CEO EXCHANGE PROGRAM #409

“THE PROGNOSIS FOR HEALTH CARE: Is the Industry Alive and Well?”

FEATURING GERARD KLEISTERLEE AND FRED HASSAN

TAPED ON APRIL 24, 2006 AT RUTGERS BUSINESS SCHOOL IN NEW JERSEY

TEASE
New drugs and technologies have people living longer and better. But who should pay for modern day medical miracles? From the Rutgers Business School, Gerard Kleisterlee of Philips Electronics. “Healthcare is an issue for society. People that can pay should pay.” And Schering-Plough’s Fred Hassan, “the diabetes epidemic that people are talking about, is going to be a real issue.” That’s next on CEO Exchange.

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One world, many ideas, inspiring the next generation, shaping trends and forging the future, ideas that change the way we live. CEO Exchange. And now your host, Jeff Greenfield.

JEFF GREENFIELD
Thank you. Thanks and welcome to CEO Exchange. I’m Jeff Greenfield. Now if you wanted to greet a new CEO with two of the most daunting challenges imaginable, try these. First, turn around a company hemorrhaging money, and second, put that company in whole or in large part, in the field of healthcare, where what you are providing literally goes to the core of your customer’s personal and financial well-being and where government may have as much to say about what you do and what
you earn as the marketplace. Both of our CEOs are grappling and have grappled and will grapple with both of those challenges. And that means, that our guests today, not only have to think about bottom lines, and share prices and employees, they’re making decisions in highly competitive marketplaces that effect the wealth and the health of nations.

Fred Hassan is now with his fourth large pharmaceutical company in the past two years, just as he did in his earlier post, he’s brought back a healthy balance sheet to a company that was struggling with unbelievably staggering losses. But he faces stark challenges from the costs of developing new drugs, the difficulty of getting FDA approvals, and the loss of patented products to the generic market. We’re going to chatting with Fred Hassan, Chairman and CEO of Schering-Plough Corporation in just a few minutes. But first, the CEO of one of the world’s largest conglomerates. The late comedian, Rodney Dangerfield, was famous at complaining that “he never got no respect.” Now you might say the same thing about Royal Philips Electronics. The Dutch company invented the CD, and the DVD and the cell phone, only to have other companies reap far greater rewards. Today, it’s fighting hard for the coveted label “Cool” in its products. Its design labs have been compared with the likes of Apple Computer and Sony, even applying its magic touch to traditional segments. It sells more light bulbs and electric shavers than anyone else in the world.

Most notably, it is now staking its claim as a world leader in high tech medical devices like MRI machines and defibrillators. Gerard Kleisterlee is well on his way to engineering a new image for Philips, based on the theme “Sense and Simplicity.”

GERARD KLEISTERLEE BACKGROUND PACKAGE
“And all of that is just meant to make the hospital more efficient and the patient experience more pleasant.” At a trade show in Chicago, Philips CEO, Gerard Kleisterlee is radiant in describing his company’s ambient hospital room, a soothing place for patients who need an MRI or CAT scan test. “We sell the lighting, the sound, the imaging, so it’s four or five Philip’s divisions, working together, moving their people around the table and brainstorming.”

Medical systems is the fastest growing division at Philips, now accounting for about one-quarter of the Dutch company’s sales. “If you look at demographics, as the world gets older, the world needs more care.” Philip’s is best known around the world for its consumer electronics products, like DVD players and flat screen televisions, as well as lighting, from simple light bulbs to much more illuminating designs.
“The color of the light is coming from the actual inside of the shade itself.” And Philips seems to be everywhere. It developed the best selling Senseo coffee maker with Sara Lee, and it owns Norelco.

KEVIN SMITH, CEO EXCHANGE
Even though Philips has been making products for every day use for more than a century, it’s been saddled with a reputation of being kind of stodgy, not really hep or trendy. Kleisterlee has sought to change that by giving Philips a new slogan, “Sense and Simplicity”, designed to conjure up images of products that are easy to use and easy on the eyes.

Philips now hammers home this “sense and simplicity” theme across all of its product lines. Like its portable home defibrillator, to prevent fatal heart attacks. “One pad from the yellow plastic liner...”, and the famed Philips Labs back in The Netherlands are focusing on an array of eye-catching devices.

CHRIS POWER – INTERNATIONAL EDITOR
They’ve created a flat panel TV that hangs on the wall, but that doubles as a mirror, which is really fabulous. And then they have another TV which creates a kind of ambient light in the room when it’s on, and then again, that’s an example of taking the lighting technology and merging it with the consumer electronics technology.

Just as Kleisterlee became CEO in 2001, the tech bubble was bursting. In his first year, Philips went from record profits, to a $2 billion dollar loss.

CHRIS POWER
What he found was fiefdoms, sprawling conglomerate, history of losses, too many employees, not enough focus.

Kleisterlee transformed 30 disconnected divisions into just six today. Between sectors that were sold and layoffs, Philips shrunk by 60,000 employees, to its present level of about 165,000.

WILLIAM HOSTEIN - FORMER EDITOR-IN-CHIEF
Ironically, you have to be an insider to stand the company on its head and to transform its culture, because if an outsider came in and tried to do it, the resistance would be enormous.

An insider indeed. Born in Germany to a Dutch father and a German mother, Gerard moved to this house in The Netherlands, right after World War II. He was an outsider then, because of his German roots. Kleisterlee’s father was floor manager at
this Philip’s plant. After training as an electrical engineer, Gerard joined Philips too. “I decided to go to Philips because there they offered me a job at the shop floor, and it attracted me to be in the middle of people and do really tangible things rather than continuing an engineering route.”

