**Merck Will Buy Major Manager Of Drug Benefits It Will Acquire Medco Containment For $6 Billion. Medco's Mission Is To Hold Down Drug Prices.**

July 29, 1993|By Marian Uhlman, INQUIRER STAFF WRITER

http://articles.philly.com/images/pixel.gif

**In a bold move that could make a dent in the prices consumers pay for their medicines, Merck & Co. yesterday said it would acquire for $6 billion a company that manages prescription-drug benefits.**

Merck, one of the world's leading pharmaceutical firms, will pay a premium price for Medco Containment Services Inc., of Montvale, N.J., as part of its vision to provide coordinated pharmaceutical care for patients.

The purchase means Merck will own a business that seeks to contain drug prices by providing patients with the best medicine at the cheapest price. For years, drug companies have tried to avoid price competition whenever possible and have sold their medicines by persuading doctors to prescribe them.

The deal also is expected to enhance Merck's position in the health-care system that will emerge from anticipated reforms. Not only will the company sell drugs, but it is expected to have a greater voice in what medicines are used.

"This is an aggressive but carefully considered strategic move to keep Merck close to patients and customers in a rapidly changing and highly competitive health-care market," said P. Roy Vagelos, chairman and chief executive officer of Merck, based in Whitehouse Station, N.J. "Merck will become an even more cost-effective provider of superior patient care, while continuing as the premier developer of innovative pharmaceutical products. . . . We see this as an absolutely new concept."

Medco, which made its name as a mail-order drug firm, has about 33 million customers in the United States and manages 95 million prescriptions a year for government, unions, insurance firms and companies. The company processes claims for prescription drugs bought by customers at discount rates at community pharmacies.

After the acquisition, Medco will operate as a subsidiary of Merck, but it will retain its name and continue to be run by its senior management.

**Merck had 1992 revenues of $9.7 billion, while revenues for Medco were $2.2 billion.**

**After the announcement, Merck shares lost $1.37 1/2 to close at $30.75 on the New York Stock Exchange, while Medco gained $4.37 1/2 to end at $34.12 1/2 in NASDAQ trading.**

As drug prices soared during the 1980s, large group buyers increasingly used their purchasing clout to force drug companies to negotiate better prices. The Merck deal takes that kind of business relationship into a new realm.

**COMPANY NEWS; REGULATORS QUESTION MERCK'S BUYOUT OF MEDCO**

Published: September 04, 1993 – The New York Times

Merck & Company said Federal regulators were questioning its planned $6 billion acquisition of Medco Containment Services Inc. The Federal Trade Commission has asked both companies to provide additional information. John Doorley, a spokesman for Merck, said he did not expect the request to force postponement of the closing, which is expected in the fourth quarter.

Merck, the largest pharmaceutical company in the world, said on July 28 that it had agreed to acquire Medco, the largest mail-order pharmaceutical company in the United States. A group of independent pharmacies in New Jersey asked the F.T.C. last week to investigate the Merck-Medco merger. The Garden State Pharmacy Owners Inc., which said it represented 1,000 drugstores, argued that the merger "could create a monopoly in the distribution and sale" of patented drugs.

**FEDERAL TRADE COMMISSION**

August 27, 1998

Merck Settles FTC Charges that Its Acquisition of Medco Could Cause Higher Prices and Reduced Quality for Prescription Drugs

Company Agrees to Preserve Competition in the Pharmaceutical Market

The Federal Trade Commission today announced an agreement with Merck and Co., Inc. ("Merck"), a leading pharmaceutical manufacturer, and its subsidiary, Merck-Medco Managed Care, LLC (“Medco”), resolving antitrust concerns resulting from Merck’s acquisition of Medco. The Commission alleged that Merck’s acquisition of Medco, a pharmacy benefits manager (“PBM”), may substantially lessen competition in the manufacture and sale of pharmaceuticals, and in the provision of PBM services, leading to higher prices and reduced quality. PBMs serve as middlemen in the provision of prescription drugs to managed care plans. **The settlement would require Medco to take steps to diminish the effects of any unwarranted preference that might be given to Merck’s drugs over those of Merck’s competitors in connection with the pharmacy benefit management services that it provides.**

**According to the FTC, when Merck acquired Medco in late 1993, it became the first pharmaceutical manufacturer to vertically integrate into the then relatively-new business of pharmacy benefit management. Since then, several other pharmaceutical companies have joined with PBMs. In 1995, the FTC challenged Eli Lilly and Company’s acquisition of PCS, another PBM, from the McKesson Corporation, alleging violation of the antitrust laws. At that time, the Commission pledged to monitor the industry carefully and cautioned that it might take future action if it concluded there were signs of anticompetitive conduct in the industry.**

“Our investigation into the PBM industry has revealed that Merck’s acquisition of Medco has reduced competition in the market for pharmaceutical products,” said William J. Baer, Director of the FTC’s Bureau of Competition. “We have found that Medco has given favorable treatment to Merck drugs. As a result, in some cases, consumers have been denied access to the drugs of competing manufacturers. In addition, the merger has made it possible for Medco to share with Merck sensitive pricing information it gets from Merck’s competitors, which could foster collusion among drug manufacturers. The settlement that we have reached with the companies addresses these consequences of the acquisition to ensure lower prices, better quality and greater choice for consumers.”

