunity for Schering-Plough, and what is your long-term vision for the combined company?

This was a very hard decision for me and for our board. I am a builder by nature. Over the past nearly six years, our people have done a spectacular job transforming a company that was in grave trouble into a high performance global competitor. We were prepared to carry on.

However, despite all our strengths, we are at the smaller end of 'big pharma.' The stunning, accelerating changes that we have recently seen in the environment mean that successful companies will need big scale combined with very strong R&D – along with rich and diverse pipelines. So when Merck came to us and offered a very attractive premium, we had a duty to do what was best for the shareowners. And in this case, it was also what was best to conserve and build on the remarkable flow of new medicines in our pipeline for the patients of the future.

This combination creates a global biopharmaceutical company that has the scale to weather unexpected shocks, with, by far, the best late stage pipeline and R&D team in our industry. So while my heart said 'go it alone,' my head said, 'This is the right and necessary thing to do at this time.'

The public perception of pharmaceutical companies is not always good. Can more be done to build awareness of the good that the industry achieves?

If anyone ever writes a history about the gap between perception and reality, this might be one of the most compelling examples. This is an industry that does so much good. People around the world are living longer and healthier. This industry has played an important part in that along with other very important factors, including good doctors, better lifestyles, better health literacy, and advancing diagnostics and medical devices. So it's shocking that sometimes this industry gets equated with other industries that don't have products that do a lot of social good. It's our job as leaders to show that we are a special industry that is important to society.

Furthermore, we do a great job in organizing access programs for those who need help, especially in the U.S. The industry's Partnership for Prescription Assistance in the U.S. helps patients find and enter programs where companies offer medicines free or at significantly lowered cost. Thus far, this has served 5.4 million low-income Americans. So the industry is trying to reach out and do good things for health around the world for the long term. ●