Philips was founded in 1891 as a light bulb company by two Dutch brothers. Now that Kleisterlee has navigated a far bigger Philips through troubled waters, the company has returned to profitability. A reflection of the “sense and simplicity,” that not only defines Philips but also its CEO. In Chicago, I’m Kevin Smith for CEO Exchange.

JEFF GREENFIELD
Ladies and gentlemen, please welcome the President and CEO of Royal Philips Electronics, Gerard Kleisterlee. (Applause) Welcome. There are some people who have been on this program who have said in so many words, that they began their career with the express intention of hitting the corner office. Did you?

GERARD KLEISTERLEE
Not at all. For many, many years I would say I thought that people in the boards or CEOs were people from a different planet. I mean they knew how to do things that I never would be able to do. And as you get closer to it, you start to discover that for everybody water normally boils at 100º C and these people have no more magic than, yes, it’s experience, it’s skill, it’s hard work. And particularly the ability to lead a team, to motivate people, to energize an organization, and we don’t talk a lot about vision, etc. And yes, there needs to be something of a vision of the future, and there needs to be strategy, but my remark about strategy is usually, “the best strategies have been written down with the benefit of hindsight by somebody who has been successful in doing something.” So, to me the whole thing is trying to enjoy what you do while you’re doing it, with your team and doing something successfully and don’t forget you own the road. That got me to where I am.

JEFF GREENFIELD
When you got the corner office and you became CEO, almost immediately the company that you had spent your entire adult life in, which had been doing fine up through 2000, it’s almost as if you walked into the corner office and the floor disappeared. You had the high tech sector collapse, profits turned into losses. There were huge cutbacks. It wound up with 60,000 fewer employees. And I’m wondering whether in those first months, you ever thought to yourself, “You know this is not what I thought this would be like?” And more to the point, how did you retain your morale and your company’s morale when what you were dealing with in those first months was so daunting?
GERARD KLEISTERLEE
If there is one quality, probably that got me ultimately to where I am today is that, and particularly in times of crisis, I keep a fairly cool head. I don’t sleep less than I need to do. I’m not panicking. I’m just focusing on, okay, this is the set of issues that we have at hand, who are the people that can help me to get to the solutions?

JEFF GREENFIELD
But when the company with its couple of 100,000 employees, looks around and sees tens of thousands no longer there, some were absorbed, but some had to be let go, is there a special message you have to communicate to the folks who work under you that, look this was necessary surgery. It’s going to save the company?

GERARD KLEISTERLEE
I think that the starting point is that you’re always respectful to people and thankful for the contribution that they have made to the company. People look at the aggregate numbers and then in those first two years, head count in Philip’s decreased by about 60,000 people. About half of that was healthy businesses, that we felt did not fit the portfolio, so people went to a different ownership, but they kept their job and sometimes the new owners were better parents than we were, and invested more in the business.

JEFF GREENFIELD
Let me turn to a specific thing that won my heart when I read about it. You gave a lot of your products to some, I guess some 100 of your top managers and you said, “Here’s the user manual, here’s the product, take it home for the weekend, try and make them work.”

GERARD KLEISTERLEE
That was in the early days of the wireless connectivity hype, and we had a wireless router, and I don’t know if anybody in the audience ever has tried to set up two, three years ago a wireless router. Yeah? Okay so you know what I’m talking about.

JEFF GREENFIELD
See a lot of nods out there.

GERARD KLEISTERLEE
So, we had a meeting during the week and I said to all our executives, “here’s your gift for the weekend, enjoy the weekend.” (Laughter) And after the weekend, there was one that had managed.
JEFF GREENFIELD
But it seems to me that that speaks volumes, because I believe it’s one of your signature themes is that this stuff is too darn hard for most people to use, not just the wireless router.

GERARD KLEISTERLEE
When you talk with people about the advantages of modern technology, they all want to enjoy the functionality, the potential that it gives to us, but they all say, “if only it could come in a more simple way.” And that holds for a thing like a wireless router, but it equally holds let me say for the operating nurse in a hospital, who has to get familiar with a new piece of MRI, a complicated scanner. I was in a hospital the other day where we had done a whole new room, a Cath Lab, where they do complex heart surgeries and investigations. By using our lighting skills, by using wireless technology, by using speech processing, we could create a working environment for the doctor, that would allow him to treat his patient better, faster and more efficient.

JEFF GREENFIELD
There’s a famous urban legend about big electronics companies like GE, Westinghouse maybe yourself, that there’s a patent for an eternal light bulb, that you guys have bought up and locked away, so that you won’t sell it, and it turns out you are making – Philips is actually making a light bulb that lasts 10 years.

GERARD KLEISTERLEE
Actually, we’re advertising long life light bulbs. And again, we try to give the consumer a choice. You can go and buy a Chinese light bulb, it’s much cheaper than ours, it lasts 1000 hours. You buy an average light bulb, Philips brand, it lasts 3000 hours, you pay something more, you get a long life light bulb that lasts 10,000 hours. And if we go a step further, I mean the next future of lighting, solid state lighting, we put solid state lighting solutions in places that are difficult to service, that have to last 10 years or more.

JEFF GREENFIELD
I just wanted to point out that it’s no longer locked away in some dark office. You’ve opened up –

GERARD KLEISTERLEE
There’s nothing locked away.