Merck, located in Whitehouse Station, New Jersey, manufactures and sells pharmaceutical products, including Mevacor and Zocor, used for the treatment of high cholesterol, and Prinivil and Vasotec, used for the treatment of hypertension, high blood pressure, and heart disease.

Merck’s subsidiary, Medco, located in Montvale, New Jersey, is engaged in the business of providing pharmacy benefit management services to corporations, insurance companies, labor unions, third-party payers, and other members of the health care industry.

Medco is the nation’s largest PBM. As middlemen between pharmaceutical companies and managed care plans, PBMs provide a variety of services including sophisticated computerized claims processing, drug utilization review, pharmacy network administration, mail- order prescription services and formulary services that include aggressive rebate negotiation with manufacturers. A drug “formulary” is a list of drugs that PBMs give to pharmacies, physicians, and third-party payers to guide them in prescribing and dispensing prescriptions to health plan beneficiaries.

According to the complaint outlining the Commission’s charges, Medco negotiates with pharmaceutical manufacturers, including Merck, concerning placement of drugs on the Medco formulary. Medco also negotiates rebates, discounts, and prices that pharmacy benefit plans managed by Medco pay for pharmaceutical products. Medco, the FTC charged, thereby influences the prices of pharmaceutical products and the availability of such products under the Medco pharmacy benefit plans.

The FTC charged that the effects of the acquisition of Medco by Merck may be to:

foreclose the products of manufacturers other than Merck from Medco’s formularies;

enhance the chances for collusion and other illegal anticompetitive conduct;

eliminate Medco as an independent negotiator of pharmaceutical prices with manufacturers;

reduce other manufacturers’ incentives to develop innovative pharmaceuticals; and

increase the prices and diminish the quality of the pharmaceuticals available to consumers.

The proposed consent agreement, which was announced today for public comment, would require Merck-Medco to maintain an “open formulary” -- one that includes drugs selected and approved by an independent Pharmacy and Therapeutics ("P&T") Committee. This committee would consist of physicians and pharmacologists who have no financial interest in Merck. The consent order would require that this P&T Committee independently make all decisions concerning the inclusion and exclusion of drugs on the open formulary.

The agreement also would ensure that Medco will accept all discounts, rebates or other concessions offered by any other manufacturer of pharmaceutical products in connection with the listing of those products on the open formulary, and to accurately reflect such discounts in ranking the drugs on the formulary. Merck and Medco also would be prohibited from sharing proprietary or other non-public information they receive from one another’s competitors -- such as prices -- with exceptions for attorneys and auditors.

In addition, the consent order would require Merck-Medco to make known the availability of the Open Formulary to anyone who currently has a PBM agreement with Medco, and (for a period of five years) to prospective customers.

Finally, the settlement would contain various reporting provisions that would assist the FTC in monitoring Merck-Medco’s compliance with the final order.

The Commission vote to publish the proposed consent agreement was 4-0.

An analysis of the proposed agreement will appear in the Federal Register shortly. The agreement will be subject to public comment for 60 days, after which the Commission will decide whether to make it final. Comments should be addressed to the FTC, Office of the Secretary, 6th Street and Pennsylvania Avenue, N.W., Washington, D.C. 20580.

NOTE: A consent agreement is for settlement purposes only and does not constitute an admission of a law violation. When the Commission issues a consent order on a final basis, it carries the force of law with respect to future actions. Each violation of such an order may result in a civil penalty of $11,000.

Copies of the complaint, the proposed consent order and the analysis of the proposed consent order to aid public comment are available from the FTC's web site at: http://www.ftc.gov and also from the FTC's Consumer Response Center, Room 130, 6th Street and Pennsylvania Avenue, N.W., Washington, D.C. 20580; 202-326-4357; TDD for the hearing impaired 1-866-653-4261. Consent agreements subject to public comment also are available by calling 202-326-3627. To find out the latest news as it is announced, call the FTC NewsPhone recording at 202-326-2710.

