



52.00

DECEMBER 5, 2005

www.njbiz.com

**CHERRY HILL**  
**Temps in the Executive Suite**  
 Cash-strapped firms find it can pay to outsource top jobs to part-timers instead of going to the expense of filling full-time positions.  
 Page 9

## WHITEHOUSE STATION

# Merck's Pain Channels Big Pharma's Woes

*The company's cuts will ripple through the state economy*

By William T. Quinn

In the early 1990s, Merck was handing employees mementos to celebrate its seemingly perennial status at or near the top of *Fortune* magazine's annual list of America's most admired companies.

Now Merck is handing employees packets that explain the separation benefits they are entitled to. To many observers, the turnabout in Merck's fortunes, while partly tied to its individual stumbles, reflects many of the broader trends bearing down on the pharmaceutical industry and the companies that serve it.

These trends include mounting pressure to reduce drug prices, sales lost to patent expirations and challenges, regulators who are looking harder at the health risks of new drugs, and product pipelines that are generally seen as thin.

The outlook is for more pain of the kind Whitehouse Station-based Merck doled out last week

with its announcement that it will cut 7,000 jobs worldwide over the next three years, or 11% of its current workforce of more than 62,000. The move follows its elimination of about 6,000 jobs over the last two years.

"Mature industries don't restructure very rapidly or very easily," says Sherrill Neff, managing partner of Quaker BioVentures, a Philadelphia venture capital firm. "Sometimes you have kind of abrupt dislocation as you do with this one. You'll see more of that, not less of that, in the phar-



Clark

maceutical companies in the years to come."

Merck's latest round of cuts focused on wringing more efficiency out of the company's manufacturing operations and calls for closing five manufacturing plants in the U.S., Japan and Britain. The jobs lost will include those of more than 250 manufacturing workers at the company's complex in Rahway. All of this is supposed to cut the company's operating expenses by more than \$3.5 billion between 2006 and 2010.

Richard T. Clark, Merck's CEO, made it clear that the cutting isn't over. Clark says the company is working on plans to restructure its research and development and its sales and marketing operations.

The problems big companies like Merck are having translate into pressure on the scores of smaller companies in New Jersey that provide them with services and supplies. "A company the size of Merck is a big part of the local economy," says Kevin McMurtry, CEO of Advanced Health Media in Union. "Whether it's employees or suppliers, I think there will be a trickle-down effect. The economic impact of the changes at Merck will probably be felt more painfully in New Jersey than elsewhere."

McMurtry's says his firm has already felt the impact of the industry's efforts to trim expenses. Advanced Health sells specialized software that helps pharmaceutical companies keep track of what they spend to promote their drugs to individual doctors. He says demand for the software has been growing over the last few years as more states have demanded that drugmakers provide detailed disclosures of their promotional spending.

But at the same time, McMurtry says, Advanced Health has slashed the price of its software by a third in response to pressure from cost-cutting customers. He says the company has still managed to boost its sales—which now stand at about \$150 million a year—and grow by upping its own investment in technology. McMurtry says he thinks his company will benefit overall from the cost-cutting pressure throughout the industry because "we are a potential source for operating efficiency."

"A lot of our clients are expanding their use of our services in '06," he says. To meet the demand, Advanced Health plans to hire a hundred new employees over the next few months.

In Bridgewater, Jaswinder Chadha, CEO of marketRx, which makes software that helps pharmaceutical companies analyze and target their sales and marketing effort, says he too has faced pressure to cut his prices.

"Pfizer or Merck have had budget cuts and freezes," Chadha says. "It definitely has an impact on our business. There is definitely price resistance in the industry, they have to do more with less. I wish they had money like

they used to."

Despite the tight-fisted environment, Chadha says his firm has doubled its sales in the last two years to more than \$25 million a year and recently leased out another floor in the building it occupies to accommodate its growth.

Chadha says companies with new products to launch want the marketRx software because it helps them figure out which physicians are most likely to prescribe their product. "It predicts the best customers," says Chadha, "so they don't waste sales and marketing dollars."

Both Chadha and McMurtry are optimistic about the pharmaceutical industry's long-term prospects. "I think the industry is going to change more in the next five years than it has in a long time," says McMurtry. "But I think it is an industry that is very innovative, very resourceful and it will adapt and prosper, but it may look pretty different."

The cost-cutting by drugmakers "is a response to the challenges the industry faces," says Michael Levesque, a senior credit officer for Moody's Investors Service in Manhattan. Foremost among these challenges are the patent expirations looming for blockbuster products.

Merck's top-selling drug, Zocor, goes off patent next year. The cholesterol reducer is bringing in sales of up to \$4.5 billion this year. Fosamax, an osteoporosis treatment that is the company's No. 2 seller, has projected sales of up to \$3.4 billion this year and will lose its patent protection in 2008.

Overhanging the industry as well is the uncertain impact of the new Medicare prescription drug benefit which takes effect January 1. McMurtry predicts the benefit "is going to increase the price pressure."

Merck's downturn began in September of last year when it pulled its painkiller Vioxx off the market amid mounting evidence it raised serious cardiac risks for patients taking it for more than 18 months. Moody's has downgraded its rating on Merck's debt twice since then. It now rates the drugmaker's debt Aa3, which is still an investment-grade level.

Levesque says the outcome of the 6,400 Vioxx cases now in litigation around the country is the factor most likely to affect Merck's credit ratings going forward. Merck has so far won one case and lost one in state court contests, and the first federal trial of a Vioxx case began last week in Houston. Levesque says Moody's has already calculated that paying off the Vioxx plaintiffs will cost Merck at least \$10 billion.

Pfizer, the world's largest drug company, faces its own challenges. Pfizer has promised to cut its operating expenses by \$4 billion, and its stock price has been battered by uncertainty about the outcome of a patent challenge to

the cholesterol-lowering drug Lipitor, its top-selling product, mounted by Ranbaxy Laboratories, a generics manufacturer in Princeton.

Pfizer, which is based in New York City, has already spread some of the pain to New Jersey with its announcement last month that it will close a manufacturing plant in Parsippany and eliminate 490 jobs. State officials had hoped to keep those jobs in the state when they approved Pfizer for a \$25 million package of incentive grants last year.

Pharmaceutical "companies have been enduring some challenging times both in the area of R&D and global competition," says Holly Gilroy, a spokeswoman for the HealthCare Institute of New Jersey, an industry trade group. "There are a lot of forces at work."

Neff of Quaker BioVentures says research efforts at Big Pharma companies have not been as productive as those at smaller firms and he expects future cuts to hit that area. He also thinks more companies will rethink sending thousands of sales representatives to call on doctors in their offices.

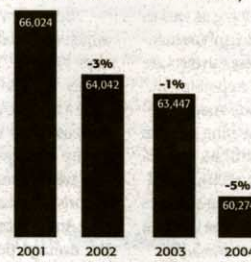
Madison-based Wyeth has already moved in that direction. It said in June that it was cutting its salesforce that calls on primary care doctors by 15%.

Neff foresees continuing changes in traditional practices. "I'm not sure it will always be violent dislocations," he says of the moves to come, "but it will be steady dislocations. I really do believe there is still a lot of fat in large pharma. Systematically, there will be further downsizings." ♦

E-mail to wquinn@njbiz.com

## Eroding Jobs

Total employment in the state for member companies of the HealthCare Institute of New Jersey



Source: HealthCare Institute of New Jersey