JEFF GREENFIELD
Okay. My grandmother, may she rest in peace, I’m not sure she’d believe you, but I do. (Laughter) Before meeting our second guest, we’re going to take a question or two
for Gerard Kleisterlee, from students and other members of the audience here at the Rutgers Business School.

FROM THE AUDIENCE
Hello. My name is Tara […]. I’m a student here as well as a work full-time in the pharmaceutical industry. My question for you is regarding the hot topic of outsourcing. How important has outsourcing been as a strategy for Phillips and how effective has it been in cutting costs?

GERARD KLEISTERLEE
Outsourcing has been very important for us in the whole consumer electronics value chain. And for that, you don’t need to have a huge manufacturing and engineering change. But for example, in lighting, where we do very sophisticated lighting solutions, and part of our value is in the manufacturing process, we don’t outsource. We invest in our own manufacturing, because that’s how you make your profit.

JEFF GREENFIELD
Thanks for the question.

FROM THE AUDIENCE
Dorothy […], Managing Principle of DJS Associates in West Deptford, NJ. Mr. Kleisterlee, Royal Phillips Electronics has 160,000 employees in over 60 countries. And there are various cultures in those countries. How do you manage a workforce that crosses so many boundaries and cultures and have one coherent and successful culture?

GERARD KLEISTERLEE
We have been around the world for over 80, sometimes more than 90 years, in Latin America, Asia, and the United States. Having local leaders, and in particular with respect to talent, talent development is a local issue. Only at the top, international management development and career management is something that we do centrally, for the latter part of the organization, but bringing up the local talent is very much through the local organization. And the result is that if you go to Brazil, people think Phillips is a Brazilian company, and we are a very very well known brand there. If you go to Spain, people think Phillips is a Spanish company, and I think if you have that combination of local and global, I think that’s the way also to attract the best talent from the local market and give them the opportunity to make a career in Phillips.
JEFF GREENFIELD
Thank you. Gerard Kleisterlee will be back with us very shortly after we meet our second guest. For now, we'll see you in just a couple of minutes. Thank you. (Applause) Gerard Kleisterlee.

Now if anyone knows the pharmaceutical business, it is our next guest. He’s now at his fourth different pharma giant and he’s been CEO of two of them. Born and raised in Pakistan during a period of political turmoil, Fred Hassen was educated at the University of London, and the Harvard Business School, before taking his first big industry job in Nebraska. Now that is a multicultural background. Known as a turnaround specialist, Fred Hassan’s strength is returning ailing companies to good health.

FRED HASSAN BACKGROUND PACKAGE
The Chairman and CEO of drug giant, Schering-Plough, is known as a turnaround specialist, with a reputation for taking on challenges and succeeding. But he is perhaps the most easily recognized by his attire. Always a red tie, always a white shirt, and the constant gray suit, though varying in shades. And then there’s that background in chemical engineering, that just might give him away in the lab.

“The molecule that we have right now is not the one that we talked about a few years ago, because that one had some hepatotoxicity or some – there was some issues with that one. But that happens in our business all the time.” Fred Hassan took the helm at Schering-Plough in 2003, after it was slapped with the Food & Drug Administration’s biggest fine ever. Half a billion dollars! In addition to the fine for manufacturing problems, it faced a separate $346 million dollar fine for Medicaid fraud.

“If I can go into a place like Schering-Plough, and see the company get better around me, and in the process we also bring out some good drugs for people, then I feel very fulfilled.”

It took some effort to get there. Hassan cut 1700 jobs along with bonuses and raises and slashed the dividend to save cash.

LES FUNTLEYDER – HEALTHCARE STRATEGIST
Clearly, there are things moving in the right direction. It was a big job. It’s hard to say that any big pharma executive has done an excellent job, maybe with the exception of the CEO of Novartis. It’s been a very tough time to be in big cat pharmaceuticals in the U.S., and I think we can give him a “B” to be “B+”.
Hassan’s quest for tough challenges may be inherited. Born in Pakistan in 1945, Hassan learned from his mother, a women’s right advocate in the male dominated Muslim country, and his father, a diplomat who served as Ambassador to arch rival, India. But Hassan’s English he learned from Elvis movies. “I used to have an uncle that had one of these things, I fooled around with it some.” After earning his MBA from Harvard Business School, Hassan moved to Nebraska to join Sandoz. Fifteen years later, rising to the CEO job. He then took over Pharmacia and Upjohn in 1997 cleaning up a messy merger of two drastically different cultures. After Hassan’s success, at Pharmacia; enticed Pfizer into acquiring it, he took on the headache of Schering-Plough.

JILL BENNETT – CEO EXCHANGE
Schering-Plough develops a number of drugs you probably already heard of. Clarinex for allergy sufferers, nasal spray Nasonex and Remicade, for rheumatoid arthritis. But a number of industry watchers say the future of the company really depends on its line of cholesterol drugs Vytorin and Zetia.

AMY BARRETT – BUSINESS WEEK
Vytorin has been a tremendous success. It’s a combination of two drugs, Zocor, which comes from Merck, Zetia which comes from Schering-Plough. So his challenge is to take the wealth created by the Vytorin success and translate that into a broader portfolio.

Hassan spent $1.8 billion dollars last year in research and development with cancer drugs high on the list. “We’re engaged very actively in the specialty market for cancer, hepatitis C, inflammation, but we’re also looking aggressively to expand on our cholesterol franchise. That’s a huge market and we’re doing well in that area.”

