Merv Turner

An industry veteran talks about the challenges facing a world-leading pharmaceutical corporation.

In his 25-year career at Merck (Whitehouse Station, NJ, USA), Merv Turner has held numerous posts in R&D as well as external licensing. He now holds dual positions as Chief Strategy Officer for Merck and Senior Vice President for Merck Research Laboratories. Here he talks about the importance of innovative research to Merck's mission of developing novel therapeutics and looks ahead to some of the challenges facing the industry.

How do you view the pharma–biotech mergers and acquisitions landscape going forward?

Merv Turner: We always say we are driven by the quality of the opportunity. First, you have to know what the opportunities are out there; second, you have to know whether they fit your strategy, and third, you have to be prepared to move. If these three things come together, then certainly we would move to seek to harness the opportunity. Our favored route is licensing. Constructive licenses share the risk with the biotech partner. There are times when a license is not feasible and an acquisition makes more strategic sense.

Why is there such a mismatch between biotech development programs and pharma's needs?

MT: Several reasons. Many represent market opportunities that do not reach the size needed to match the portfolio needs of the biggest companies, either because they do not adequately advance standard of care or because they address true niche-market opportunities that are too small to move the needle. Others have been developed in a way that does not meet growing payer demands for demonstration of true value, and thus are truly at an earlier stage in value creation than claimed. Yet others do not have the strength of IP [intellectual property] needed to resist challenge in today's aggressive marketplace. With the costs of late-stage development rapidly increasing, regulatory demands becoming more stringent and payers looking for true value, pharma companies have a fiduciary responsibility to make sure that their portfolios contain the best opportunities that both meet unmet medical needs and provide shareholder value. Thus the bar for in licensing or acquiring candidates has been raised. There will always be an appetite for attractive candidates, but generally candidates lacking a distinct value proposition will not command the R&D investment or the price; it is a basic tenet of the marketplace.

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What will be the impact of the ongoing healthcare debate in the United States?

MT: Healthcare reform is here to stay. We know what the costs of healthcare reform are for us, and we built it into our financial models, [as part of] the cost of doing business. At a macro level, the issues for us are the general ones bedeviling the industry: it is becoming much harder and more expensive to discover and develop new medicines. This is putting pressures on the innovative R&D model. We're not expecting any great transformation in productivity coming out of the industry anytime soon, yet we still believe that innovation at the core is going to be critical for us. We also have to think of other ways by which we can add services and solutions to wrap around our molecules, to find other ways to give them value. I can think of a couple of examples. In the diabetes space, where we have a very successful drug, payers are less concerned with the cost of any one particular drug. They're more concerned about overall management of their diabetes caseload. In a holistic sense, what can we do to manage costs of diabetes of all of our patients? Several pharmaceutical companies are starting to think like that, more from the standpoint of the customer. Drugs are only part of the solution.

What about opportunities in generics and biosimilars?

MT: In the emerging markets there's a lot of value in branded generics, molecules that are off patent but are marketed under the original brand. Some of our leading products in China are off patent. There's value in the brand recognition, because there's quality that goes along with the brand in markets that have yet to establish real quality in their local generics businesses. That remains important. Of course, Merck made a commitment that we are going to enter the biosimilars space, where we believe the barrier to entry—particularly in the US—will be high, restricting the number of competitors. And we think there's a lot of value in the Merck brand, such that if we carry a portfolio of biologics under the Merck name, we will be able to work with patients and physicians and [have them] switch to our branded biosimilar drugs at discount that will be attractive to the payer and valuable to us.

What will be the major changes in healthcare provision going forward?

MT: Our thinking revolves around three issues. First, health information technology and the high-tech end of the reforms being pushed by the Obama administration. If this takes hold, there'll be a big emphasis on better quality electronic medical records. We'll get a better longitudinal view of the patient, a contextual view of the patient, and eventually we'll get a personalized view of the patient as genetic data become more accessible and overall provide a richer source of information. Eventually we'll get interoperability between different kinds of electronic records, and then there could be interesting market development around aggregated data, which could be used to better define standards of care and guide treatments. We see that as a big change on the horizon. Second, there will be an acceleration toward outcomes. We're going to have to provide much more information to our payers around the value proposition of our drugs. Third, the pace at which emerging markets develop and the rate at which they take up our innovative drugs. Those are three major changes that we have to understand and watch.