**Merck to spin-off Merck-Medco**

**Philadelphia Business Journal by John George, Staff Writer**

Date: Tuesday, January 29, 2002, 12:45pm EST

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In a move designed to bolster its stock price, [Merck & Co. Inc.](http://ad.doubleclick.net/imp;v7;j;257773330;0-0;0;17653843;0/0;48845127/48842170/1;;~aopt=2/1/b2/0;~okv=;at=daily;pageid=539522;pos=wel;dcopt=ist;tile=11;kw=philadelphia;sz=1x1;~cs=s%3fhttp:/s0.2mdn.net/3571821/acerTM_interstitial_v1.htm?t=10&cT=http%3A//ad.doubleclick.net/click%253Bh%253Dv8/3cbd/2/0/%252a/o%253B257773330%253B0-0%253B0%253B17653843%253B255-0/0%253B48845127/48842170/1%253B%253B%257Eaopt%253D2/1/b2/0%253B%257Esscs%253D%253f&l=http%3A//www.bizjournals.com/profiles/company/us/nj/whitehouse_station/merck_%26_co_inc/1324307/) plans to establish Merck-Medco, its pharmacy benefits management subsidiary, as a separate, publicly traded company.

Merck officials said they plan to launch an initial public offering of a portion of the new company by mid-2002, subject to market conditions.

Merck-Medco, which was created when Merck acquired Medco for $6.6 billion in 1993, had revenue of $26 billion last year. The subsidiary's number of covered lives has climbed from 33 million prior to acquisition to 65 million last year.

"This transaction will allow Merck to focus more fully on its priorities of turning cutting-edge science into breakthrough medicines and supporting them through targeted and well-executed marketing," said Merck President and CEO Raymond V. Gilmartin, in a statement. "In addition to investing behind our internal pipeline, our efforts also will include a continuing, intense focus on the entire spectrum of product licensing, from early- to late-stage opportunities, as well as targeted acquisitions. We believe that providing investors with `pure plays' in the pharmaceutical and PBM businesses, respectively, will allow full valuation of both businesses."

**Merck & Co., Inc. History**

**From Funding Universe Dot Com (July 2012)**

**Address:**

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P.O. Box 100

White House Station, New Jersey 08889-0100

U.S.A.

Telephone: (908) 423-1000

Toll Free: 800-613-2104

Fax: (908) 423-1043

Website: www.merck.com Public Company

Incorporated: 1927

Employees: 62,300

Sales: $32.71 billion (1999)

Stock Exchanges: New York Boston Cincinnati Philadelphia Pacific

Ticker Symbol: MRK

NAIC: 325412 Pharmaceutical Preparation Manufacturing; 325199 All Other Basic Organic Chemical Manufacturing; 325411 Medicinal and Botanical Manufacturing; 325413 In-Vitro Diagnostic Substance Manufacturing; 325414 Biological Product (except Diagnostic) Manufacturing; 422210 Drugs and Druggists' Sundries Wholesalers; 454110 Electronic Shopping and Mail-Order Houses; 541710 Research and Development in the Physical, Engineering, and Life Sciences Company Perspectives:

The mission of Merck is to provide society with superior products and services--innovations and solutions that improve the quality of life and satisfy customer needs&mdashø provide employees with meaningful work and advancement opportunities and investors with a superior rate of return. Key Dates:

**Key Dates:**

1668:Friedrich Jacob Merck purchases an apothecary in Darmstadt, Germany. 1827:Heinrich Emmanuel Merck transforms the pharmacy into a drug manufactory. 1887:The German firm, E. Merck AG, sets up a sales office in the United States. 1891:George Merck, grandson of Heinrich Merck, joins the U.S. branch, known as Merck & Company. 1899:The Merck Manual of Diagnosis and Therapy is first published. 1903:U.S. production begins at a site in Rahway, New Jersey. 1917:Entrance of United States into World War I leads to severing of relationship between Merck & Co. and E. Merck AG. 1925:George W. Merck takes over as president, succeeding his father. 1927:Company merges with Powers-Weightman-Rosengarten and is incorporated as Merck & Co., Inc.

1940s:Merck's laboratories make a series of discoveries: vitamin B12, cortisone, streptomycin. 1953:Company merges with Sharp & Dohme, Incorporated. 1965:Henry W. Gadsen is named CEO and launches an ill-advised diversification program. 1976:John J. Honran succeeds Gadsen and reemphasizes drug research. 1979:Company begins marketing Enalapril, a high-blood-pressure inhibitor whose annual sales eventually reach $550 million. 1982:Merck enters into a partnership with Astra AB to sell that company's products in the United States. 1985:Dr. P. Roy Vagelos takes over as CEO; Vasotec, a treatment for congestive heart failure, is introduced. 1988:Vasotec becomes Merck's first billion-dollar-a-year drug. 1989:Over-the-counter medication joint venture is created with Johnson & Johnson. 1992:Zocor, a cholesterol-fighter, is introduced and eventually becomes a blockbuster. 1993:Medco Containment Services Inc., a drug distributor, is acquired for $6.6 billion. 1994:Raymond V. Gilmartin is named chairman and CEO, becoming the first outsider so named. 1995:Company divests its specialty chemicals businesses. 1999:Astra pays Merck $1.8 billion stemming from a joint venture between the companies and from Astra's merger with Zeneca; arthritis medication Vioxx makes its debut.Company History:

