

# Interview with Harald Stock, CEO, Grünenthal

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You arrived at Grünenthal fairly recently, in January of this year. What was it about the company that attracted you to the position?

That goes back to 1987, when I made up my mind what my high school major and college degree was going to be. At that time, Germany was still considered to be the pharmacy of the world. I had always wanted to play a role in one of the successful German healthcare companies. I started my career with Boehringer Mannheim, a German company that was later acquired by Roche. This trend of acquisition has continued, and today there are far fewer research based German pharmaceutical companies than when I started my career. When I got the call a year ago that I could head one of the five remaining research based pharmaceutical companies in Germany, it did not take me long to accept the offer.

Did you feel like you had to adapt to the position, or was it something you were ready to take on?

I would say it was a mixture. I think that one of the biggest management traps is that executives feel too confident about what they can achieve, and too self-confident. I try to challenge myself every day. When I come into my office or visit a Grünenthal site somewhere on the planet, I always remind myself to be humble and make sure that I understand the huge responsibility that I have. On the other hand, I have spent nearly fifteen years in various areas of the healthcare industry, from OTC to pharmaceuticals, and from diagnostics to medical devices, and I was always blessed with the opportunity to learn and to have great teams supporting me and producing great results. In the end that qualifies me, but at the same time it is important to maintain one's humility and

accept the responsibility for turning such a big wheel.

What would you point to as the three most important milestones for Grünenthal over recent years, both nationally and internationally, that have helped the company achieve the position that it is in today?

We are amongst the top three companies worldwide in pain management. There were two historic drivers that helped the company achieve this. Firstly, our position is due to a very early internationalization of the company, particularly capitalizing on the Latin American region. Today, over 83% of our revenues come from outside of Germany, which leaves us in the unexpected position of our home market competing with France for title of Grünenthal's largest market. The second milestone was the decision to focus the R&D efforts on central acting analgesics, to maintain the momentum and show perseverance. Over the last ten years, my colleague Eric-Paul Pâques, head of the Global Products division, have built with his team a base of incredible knowledge on central acting analgesics, and that is the foundation for our leadership in the pain management sector. The third milestone for Grünenthal has been the year 2009, not necessarily because I arrived, but because we launched Tapentadol, perhaps the only blockbuster that will make it to market in the early 2000s. Together with our partner J&J we have launched that the drug in the US, and it will launch in Europe next year. That will drive growth, which is a great opportunity for us, and will help Grünenthal to double in size in the next five years. In parallel, throughout 2009 the company's management structure is being completely restructured. By the end of this year, Grünenthal will have a three-tiered structure, with external management, an external supervisory board and then the shareholders group of the family, which will be a very professional foundation that will allow the company to exploit the growth opportunities that it has. You mentioned that 83% of Grünenthal's revenues come from abroad.

Given that level of international development, how difficult has it been to maintain the German roots of the company, and how important is that for the company today?

The German roots are very important in respect of the research and development capabilities and the technical capabilities that Grünenthal has in the country. I believe that this is very much rooted in the German culture and the German educational system, but I also see challenges here in terms of maintaining this level of quality, not only for us as a company but also to have an environment in the country where talents want to stay, and not want to seek opportunities abroad. Keeping its German core is very important to Grünenthal, and the company is very much committed to maintaining this and exploring it. We invest heavily in personnel development, from collaborations with universities, to taking around 35 apprentices on board each year. On the other hand,

Grünenthal's strategy needs to strike a balance, because what fits for Germany does not necessarily fit Ecuador, Italy or Spain. To be rooted in Germany but still be open-minded internationally is a constant challenge. To send a signal to the organisation, of my first nine months at Grünenthal I will have spent about half my time in one of the international affiliates. Reaching out to the affiliates is one of the important things that we at Head Office can do to make the people at the forefront of our business more successful, and so I promised to visit all the 34 affiliates that we have. At the moment I am in the mid-20s, so I will have only missed five or six by the end of the year. I have gained some extremely valuable insights, but it was also a signal for everyone to reach out and support the people at the front, those who see the customer day in and day out, because that's what it's all about. As well as having 34 affiliates worldwide, Grünenthal also sells its products in over 100 countries. This is an example of the success of the company's licensing and partnerships, another of which was the development of Tapentadol with J&J.

How does Grünenthal go about selecting its licensing partners, and what do you think makes the company the partner of choice in the international community?

The selection criteria are based in both hard and soft facts. Hard facts in the respect that we really want to understand the global reach of our partners and their capabilities to exploit the potential of our proprietary compounds as much as we can. What makes us the most valuable licensing partner in the pain environment is our full pipeline. Grünenthal is one of the only pharma company who is struggling with the capacity to get all the molecules through the pipeline, which today is a luxury problem. Our size allows us to maybe have two compounds in parallel in Phase II and III development, but not necessarily a third one. We already struggle with two, so the company needs to go out and license, which also helps us to accelerate the business' international spread. For example, the J&J partnership with the US, Canada and Japan is very valuable for us to exploit what is about 65% of Tapentadol's global market potential.