The cost of developing a new drug is more than $1 billion dollars with a lengthy FDA approval process. Hassan believes patients are the ones who suffer from the inevitable delays. “If we’re very cautious about everything and we ask for more data, then we can keep waiting and waiting and waiting and the drug doesn’t show up for the patients who are waiting.”

With Hassan’s reputation for taking on tough causes, a healthcare overhaul may be a worthy next act. In Kenilworth, NJ, I’m Joy Bennett of Business Week for CEO Exchange.

JEFF GREENFIELD
Ladies and gentlemen, please welcome the Chairman and CEO of Schering-Plough Corporation, Fred Hassan. (Applause) Thanks for being here. I’m a little skeptical of
people who always look back to explanations for how someone gets to where he or she gets, but I’m wondering with a mother who was involved in women’s rights in Pakistan, decades ago, and a father who was a diplomat, which of those two impulses do you think were most significant for a future CEO? The art of diplomacy or the art of taking on one heck of a challenge?

FRED HASSAN
You shape what you want to shape in life. And I learned that from my parents, because my mom was a women’s right activist, advocate, at a time when it wasn’t fashionable to be an advocate. And that’s one of those things that I learned along the way that you do what you think is right and don’t just let people dictate to you what they think is right.

JEFF GREENFIELD
You had this remarkable record, really starting when Sandoz sent you back to Pakistan to fix a problem, and they were so impressed, they brought you back and gave you a significant job back in the U.S. You moved to a couple of companies where you had the success and turned it around, but at least on two occasions, if I read it right, you left because you wanted to run a company. What’s that impulse?

FRED HASSAN
If somebody gives you an opportunity to be a public company CEO, that’s a very interesting challenge and also to be looking at a company that’s in deep trouble, that’s even more exciting. So I’ve had this tendency to take on challenges and I don’t understand why I want this punishment again and again, but I (laughter) do.

JEFF GREENFIELD
You’re the new kid on the block at Schering-Plough in the midst of that. Here are some of the first things you do. 1700 layoffs, all raises and bonuses canceled, quarterly dividends slashed from 17 to 5-1/2 cents. And then you say, “Well here I am!” (Laughter) Now the obvious question is, how in a situation when you have to make those kinds of choices, right out of the box, you then turn to shareholders, customers, workers, employees, other executives and say, “it’s going to be okay”?  

FRED HASSAN
You have to deal with the issues of the past. You have to deal with stopping the cash burn, which in this case was very serious. And then you need to still develop that vision, so that people can see the light at the end of the tunnel. But all three have to be done at the same time. And I found in my turnaround situation, if you can be very frank, very open about everything, investors in fact, believe in you. And they give you a lot of time, a lot of space. And I did get that, after coming here.
JEFF GREENFIELD

You also brought in a number of people, who, and this is something you’ve done in other companies, people that you knew that had worked with you at other companies. How do you communicate to the people who are still there, that this is not a feeling of rejection?

FRED HASSAN

You can’t have a team A and a team B. So what I do when I go into a new situation, I take some urgent action steps, usually when I see some obvious holes where some management changes have to be made, I make them very quickly. That’s my first wave of change. Then later on, once I’ve had an assessment of the rest of the team, there may be a few more that might have to be changed, and I make those changes. And I try to give the existing people the first opportunity for these jobs. In many cases, it is necessary to reach back to my past, and ask certain people to come and join me, because I’m in a bit of hurry at that point. I don’t have too much time. And when you’re not sure, you go with somebody where you know you can rely on them to come through.

JEFF GREENFIELD

Ever since 1997, the pharma industry has been allowed to advertise on TV, which is why on the news, which appeals to older people, every ad suggests that our bodies are falling apart in one way or the other, which may be true. And spending $4.6 billion dollars a year on ads, the impulse is to get consumers to go to their doctor and ask for prescription drugs, that this is an industry-wide attempt to make more money, but it’s actually building more costs into the whole system. What’s your take on that criticism?

FRED HASSAN

I think the industry now is starting to see their role more at direct to consumer education, and you will see that certain categories of medicines are now being approached in a totally different manner than they might have been even two years ago. For example, erectile dysfunction products are now being brought in as medical products. It’s a real serious issue for those who have the issue and, usually like in our case, we’re saying, “hey if you have blood pressure, diabetes, if you’ve got a cholesterol problem, you may have that condition. Go and talk to your doctor.” That’s quite different from selling a lifestyle message.
JEFF GREENFIELD
If your company can come up with a cure or the pill, that cured baldness, you could make gazillion dollars. I would suggest. Even though curing baldness might not be as significant as say a cure for – you know, a pill that would handle colorectal cancer, or something like that. Is there anything to the argument that what’s most profitable for a drug company to help people with, may not necessarily be the most medically significant thing to do?

FRED HASSAN
I think it’s to the eyes of the beholder. If you look at people who suffer from baldness, I’m sure they’d be very appreciative if they had access to a product that would help them in that area. And certainly, those who suffer from serious diseases, like cancer, they desperately need new drugs. It’s very hard to set priorities and just say, we’re only going to do this work, and not do the rest. And we also have to be careful about this other industry that exists out there. There’s a lot of advertising going on, especially late at night, of all this alternative medicine stuff. It’s better that we sell real good products than products that are not validated by science. So, I think we still have to think about baldness, but obviously, companies like ours, pay the highest priority to specialty products, where the biggest advances are still needed.