Merck & Co., Inc. is one of the largest pharmaceutical companies in the world. Among the company's most important prescription drugs are Vioxx, a painkiller used to treat arthritis; Zocor and Mevacor, used to modify cholesterol levels; Cozaar, Prinivil, and Vasotec, hypertension medications; Fosamax, for the treatment and prevention of osteoporosis; Pepcid, an ulcer medication; Primaxin and Noroxin, antibiotics; Crixivan, a protease inhibitor used in the treatment of HIV; Singulair, an asthma treatment; Cosopt, Timoptic, and Trusopt, all used to treat glaucoma; Propecia, a hair loss remedy; and several vaccines, including M-M-R II, chicken pox vaccine Varivax, and hepatitis B vaccine Recombivax HB. Merck also develops, manufactures, and markets pharmaceuticals through a number of joint ventures, including: a partnership with Johnson & Johnson that concentrates on designing and commercializing over-the-counter versions of prescription medications, such as Pepcid AC; a venture with Aventis A.G. focusing on the European vaccine market; and another partnership with Aventis, this one concentrating on animal health and poultry genetics. Nearly half of the company's revenues are generated by Merck-Medco Managed Care, a pharmacy benefit management subsidiary principally involved in selling prescription drugs through managed prescription drug programs. Merck spends more than $2 billion each year on pharmaceutical research and development. About 40 percent of the company's human health product sales are generated outside the United States.

**German Origins**

Merck's beginnings can be traced back to Friedrich Jacob Merck's 1668 purchase of an apothecary in Darmstadt, Germany, called 'At the Sign of the Angel.' Located next to a castle moat, this store remained in the Merck family for generations.

The pharmacy was transformed by Heinrich Emmanuel Merck into a drug manufactory in 1827. His first products were morphine, codeine, and cocaine. By the time he died in 1855, products made by his company, known as E. Merck AG, were used worldwide. In 1887 E. Merck sent a representative, Theodore Weicker, to the United States to set up a sales office. Weicker (who would go on to own drug powerhouse Bristol-Myers Squibb) was joined by George Merck, the 24-year-old grandson of Heinrich Emmanuel Merck in 1891. In 1899, the younger Merck and Weicker acquired a 150-acre plant site in Rahway, New Jersey, and started production in 1903. Weicker left the firm the following year.

The manufacture of drugs and chemicals at this site began in 1903. This same location housed the corporate headquarters of Merck & Co. and four of its divisions, as well as research laboratories and chemical production facilities, into the 1990s. Once known as 'Merck Woods,' the land surrounding the original plant was used to hunt wild game and corral domestic animals. In fact, George Merck kept a flock of 15 to 20 sheep on the grounds to test the effectiveness of an animal disinfectant. The sheep became a permanent part of the Rahway landscape.

The year 1899 also marked the first year the Merck Manual of Diagnosis and Therapy was published. In 1983, the manual entered its 14th edition. A New York Times review rated it 'the most widely used medical text in the world.'

In 1917, upon the entrance of the United States into World War I, George Merck, fearing anti-German sentiment, turned over a sizable portion of Merck stock to the Alien Property Custodian of the United States. This portion represented the company interest held by E. Merck AG, thereby ending Merck & Co.'s connection to its German parent. At the end of the war, Merck was rewarded for his patriotic leadership; the Alien Property Custodian sold Merck shares, worth $3 million, to the public. George Merck retained control of the corporation, and by 1919 the company was once again entirely public-owned.

1920s Through 1950s: Growth Through Mergers and R & D

By 1926, the year George Merck died, his son George W. Merck had been acting president for more than a year. The first major event of the younger Merck's tenure--which would last 25 years--was the 1927 merger with Philadelphia-based Powers-Weightman-Rosengarten, a pharmaceutical firm best known for antimalarial quinine. Following the merger, Merck incorporated his company as Merck & Co., Inc. The merger enabled Merck & Co. to increase its sales from $6 million in 1925 to more than $13 million in 1929. With the resultant expansion in capital, Merck initiated and directed the Merck legacy for pioneering research and development. In 1933, he established a large laboratory and recruited prominent chemists and biologists to produce new pharmaceutical products. Their efforts had far-reaching effects. En route to researching cures for pernicious anemia, Merck scientists discovered vitamin B12. Its sales, both as a therapeutic drug and as a constituent of animal feed, were massive.

The 1940s continued to be a decade of discoveries in drug research, especially in the field of steroid chemistry. In the early 1940s, a Merck chemist synthesized cortisone from ox bile, which led to the discovery of cortisone's anti-inflammation properties. In 1943, streptomycin, a revolutionary antibiotic used for tuberculosis and other infections, was isolated by a Merck scientist.

Despite the pioneering efforts and research success under George W. Merck's leadership, the company struggled during the postwar years. There were no promising new drugs to speak of, and there was intense competition from foreign companies underselling Merck products, as well as from former domestic consumers beginning to manufacture their own drugs. Merck found itself in a precarious financial position.

