



# Success Is Not a Question of Size

Why mid-sized Merz Pharma cannot stress enough the importance of research

Thanks to Merz Spezial Dragees, everyone has been talking about the venerable Frankfurt firm for quite some time; and its Alzheimer's medication Memantine has brought worldwide recognition. Merz, which specializes in neurology and esthetic medicine, aims to increase competitiveness with respect to its larger-scale pharmaceutical competitors by utilizing improved production and development processes. "We have to work even more efficiently than our large competitors," says Managing Director Hartmut Erlinghagen, who joined his Lean Management Officer Dr. Stefan Schacht for an interview with *Caracho*.

□ BETTINA LANGER



*So far, the health care industry has been considered resistant to economic recessions. Is its immune system still intact?*

**Erlinghagen:** We are doing well. The pharmaceutical industry is largely unaffected by economic developments; health care policy has a significantly greater impact on our business dealings and course of action. In the pharmaceu-

tical sector, our strongest field, Merz has continued to expand.

*But you also sell over-the-counter health products directly to the consumer—a business which has been flagging. It's hard to imagine anyone not having seen Merz Spezial Dragees or Tetesept at the drugstore.* →



PHOTOS BY ANNEDORE SCHUBERT

Merz Managing Director Hartmut Erlinghagen (left) and Lean Management Officer Dr. Stefan Schacht agree that processes in all areas have to be efficient

**Erlinghagen:** You're quite right: these markets are stagnant. But we always try to apply our business model to more than one area. So for that reason, we plan to continue offering both pharmaceuticals as well as products for the end consumer. After all, Merz Spezial and the Tetesept brand are doing very well for us.

*You have also set your sights on the "silver agers," or over-50s. How promising is this target group's potential?*

**Erlinghagen:** The pursuit of youth is as old as humanity itself. However, demographic changes mean an ever-increasing number of older people. Studies indicate that as a group, these people feel considerably younger than their chronological age. They have a genuine need for their looks to reflect how they feel inside. So we can assume that demand for our wrinkle treatments such as our hyaluronic acid fillers will increase. And silver agers aren't the only ones. In the medium term, our goal is to see 30 percent of our business in this segment.

*Up to now, however, the highest turnover for Merz Pharma has been in other areas. Memantine, the Alzheimer's medicine you developed, achieved a profit of a billion euros in 2008—a new record. How often do you hit a home run like that?*

**Erlinghagen:** Naturally, every pharmaceutical research company dreams of putting a blockbuster on the market—a medication which brings in a billion U.S. dollars and more. That's something you really only achieve when you are satisfying "unmet medical needs." In other words, when new medications can be used to either cure or to alleviate diseases for which there has never been an effective drug.

*Could you give an example?*

**Erlinghagen:** We have developed a substance which could be used to treat tinnitus. There are approximately just as many sufferers from "ringing of the ears" as from asthma, migraine, or type 2 diabetes. Effective remedies do not exist. However, we are well on our way to developing one. Merz's tinnitus

medicine has already entered phase III...

*... "Phase III" meaning that it will soon be put on the market?*

**Erlinghagen:** At this stage, clinical trials with a large number of patients must be carried out, and this is the point at which around a third of all products fail. Nonetheless, if a substance manages to reach phase III, this is quite an achievement when you consider that of every 5,000 to 10,000 substances studied, just one of these will ever be approved. Approximately 90 percent will never undergo development beyond phase 0.

*Is that why so many staff are employed in your research department? Merz Pharma recently tripled the number of researchers to 300.*

**Erlinghagen:** Investment in research and development is critical to our business model. We are unusual in this regard, since there are very few pharmaceutical companies of our size that are also involved in research. But it is clear that

without research there can be no cutting-edge achievements, and we seek to be innovative in niches. Our focus is on the areas of neurology and dermatology.

*You yourself have just referred to the size of your company. In terms of turnover or number of employees, Merz is one of the smaller players on the market. As a mid-sized firm, what particular challenges do you face, surrounded as you are by conglomerates?*

**Erlinghagen:** We must maintain a constant, consistent focus on our areas of specialization. The really big players in this industry have a finger in just about every slice of the pharmaceutical pie; this is something we neither can, nor wish to do. Our advantage is that processes in a comparatively small business enterprise are more transparent. And the management board is kept up to date in considerable detail on the status of projects or performance of individual segments. Moreover, we are convinced that we work more efficiently than many an industrial giant.

*Nonetheless, you have commissioned Porsche Consulting to examine processes at Merz Pharma. Is it really feasible to adopt processes used with success in the automobile industry for use in pharmaceutical companies?*

**Erlinghagen:** Quite definitely. After all, in many cases it is of secondary importance whether you are producing foods, building cars, or developing medications—the processes themselves are comparable.

**Schacht:** We did have to take a step-by-step, gradual approach to the precise procedural methods used by Porsche Consulting. For this reason, we first applied the methodology to individual examples in pilot projects, at which point we could see for ourselves that it

works. And not only in traditional areas such as production or administration, but also in processes specific to the pharmaceutical industry. To give an example, reports on side effects which become transparent during studies can now be completed 60 percent faster than previously. And we have also examined the process of product creation very closely. By optimizing workflows, we are now in a position to bring new medications to market noticeably earlier than before.

*So lean management can also be applied to any functional area of a pharmaceutical company?*

**Schacht:** Yes indeed—it's an effective concept. For instance, we can now clearly identify and eliminate products that do not seem promising at a far earlier stage than before. They can be identified and removed during the development phase. This permits us to concentrate our resources on products which will do well for our company. In the meantime, we have trained two in-house lean management experts, who will assist our departments in implementing this concept. Our medium-term plans are to expand this approach to our foreign subsidiaries.

**Erlinghagen:** Our aim here is not just the grand, spectacular measures, but also the many small but significant answers. This continuing process is not just about increasing efficiency but also about improving the quality of our work and reducing lead times. We wish to impress this awareness on our 2,000 employees in order to ensure that our business model remains competitive, tomorrow as well as today. ←

## The Merz Story

*For over 100 years, Merz Pharma has been involved in research and production in the cause of health. Company founder Friedrich Merz had an eye for the needs of his fellow citizens; he wanted to make things better, and above all to do things differently from others. Pioneering products such as his foam mask and Merz Spezial Dragees were milestones in pharmaceutical cosmetics; his Tetesept became a heritage brand in the health products market. Since the early 70s, the company has accelerated its research and manufacture of prescription drugs. Today, Merz Pharmaceuticals, the largest company in the Merz Group, specializes in neurological and psychiatric diseases such as Alzheimer's, tinnitus, and neuromuscular disorders. Merz's Memantine is the first substance which can be used to treat moderate and later stages of Alzheimer's dementia. Yet another focus is on clinical and esthetic dermatology.*