JEFF GREENFIELD
When the federal government buys anything, desks, computers, paper, books, it uses its purchasing power to get volume discounts. In the prescription drug bill that was passed, a couple of years ago, the Congress specifically forbade or forbad, the federal government from using its purchasing power to negotiate for lower prices of drugs. This is not to set the price, but just to do what they do in every other field. Why is that okay?

FRED HASSAN
I think if the federal government becomes a very large part of the system, which is likely to be the case by 2008 and beyond, about 50% of the system is going to be influenced in some manner by the government, the industry is apprehensive that that might be direct entry into price controls, if they start negotiating prices directly with us. And when you look at countries which suffer from price controls, like Canada, you see very little innovation there. And I think in the long term, patients are going to be hurt because if the innovation dries up, then I don’t think you’re going to get the new medicine that people are waiting for.

JEFF GREENFIELD
There are some horrible illnesses that afflict particularly people in the Third World, for which there isn’t a market. River Blindness, as an example and other of these
intestinal diseases, that take their lives, and literally, a few thousand children a day. If you’re not the Gates Foundation, Bill and Linda Gates, or a public form, like a government, nobody is going to develop a drug to fix that, because it’s going to cost way more money than anybody can possibly pay for it. How do you resolve this?

FRED HASSAN
I think we all need to work together on this. First of all, the regulatory framework for some of these diseases is not very clear. Secondly, sometimes the diseases are caused by the local infrastructure or the local lack of health literacy, as opposed to lack of medicine being available.

Where the industry can make a difference, we really have to come forward and make a difference. I think Merck has done a great job on a River Blindness. I know many companies are doing a great job on HIV AIDS in _____ and Africa, and where we can make a difference, we should try very hard. But I think it’s a much bigger picture than just medicines.

JEFF GREENFIELD
Just want to know. George Kleisterlee will be back in just a few minutes, but first we want to take a tour of the Rutgers Business School with MBA student, Sonya Meta.

SCHOOL TOUR PACKAGE
(Music) Hi, I’m Sonya Meta, MBA student at Rutgers Business School here in New Jersey, the Garden State.

Rutgers Business School has a rich tradition of educating future business leaders over a 75-year history. But that’s young compared to the University itself. Founded in 1766, Rutgers is the 8th oldest college in the nation. Rutgers is one of the only schools in New Jersey with an MBA concentration in pharmaceutical management. With most of the leading pharmaceutical companies like Merck and Johnson & Johnson, located right in our back yard, it’s not surprising that our pharm school students have the best advantage in moving their careers forward.

Business Week magazine ranks our executive MBA program 5th in the world in the area of strategy and 6th in the area of finance.

You know, I think what impresses most about Rutgers is the personalized attention that you get, not only from your peers, but also from the faculty and administration. I can still remember the first day that I walked into school and everyone knew my
name and I was kind of, you know shocked, I felt like a celebrity. And we’re just across the Hudson River from New York City, the business capital of the world.

Wow, I didn’t realize it was so late. I’ve got to go to class, but thanks for joining me on this tour. Good bye.

JEFF GREENFIELD
So let’s thank Sonya Meta and the Rutgers Business School for being such gracious hosts. Thank you very much. (Applause) I suspect there are several tens of millions of us who really care a lot and want to hear more about the costs and benefits of advances in healthcare. We have the benefit of having these two CEOs with us together and this is going to cost you nothing, super generic. So Gerard Kleisterlee, please come back and join Fred Hassan. (Applause)

I want to stay with the theme of advances in costs and in the long run, isn’t it far better, rather than developing say a magic pill or a biotech, nano technological device, to say cure obesity, to just try to figure out how to get people to stop stuffing their mouths full of unhealthy food, so that they walk around 60, 70, 80 lbs. overweight, increasing the risk of heart disease, diabetes, you know, all of those things? I mean is not part of our healthcare dilemma, that we just don’t take care of ourselves?

FRED HASSAN
This is a major issue and I think the diabetes epidemic that people are talking about, is going to be a real issue, not only for the patients, but also for the funding of the healthcare system. We’re looking at the whole generation of kids who are growing up overweight and they’re looking at diabetes down the road for themselves, and that’s a very expensive disease that society has to pay for.

There is a pressure building up on the healthcare system in terms of costs and just more people being ill, that’s not going to be sustainable, if we don’t deal with certain issues like diabetes.

JEFF GREENFIELD
A while ago my doctor suggested I get a cardio MRI, that’s not the name of it, but it’s this relatively new device where you get your entire cardiovascular system checked out. It took 10 minutes. It was painless and it cost $500 that was not covered by my insurance company. I’m lucky. They overpay in television. (Laughter) But I was thinking as I wrote out that check, that if my doorman, or somebody who works in a fast food operation, went to the doctor complaining of chest pains, there is no way in
the world that person is going to be able to write – spend $500 for a 10 minute process. What do we do about this?

GERARD KLEISTERLEE
The thing that comes immediate to my mind is something I experienced in India. A doctor close to retirement, decided to do something about a huge problem for the Indian population. They have more than anywhere in the world, a problem with eyesight. Glaucoma. He set up a clinic and it’s a clinic that performs by far, the most eye surgeries in the world, where about 10% of the patients pay for their surgery. People like you and me. And they do it so efficiently, that while making a profit as a hospital, they can afford to do the other 90% for the people, for free. This works in the case of India. What I wanted to say was that, of course, healthcare is an issue for society. People that can pay should pay, and as we go on at the moment for example, in the United States, healthcare cost is about 15% of GDP; in Europe it’s around 10% of GDP. All the forecasts say it’s going to go in the direction of 20% and beyond of GDP.