A solution was found in 1953 when Merck merged with Sharp & Dohme, Incorporated, a drug company with a similar history and reputation. Sharp and Dohme began as an apothecary shop in 1845 in Baltimore, Maryland. Its success in the research and development of such important products as sulfa drugs, vaccines, and blood plasma products matched the successes of Merck. The merger, however, was more than the combination of two industry leaders. It provided Merck with a new distribution network and marketing facilities to secure major customers. For the first time, Merck could market and sell drugs under its own name.

At the time of George W. Merck's death in 1957, company sales had surpassed $100 million annually. Although Albert W. Merck, a direct descendant of Friedrich Jacob Merck, continued to sit on the board of directors into the 1980s, the office of chief executive was never again held by a Merck family member.

1960s Through Mid-1980s: Diversifying, Reemphasizing Research, Surviving Various Difficulties

Henry W. Gadsen became CEO in 1965 and, as was fashionable at the time, initiated a program of diversification. Among the businesses acquired in the late 1960s and early 1970s were Calgon Corporation, a supplier of water treatment chemicals and services; Kelco, a maker of specialty chemicals; and Baltimore Aircoil, a maker of refrigeration and industrial cooling equipment. Many of these businesses were quickly divested after it was discovered that profits were hard to come by, but Calgon and Kelco remained part of Merck into the early 1990s. Under Gadsen's emphasis on diversification, Merck's pharmaceutical operations suffered.

In 1976, John J. Honran succeeded the 11-year reign of Gadsen. Honran was a quiet, unassuming man who had entered Merck as a legal counselor and then became the corporate director of public relations. But Honran's unobtrusive manner belied an aggressive management style. With pragmatic determination Honran not only continued the Merck tradition for innovation in drug research, but also improved a poor performance record on new product introduction to the market.

This problem was most apparent in the marketing of Aldomet, an antihypertensive agent. Once the research was completed, Merck planned to exploit the discovery by introducing an improved beta-blocker called Blocadren. Yet Merck was beaten to the market by its competitors. Furthermore, because the 17-year patent protection on a new drug discovery was about to expire, Aldomet was threatened by generic manufacturers. This failure to beat its competitors to the market is said to have cost the company $200 million in future sales. A similar sequence of events occurred with Indocin and Clinoril, two anti-inflammation drugs for arthritis.

Under Honran's regime, the company introduced a hepatitis vaccine, a treatment for glaucoma called Timoptic, and Ivomac, an antiparasitic for animals. In addition, while Honran remained strongly committed to financing a highly productive research organization, Merck began making improvements on research already performed by competitors. In 1979, for example, Merck began to market Enalapril, a high-blood-pressure inhibitor, similar to the drug Capoten, which was manufactured by Squibb. Sales for Enalapril reached $550 million in 1986. Honran also embarked on a more aggressive program for licensing foreign products. In 1982 Merck purchased rights to sell products from Swedish firm Astra AB in the United States; a similar arrangement was reached with Shionogi of Japan. Two years later the Merck-Astra agreement was transformed into a joint venture, Astra Merck Inc.

Honran's strategy proved very effective. Between 1981 and 1985, the company experienced a nine percent annual growth rate, and in 1985 the Wall Street Transcript awarded Honran the gold award for excellence in the ethical drug industry. He was commended for the company's advanced marketing techniques and its increased production. At the time of the award, projections indicated a company growth rate for the next five years of double the present rate.

In 1984, Honran claimed Merck had become the largest U.S.-based manufacturer of drugs in the three largest markets--the United States, Japan, and Europe. He attributed this success to three factors: a productive research organization; manufacturing capability that allowed for cost-efficient, high-quality production; and an excellent marketing organization. The following year, Honran resigned as CEO. In 1986, his successor, Dr. P. Roy Vagelos, a biochemist and the company's former head of research, also was awarded the ethical drug industry's gold award.

Although Merck's public image was generally good, it had its share of controversy. In 1974, a $35 million lawsuit was filed against Merck and 28 other drug manufacturers and distributors of diethylstilbestrol (DES). This drug, prescribed to pregnant women in the late 1940s and up until the early 1960s, ostensibly prevented miscarriages. The 16 original plaintiffs claimed that they developed vaginal cancer and other related difficulties because their mothers had taken the drug. Furthermore, the suit charged that DES was derived from Stilbene, a known carcinogen, and that no reasonable basis existed for claiming the drugs were effective in preventing miscarriages. (A year before the suit, the Federal Drug Administration, or FDA, banned the use of DES hormones as growth stimulants for cattle because tests revealed cancer-causing residues of the substance in some of the animals' livers. The FDA, however, did not conduct public hearings on this issue; consequently, a federal court overturned the ban.)

Under the plaintiffs' directive, the court asked the defendants to notify other possible victims and to establish early detection and treatment centers. More than 350 plaintiffs subsequently sought damages totaling some $350 billion.