How has the launching of Tapentadol affected the pipeline, and how do you think it will develop in the years to come, given the potential for blockbuster status the drug has?

On one hand it's proof of concept. Research and discovery capabilities have a life cycle. An organisation has a ten to fifteen year timeline to develop and fully exploit their knowhow about a class of molecules and a receptor structure. Grünenthal is in its 12th or 13th year, and is about to fully exploit its potential.

As we've said, Germany's position as pharmacy of the world appears to be in decline, but how do companies like Grünenthal disprove this, and what can be done to change the fortunes of Germany

as a pharmaceutical innovator?

What made the Germany's decline as pharmacy of the world was definitely due to global German players being acquired in rapid succession: Boehringer Mannheim was acquired by Roche, Aventis turned out to be the host for Hoechst, and Schering got acquired by Bayer in a German consolidation. I think that out of the five remaining players: Bayer, Boehringer Ingelheim, Merck, Grünenthal and Merz, four are family owned, private companies. Over the last two decades, consolidation was very much driven by a value logic of the capital market: Big 'Company A' acquiring rather big 'Company B', and trying to slash costs: it was not necessarily centred on what was best for the patient. It was not meant to drive innovation. Today, the portfolio of the larger pharmaceutical companies is increasingly externalised. These companies have the muscle to bring products to market, and they have the size to slash costs and therefore provide earnings per share, which is what the capital market is all about. In the end, it's not about innovation: a company needs stamina to achieve innovation, and family owned companies have the fortitude to really drive innovation, and that's what the four companies prove. Boehringer Ingelheim will replace Plavix with their new molecule, Merz has achieved great things in the field of Alzheimer's, Merck has been incredibly successful with Erbitux, as has Grünenthal with Tapentadol. There are not many comparable success stories in the last five years, and it has all come from family owned pharmaceutical companies from Germany. That's something Germany can be proud of.

What do you think are the challenges and opportunities within the German market, particularly for this kind of innovation?

To constantly drive innovation the battle is for talent: scientific talent as well as business talent is migrating from Germany. The migration of top talent to Switzerland, the US, and Australia is very significant, so the country needs to foster a political and business environment that really keeps and nurtures its talent. In terms of capitalizing on the innovation, the German market environment is probably one of the toughest, but regulation is at least predictable. For example, Grünenthal knows when the patent cliff hits the company will have to explore new areas such as contracting. Of Grünenthal's 34 affiliates, 33 of them show year-to-date growth in the high single digits and into the double digits. Only Germany is letting the company down right now. This decline in our home market is because of the tough environment. Cost containment is not the fix for healthcare systems. It is rather about selecting what drugs are to be reimbursed and taking personal responsibility as a patient. I truly think that more copay will definitely improve healthcare in Germany, and that will be beneficial for companies as well as society. Do you think Grünenthal as a company has a responsibility to working towards solutions to these problems, or do you think it

should be more left to the powers that be? Pharmaceutical companies have a responsibility that goes far beyond providing innovation and having the systems in place to find it. One of the reasons that family owned companies are so successful on top of their stamina is that they do not want 'growth at any cost'. What is very special in private companies is a very rooted values system. Companies like Grünenthal adhere to their responsibilities for the communities they create around them. It's also about our history. Grünenthal has a very special history with thalidomide. This is an area where the company does not simply want to meet regulatory and legal standards, but to exceed them. We know that we have to demonstrate day in and day out that we have learned from our past, and what was probably the biggest tragedy that led the whole regulatory system to tip. It also means that pharma companies have to interact with governments to really shape the healthcare system, and to give back and contribute to society. That is a responsibility that we all have, and is part of the business, not necessarily a society fact or a PR gag. Germany is today rightly proud of its position as the second largest biotech hub in the world.

What do these opportunities in the home market mean to Grünenthal, and how will biotech affect the future development of the business?

Maybe I am counter-cyclic, but I am not a big fan of the fact that people say that biotech is the next future. I think biotech per se is one of the enabling technologies that the industry has. Be it high throughput screenings and small molecules or genomics testing, biotech will be one of the enabling technologies that we have at our disposal in the future. I wouldn't call it a hype, but it's close, and the reality is that there are very few standalone biotech companies today that are really turning a profit. There are a lot of biotech start-ups that are focused on providing enabling technologies for larger companies.

Is that something that Grünenthal is interested in, especially in this climate of mergers and acquisitions?

Organic growth is definitely high on the company's agenda, but if there are opportunities, we have the capital for a strategic move that would give us access to new capabilities or a larger regional reach.

You've already alluded to your plan for the next five years, but if we were to come back and see you in five years time, what would you like to say that you have achieved at Grünenthal?

Firstly, to ensure sustainability, capitalizing on the potential of our great pipeline. This will need a cultural evolution in the company in order for it to be even more outwardly focused, and foster what we at Grünenthal call a winning culture: winning our customers but also winning our

employees for the company. Coming back in five years, I want us to be able to have the financial capabilities to have at least four molecules in our pipeline.

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