So some things we will start to pay out of our own pocket. I’m not sure whether your heart MRI should be part of that, but I think that’s something where we will have to get to grips with, as a society, in order on the one hand, to make it possible that indeed, an aging population has all the ability and the support to continue to live long and healthy and on the other hand, that it doesn’t become a continuous burden to society.

JEFF GREENFIELD
A couple of years ago I banged my head. I don’t know why. I mean I didn’t go out and hit my head against the wall, I just accidentally hit it (laughter) and I went to the doctor and I said, “It hurts.” He said “I know it hurts, you banged your head.” (Laughter) I said, “I want an MRI.” He said, “You don’t need an MRI.” I said, “I don’t know, I got these headaches. And anyway, my healthcare plan will cover it.” So I got an MRI.

FRED HASSAN
In this case, Jeff not only were you insensitive to the pricing, it was not an elastic decision for you. But you probably didn’t even know what it cost.

JEFF GREENFIELD
I didn’t care. (Laughter)
FRED HASSAN
A lot of the time people don’t know. People don’t know. And I think that’s what’s causing part of the problem in the healthcare cost explosion. And sometimes providers, like the doctors, also have their own motivations, all of which may not necessarily be geared toward the best healthcare, because the way they get reimbursed by the plans, might determine what they do.

JEFF GREENFIELD
And in terms of some of the marvels that you make, Gerard, hospitals are under pressure to get the latest technology, even if they use it almost never. At least that’s what I understand. And some of what happens, I gather, is they amortize the cost of this very expensive machinery, as long as somebody is paying for it that isn’t them, they will say okay. We’ll run you through these tests.

GERARD KLEISTERLEE
Yeah, but I think that at the end of the day, market mechanisms will take care of that. You have to look at this holistically. Care cycle. That is prevention, diagnosis, treatment, after care. And it’s all of it. And only a small part of that takes place in clinical centers in hospitals. A lot of it and particularly prevention and aftercare, can and will have to take place at home. Technology allows that. Advances in medicine will allow that. And by bringing it to the private atmosphere, and by letting market mechanisms do their work, increasingly I think, we will raise – we will educate almost consumers, patients, to be responsible, to know what costs are and to make the right decisions in the interest of their own health. Then you get beyond those basics, and I think there are people who just have to make their own tradeoffs. Like people, we all know, smoking is not healthy. But people decide to smoke. If you show companies in the United States, even you get money for doing that, by – but it’s a decision that people say, “well, statistically I could live 78 years and not enjoy smoking, and statistically I could live 75 years, and smoke. I choose to smoke.” I hear people saying that to me.

But which I just want to illustrate that people do make choices about their own lives, and also about the length of it and the health of it. And then it is a tradeoff, if I want to have the best of the best. Say my eyesight is not perfect, my insurance doesn’t pay that little correction. Then it’s a choice, do I go three times a year on holiday or do I go two times a year on holiday and have an eyesight correction?

FRED HASSAN
As Gerard said, life is full of choices. If somebody wants that extra treatment or wants to have more from healthcare than they get from the basic plan, they should
have the option of doing their tradeoffs. Sacrifice the vacation, so that they can get the royal treatments somewhere else. And that’s their personal decision.

JEFF GREENFIELD
Not as you look at other markets, particularly the emerging, let’s say, Asian market, it’s going to impose new challenges on your companies that have a purely domestic CEO wouldn’t even have to think about. In your case, for instance, can you possibly market pharmaceuticals in a region like China and India, at the same pricing level and with the same marketing tools that you do in the United States?

FRED HASSAN
I think it all depends on the disease category. There are certain advanced products where we can get surprisingly uniform prices around the world, because that’s the way they are looked at. For example, a product like Remicade for rheumatoid arthritis, or some other serious diseases like psoriasis, that has more or less same kind of price structure around the world. And people are willing to pay for that kind of product. There are other categories of medicine where there is a local industry that may be selling generics, and they might be lobbying to have a different price structure and that occurs in many countries.

There are many other markets where one can actually have a very good opportunity. For example, in China, we are looking at this very interesting situation. They don’t happen to have any good antihistamines on the market there. The product on the market there is not a very good one and we have Claritin, which is a non-sedating antihistamine. Very good product, and we can now advertise this product in China, to people who are aspiring people, and as you know, they are doing well. So that kind of product might sell for a similar price in China as the U.S. and we will do very well with that product.

GERARD KLEISTERLEE
And I think that you see that in particularly the markets of China and India. If you hit the right specification point or right price point, you can gradually tap into the market and we have localized through our own development, a number of product lines in India and in China, that we wouldn’t sell anywhere else in the world. But that are particular through the status of those developing nations, and if you do that right, low price doesn’t have to mean low margin. You’re still making a very very decent profit as we should, but it is because you’re dedicated to the very specifically to the needs of those people. And that’s a huge market.

JEFF GREENFIELD
I want to turn to the audience again for a question, if you please.
FROM THE AUDIENCE
Yes, hello, my name is John [...]. I’m a business manager and a human resource professional. Both of your organizations deal in the healthcare industry and profit from rising costs, yet as employers, you must also feel the crippling cost of providing quality healthcare. How do you deal with healthcare insurance for your employees?