Merck was not beleaguered by the DES lawsuit only. In 1975, the company's name was added to a growing list of U.S. companies involved in illegal payments abroad. The payoffs, issued to increase sales in certain African and Middle Eastern countries, came to the attention of Merck executives through the investigation of the Securities and Exchange Commission. While sales amounted to $40.4 million for that year in those areas of the foreign market, the report uncovered a total of $140,000 in bribes. Once the SEC revealed its report, Merck initiated an internal investigation and took immediate steps to prevent future illegal payments.

Later, Merck found itself beset with new difficulties. In its attempt to win hegemony in Japan, the second largest pharmaceutical market in the world, Merck purchased more than 50 percent of the Banyu Pharmaceutical Company of Tokyo. Partners since 1954 under a joint business venture called Nippon Merck-Banyu (NMB), the companies used Japanese detail men (or pharmaceutical sales representatives) to promote Merck products.

When NMB proved inefficient, however, Merck bought out its partner for $315.5 million--more than 30 times Banyu's annual earnings. The acquisition was made in 1982, and Merck was still in the process of bringing Banyu into line with its more aggressive and imaginative management style in the early 1990s.

Problems in labor relations surfaced during the spring of 1985 when Merck locked out 730 union employees at the Rahway plant after failing to agree to a new contract. For three months prior to the expiration of three union contracts, involving 4,000 employees, both sides negotiated a new settlement. When talks stalled, however, the company responded by locking out employees. The unresolved issues involved both wages and benefits.

By June 5, all 4,000 employees participated in a strike involving the Rahway plant and six other facilities across the nation. In West Point, Virginia, operations were halted when union picketers prevented nonstriking employees from entering the plant. Merck, however, was able to win a court-ordered injunction limiting picketing.

The strike proved to be the longest in Merck's history; but after 15 weeks an agreement was finally reached. A company request for the adoption of a two-tier wage system that would permanently pay new employees lower wages was rejected, as was a union demand for wage increases and cost-of-living adjustments during the first year. Nevertheless, Merck's reputation as an exceptional, high-paying workplace remained intact, and its subsequent contract agreements were amicable. In fact, Merck was ranked as one of the '100 Best Companies to Work for in America' and one of Working Mother magazine's '100 Best Companies for Working Mothers' since that ranking's 1986 inception.

**Late 1980s and Early 1990s: Blockbuster Drugs, Joint Ventures, Medco**

During the late 1980s, double-digit annual sales increases catapulted Merck to undisputed leadership of the pharmaceutical industry. CEO Vagelos's research direction in the 1960s and 1970s laid the foundation for Merck's drug 'bonanza' of the 1980s. Vasotec, a treatment for congestive heart failure, was introduced in 1985 and became Merck's first billion-dollar-a-year drug by 1988. Mevacor, a cholesterol-lowering drug introduced in 1987, and ivermectin, the world's top-selling animal health product, also contributed to the company's impressive growth. In the late 1980s, Merck was investing hundreds of millions of dollars in research and development--ten percent of the entire industry's total. Over the course of the decade, Merck's sales more than doubled, its profits tripled, and the company became the world's top-ranked drug company as well as one of Business Week's ten most valuable companies.

The company also was recognized for its heritage of social responsibility. In the 1980s, Merck made its drug for 'river blindness'--a parasitic infection prevalent in tropical areas and affecting 18 million people&mdash…ailable at no charge. In 1987, the company shared its findings regarding the treatment of human immunodeficiency virus (HIV) with competitors. These efforts reflected George W. Merck's assertion: 'Medicine is for the patients. It is not for the profits. The profits follow, and if we have remembered that, they have never failed to appear. The better we have remembered it, the larger they have been.'

Growth did slow in the early 1990s, however, as Merck's drug pipeline dried up. Although the company maintained the broadest product line in the industry, its stable of new drugs was conspicuously absent of the 'blockbusters' that had characterized the previous decade, with one exception. In 1992 Merck introduced Zocor, a cholesterol-fighting drug that eventually surpassed $1 billion in annual sales and became the company's top-selling drug and one of the most successful pharmaceuticals in history.

In the meantime, Merck entered into a number of joint ventures that created alternative avenues of product development. In 1989 Merck joined with Johnson & Johnson in a venture to develop over-the-counter (OTC) versions of Merck's prescription medications, initially for the U.S. market, later expanded to Europe and Canada. Two years later Merck and E.I. du Pont de Nemours and Company formed a joint venture to research, manufacture, and sell pharmaceutical and imaging agent products. Merck and Connaught Laboratories, Inc. (later part of Aventis S.A.) jointly agreed in 1992 to develop combination vaccines in the United States. In 1994 Merck created a venture with a related company, Pasteur Merieux Connaught (which was also later part of Aventis S.A.), to market combination vaccines in Europe.

**In 1993 Merck acquired Medco Containment Services Inc. for $6.6 billion. Medco was a mail-order distributor of drugs that was previously acquired by Martin Wygod in the early 1980s for $36 million. With the help of infamous investment banker Michael Milken, Wygod built Medco into a mass drug distribution system with $2.5 billion in revenues and $138 million in profits by 1992. The acquired company soon was renamed Merck-Medco Managed Care.**

**The wisdom of the purchase was debated among analysts. On one hand, it was regarded as making Merck more competitive in a U.S. healthcare industry dominated by cost-cutting managed care networks and health maintenance organizations. On the other hand, some observers noted that Merck's newest subsidiary would necessarily distribute competitors' drugs and that it had been a major proponent of discounting, which threatened to cut into Merck's R & D funds.**

**The Medco acquisition also complicated Vagelos's plans for a successor. Vagelos's choice, Richard J. Markham, resigned unexpectedly in mid-1993, just months before the CEO's anticipated retirement. Some observers speculated that 54-year-old Wygod, with his cost-cutting tendencies and marketing forte, was a likely successor, but he, too, resigned in March 1994. In the end, other internal candidates were bypassed as well in favor of the company's first outsider in Merck history to take the top job, Raymond V. Gilmartin. Named CEO in June 1994 and chairman in November of that year, Gilmartin had helped turn around medical equipment maker Becton Dickinson & Co. as that firm's chairman and CEO.**

**Mid-1990s and Beyond**

Although Vagelos had built Merck into its position of industry preeminence by the time of his retirement, the entire pharmaceutical sector was in upheaval stemming from the growth of managed care. Sales and earnings growth were on the decline. Industry pressure resulted in large mergers that created Glaxo Wellcome plc and Novartis AG and toppled Merck from its position as the world's biggest drugmaker to a tie for third place with Germany's Hoechst Marion Roussel. Merck also was suffering from the difficult 18 months it took to find Vagelos's successor and the 'turf-conscious, defection-ridden' culture (so described by Business Week's Joseph Weber) that Vagelos left behind. One of Gilmartin's first major tasks, then, was to restructure the company's management team. In September 1994 he set up a 12-member management committee to help him run the company and plot strategies for growth. The management team included sales executives in Europe and Asia, the heads of the veterinary and vaccine divisions, the president of Merck-Medco, and executives from the research, manufacturing, finance, and legal areas. The creation of this committee helped to streamline and flatten Merck's organizational structure, fostered a greater degree of company teamwork, and halted the exodus of top managers that occurred during the Vagelos succession.

One of the management committee's first acts was to create a mission statement for Merck, which affirmed that the company was primarily a research-driven pharmaceutical company. Gilmartin then launched a divestment program, which jettisoned several noncore units, including a generic-drug operation and a managed mental-health care unit. In 1995 Merck sold its Kelco specialty chemicals division to Monsanto Company for $1.1 billion, and its other specialty chemicals unit, Calgon Vestal Laboratories, went to Bristol-Myers Squibb Company for $261 million. These sales also helped Merck pay down the debt it incurred in acquiring Medco, a unit that Gilmartin retained.

There were also two significant divestments in the late 1990s. In July 1997 Merck exited from the agribusiness sector when it sold its crop protection unit to Novartis for $910 million. In July 1998 Merck sold its half-interest in its joint venture with E.I. du Pont to its partner for $2.6 billion. Merck also restructured its animal health unit by combining it with that of Rhone-Poulenc S.A. to form Merial, a stand-alone joint venture created in August 1997. At the end of the 1990s Merial stood as the world's largest firm focusing on the discovery, manufacture, and marketing of veterinary pharmaceuticals and vaccines. By that time, Merck's partner in Merial was Aventis S.A., which had been formed from the late 1999 merger of Rhone-Poulenc and Hoechst A.G.

Another joint venture--the one formed with Astra in 1982--was restructured in the late 1990s. This venture's biggest success came with the December 1996 approval of Prilosec for the treatment of ulcers and heartburn. Prilosec went on to become a blockbuster. In July 1998 Merck and Astra agreed to transform the joint venture into a new limited partnership in which Merck would have no management control but would hold a limited partnership interest and receive royalty payments. This gave Astra more flexibility in terms of seeking a merger partner, and in April 1999 the company merged with Zeneca Group Plc to form AstraZeneca AB. Stemming from this merger and the 1998 agreement between Merck and Astra, Merck received from Astra two one-time payments totaling $1.8 billion.

From 1995 through 1999, Merck introduced a total of 15 new drugs. Gilmartin helped bring these new products to market, but credit for developing them fell to Dr. Edward M. Scolnick, the research chief under Vagelos who stayed with the firm even though he had vied to succeed Vagelos. Within 18 months of Gilmartin's arrival, Merck had launched a record eight drugs, including Crixivan, a protease inhibitor used in the treatment of HIV; Fosamax, used to treat osteoporosis; and hypertension medication Cozaar. The eight drugs accounted for more than $1 billion in sales in 1996, about ten percent of the company's total drug sales. Through its joint venture with Johnson & Johnson, Merck also received U.S. approval in April 1995 for the antacid Pepcid AC, an OTC version of Merck's Pepcid.