FRED HASSAN
I think since we are in the healthcare business, we are able to bring some very advanced ideas to our own colleagues. We, for example, encourage them to practice healthy lifestyles, dealing with knowing your blood pressure, knowing your cholesterol levels, your PSA level, being in touch with your own body is something we do encourage our employees. We also encourage employees to take care of their own management to the largest extent possible. We encourage high deductibles. We offer a range of plans, but more importantly, I think, lifestyle is very important and it’s a very important way to manage healthcare costs.

GERARD KLEISTERLEE
As a technology equipment supplier, we say, helps to contain healthcare costs, because we make more healthcare possible at a higher efficiency level. And an example where we also address this issue of staffing cost is, for example, remote monitoring where we allow people for example after a bypass surgery or something like that, to go home early, and still being supervised by the healthcare system. By their care provider, by using modern technology, modified consumer electronics technology, a central box, a broadband connection, a TV as an interface to talk with your doctor, but it makes it possible that you’re released from the hospital much earlier and at home, you recover more quickly, because you feel more comfortable.

JEFF GREENFIELD
Do you have fitness centers, gyms in your headquarters?

GERARD KLEISTERLEE
Yes.

FRED HASSAN
We don’t, but it’s not because we don’t want to, it’s just that we’re going through a turnaround right now.

JEFF GREENFIELD
Both of you gentlemen as we mentioned, have engineered pretty radical turnarounds at the companies you headed. Both of your companies were losing lots of money
when you folks got there. But one of you had to turn around a company where you spent your entire working life and one of you had moved, this was your 4th company. So here’s an easy question. Who had it easier? Who had it tougher?

GERARD KLEISTERLEE
If you had been a whole career in a company, you’ve built up relations and you understand things and you become, to some extent, part of a system. Then it’s difficult to break the system. It’s difficult for yourself and it’s difficult for the people you deal with. But and that’s one of the things, I think that I’ve been able to do throughout my career. It is taken distance from those issues and come to a – you could say, a fact-based, rational decision first, and then deal with all the emotions around it, but do what’s right for the company, because I’m convinced that’s – together with my team – that that’s the thing we have to do. But it is more difficult.

FRED HASSAN
Maybe I had a little easier time than Gerard, because when you come in brand new into a new situation, you do have more degrees of freedom, to move more quickly. The disadvantage of course, coming in new, is that you don’t know all you need to know right away and you also don’t quite have the management team around you, that will be with you two and three years later. So in that sense, you are going through a change process, but you can move very quickly.

JEFF GREENFIELD
If I’m not mistaken, one of the things you did was you closed the executive dining room.

FRED HASSAN
Very quickly (laughter)

JEFF GREENFIELD
The other distinction that I was just curious about, if either of you have ever thought about this. Staying with one company from the time you began your adult life, and being in many companies and I’m wondering is there anything about what the other fellow did that you envy?

GERARD KLEISTERLEE
One of the advantages of doing different challenges is that it allows you to reinvent yourself periodically and reinvent your environment. If you are in the same situation, then you have to find ways to recharge the system. I’ve been CEO for 9 years, but it’s been in different companies. So in that sense, it’s been a little easier to reinvent the environment than in new situations.
JEFF GREENFIELD
Well then I have to ask then, Gerard, how do you reinvent yourself, when you’re at the same place for 32 years?

GERARD KLEISTERLEE
Well, by not being in the same place. (Laughter) it is – and I think it’s one the things I always had the curiosity to learn something new and do something different than I had proven to be good at already. So in my first years, I started the manufacturing and medical systems. And after six or seven years, by the way, in three different places, I decided that if I would take on one next manufacturing job, I would be forever, for my whole career, the manufacturing turnaround manager. And I didn’t like these kind of labels. So, I said, I want to go to marketing and sales. And people said, “You’re seven years with the company, you don’t understand anything about marketing.” I said, “No, that’s why I want to go there.” And they said, “But we can’t put you at the same level in the organization.” “No, I’m willing to start at the bottom.” And then the answer was “yeah but you’re too expensive to start at the bottom.” (Laughter) Nevertheless, I did it.

And I think by making these kinds of steps, time and again, you’re able to reinvent yourself, because you move to a new territory.

JEFF GREENFIELD
This is great advice. So I work for a subsidiary of Time Warner, and what I obviously need to do is leave CNN and go join the cast of Sopranos. (Laughter)

Another question or two?

FROM THE AUDIENCE
Hi. My name is Craig […]. I’m a Rutgers graduate and I work in the pharmaceutical industry. In other industries, technology is generally used to decrease labor costs and other component costs. In healthcare, has technology reduced labor component costs?

FRED HASSAN
I think the hardest area to get the productivity increase is in the services sector. That’s the area that grows year after year after year. If you look at the way our hospital systems work, they probably could stand – they probably are targets for a lot of productivity increase. If you look at the defensive medicine costs, big opportunity for cost savings. So, when you even look at you know, ways to reduce costs in pharmaceuticals you might get one or two points out of the system, but really, you might be actually giving up the most efficient element or among the most efficient
elements in that system. It’s much more important to attract – to attack the services component, which tends to grow year after year after year.

GERARD KLEISTERLEE
And that will be very necessary, Fred. I was talking to a Professor in healthcare the other day, about trends and he was saying if we extrapolate the current trends by 2050, one-half of America will be ill and the other half will be required to take care of them. (Laughter)

JEFF GREENFIELD
Let’s take a final question or two from the audience please.

FROM THE AUDIENCE
Thank you very much for coming here tonight. My name is Mike […]. I’m a first year MBA at the Rutgers Business School, Pharmaceutical Manager program. There have been recent reports that several pharmaceutical companies, particularly European pharmaceutical companies, are readying themselves for investments in the U.S markets through acquisitions. I just want to see what your thoughts were on this matter, and as well, what this might mean for Schering-Plough which has seen recent successes in Zetia and Vytorin?