As the 1990s continued, Merck faced the specter of the expiration of patent protection for some of its biggest-selling products--Vasotec and Pepcid were slated to expire in 2000, Mevacor and Prilosec in 2001. These five drugs generated $5.2 billion in U.S. sales in 1997. Under intense pressure to replace this--at least potentially--lost revenue, Merck continued its torrid pace of product debuts. In 1998 the company introduced a record five drugs: Singulair for asthma, Maxalt for migraine headaches, Aggrastat for acute coronary syndrome, Propecia for hair loss, and Cosopt for glaucoma. Merck managed only one drug introduction in 1999, but it was a blockbuster. Making its U.S. debut in May 1999, Vioxx was part of a new category of pain drugs, dubbed Cox-2 inhibitors. Cox-2, an enzyme present in various diseases, was blocked by the new drugs. As a treatment for arthritis, Vioxx was noteworthy for being effective while not irritating the stomach. Despite being second to market behind G.D. Searle & Co.'s Celebrex, Vioxx had a remarkable first seven months in which U.S. physicians wrote more than five million prescriptions. The new medication was expected to have sales in 2000 of more than $1 billion, a rapid rise to that level.

Merck headed into the uncertainty of the early 21st century riding a triumphant 1999 wave. In addition to its successful introduction of Vioxx, the company was heartened by the continued strength of its top-selling drug, Zocor, which was gaining market share despite intense competition, particularly from Warner-Lambert Company's Lipitor. Zocor was likely to have worldwide sales of more than $5 billion in 2000. Overall sales in 1999 increased 22 percent, reaching $32.71 billion, while net income increased 12 percent to $5.89 billion. Merck's worldwide pharmaceutical sales totaled $12.55 billion in 1999, placing the company in the number one position. This ranking was unlikely to last, however, thanks to two proposed mergers expected to close in 2000: the U.K. marriage of Glaxo Wellcome plc and SmithKline Beecham plc, and the U.S. coupling of Pfizer Inc. and Warner-Lambert. Merck's Gilmartin stated that he had no interest in such a merger, despite the looming patent expirations. One apparent reason for Gilmartin's go-it-alone approach was the company's rapidly growing Merck-Medco unit, which achieved 1999 sales of $15.23 billion. The unit had established the world's biggest Internet-based pharmacy, merckmedco.com, and formed an alliance with CVS Corporation in 1999 to sell OTC medicines and general health products through this site. Merck-Medco also was helping enhance the sales of Merck drugs, although the FDA launched an investigation in the late 1990s into the practices of pharmacy-benefit management (PBM) firms, including whether any illegalities were taking place in regard to the PBMs steering patients to drugs made by a particular firm. Another reason for optimism about the future of Merck was its continued R & D commitment, represented in 2000 by a $2.4 billion budget. The company's pipeline included a potential blockbuster drug for the treatment of depression and anxiety, which could reach the market by 2001, in addition to several others in various stages of testing.

Principal Subsidiaries: Chibret A/S (Denmark); Hangzhou MSD Pharmaceutical Company Limited (China); International Indemnity Ltd. (Bermuda); Johnson & Johnson-Merck Consumer Pharmaceuticals Company; Laboratorios Prosalud S.A. (Peru); MCM Vaccine Co.; Merck and Company, Incorporated; Merck Capital Investments, Inc.; Merck Capital Resources, Inc.; Merck Enterprises Canada, Ltd.; Merck Foreign Sales Corporation Ltd. (Bermuda); Merck Hamilton, Inc.; Merck Holdings, Inc.; Merck Investment Co., Inc.; Merck Liability Management Company; Merck-Medco Managed Care, L.L.C.; Merck Resource Management, Inc.; Merck Sharp & Dohme (Europe) Inc.; Merck Sharp & Dohme Industria Quimica e Veterinaria Limitada (Brazil); Merck Sharp & Dohme (New Zealand) Limited; Merck Sharp & Dohme Overseas Finance N.V. (Netherland Antilles); Merck Sharp & Dohme (Panama) S.A.; Merck Sharp & Dohme Peru S.C.; Merck Sharp & Dohme (Philippines) Inc.; Merial Limited; MSD International Holdings, Inc.; MSD (Japan) Co., Ltd.; SIBIA Neurosciences, Inc.; The O'Hare Group, Inc.

Principal Competitors: Abbott Laboratories; American Home Products Corporation; Amgen Inc.; Baxter International Inc.; Bayer AG; Boehringer Ingelheim; Bristol-Myers Squibb Company; Eli Lilly and Company; Express Scripts, Inc.; Glaxo Wellcome plc; Monsanto Company; Novartis AG; Pfizer Inc.; Pharmacia & Upjohn, Inc.; The Procter & Gamble Company; Roche Holding Ltd.; Schering-Plough Corporation; SmithKline Beecham plc; Warner-Lambert Company.

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