FRED HASSAN
Well, European companies have historically looked to the U.S. as a very important market, because it is a large market. It’s also the market where new products gain acceptance very quickly. The American doctors are very quick at adopting new tools and because we don’t have price controls in this country, then the medicines actually get to the patients very quickly, which is not the case even in Canada and certainly in many countries in Europe. It just happens that most of the large companies around the world are now global companies, and they have already very large U.S. operations. So in that context, you probably would not see a lot of excitement about buying U.S. properties, since they already have their own operations.

GERARD KLEISTERLEE
But reinforcing the comments you made, at the beginning of your answer, what we do see is a shift of R&D from Europe to the United States. Exactly for the reasons that you gave, Fred, because of the easiness of introduction into a large market and because of the free pricing. And that is something that worries European governments and industry, but we say from a European perspective, because we lose competitiveness on R&D. And if we talk about where should we compete, then it is, of course, on innovation.
JEFF GREENFIELD
Both of you gentlemen are a few years away from mandatory retirement. Now do you see that as a godsend? You know, in a few years, I’m going to be able to put this down, or do you think wait a second, that’s you know, who says I have to stop when I’m 65? Where are you on that?

FRED HASSAN
Well nowadays, it’s very rare to see CEOs just disappear on the golf course. I get so many approaches already on the private end, as you know, these days private equity is very popular, and they are looking for talent. They have plenty of money, there’s a lot of global capitals searching for opportunities and they’re desperate for people who know how to invest money.

JEFF GREENFIELD
So no golf course for you.

GERARD KLEISTERLEE
Well first of all, according to European law, age discrimination is illegal. (Laughter) So, as long as I enjoy doing what I do, and my wife and my shareholders, allow me to continue I will. (Laughter)

JEFF GREENFIELD
Okay and we go now before we close to what we call the lightening round. These are very short questions and I would appreciate short answers. The first thing that comes into your mind. And we don’t have blood pressure gauges cause they’re not that tough. (Laughter). Other than home, the place in the world that you most enjoy being when you’re not at work?

FRED HASSAN
(Laughter) When I’m traveling, when I’m traveling, I enjoy certain parts of the world, very much. I like Southern Europe very much, Italy, South of France, Greece very much. So –

GERARD KLEISTERLEE
Clearly the African Bush.

JEFF GREENFIELD
A job, a work, an enterprise that in your fantasy life, you might have enjoyed pursuing
FRED HASSAN
Probably in academia. I probably, it’s surprising, I used to love geography at school.
I just loved it because I could go around the world in my own mind. People,
geography, industries. I knew the climates of so many countries, so many towns
around the world, things which I never did once I started engineering.

JEFF GREENFIELD
That’s how you picked New Jersey for the company. (Laughter)

FRED HASSAN
Yeah, right, right, exactly. (Laughter)

GERARD KLEISTERLEE
Well for a long period I would have loved to build cars. Although I’m an electrical
engineer, I (laughter) love the mechanics of it.

JEFF GREENFIELD
The most memorable, enjoyable meal, where and what was it?

FRED HASSAN
Perhaps early in my years, I had a very very interesting opportunity in the UK when I
was a student there. I didn’t have a large budget, but I had the opportunity to
celebrate and I went to this thing called “The Tash Barn”, I don’t think it’s there
anymore. It was called “The Tash Barn” at that time. And it was fantastic, very
traditional British dish, the salmon, smoked salmon, the roast beef, that was a very
interesting experience, long time ago.

JEFF GREENFIELD
Perhaps the first citation of British food I’ve ever had when I ask that question.
(Laughter)

GERARD KLEISTERLEE
Years ago, with a couple of families, late night BBQ at a French beach, where all the
French were coming off the beach and all the Dutchmen were carrying the food and
the BBQ, etc. on the beach and we were the only ones there, and we had a fantastic
evening.

JEFF GREENFIELD
Is there a kind of music that you turn to when you really just want to turn off the
cares of the office and listen? Either an artist or a genre?
FRED HASSAN
Just classical, soft rock from the 60s, 50s, just I’m an old fashioned guy. (Laughter) I
don’t like the hip hop stuff.

JEFF GREENFIELD
Little Van Morrison maybe?

FRED HASSAN
You know, --

JEFF GREENFIELD
Can I picture you in the office of Schering-Plough listening the Grateful Dead?

FRED HASSAN
I don’t think so. (Laughter)

JEFF GREENFIELD
Just wanted to make sure.

GERARD KLEISTERLEE
I guess maybe I’m even more old fashioned then because I would listen to opera.
When I would get home from the office, certainly when it was a bad day, I would put
a CD in the player and I would take a libretto. I would skip to the baritone parthesis
(?) and I would shout loudly for ten minutes (laughter) and then I would turn to my
wife and say,” now it’s time for dinner.” (Laughter)

JEFF GREENFIELD
That’s a good operatic climax to this conversation, I think. I really want to thank
Gerard Kleisterlee of Royal Philips Electronics, Fred Hassan of Schering-Plough for
joining us here and thank you, thanks to the Rutgers Business School. If this meeting
of the minds has helped contribute in any way to the world’s marketplace of ideas,
that is the business of CEO Exchange. I’m Jeff Greenfield. Thanks so much for
watching. We’ll see you next time. (Applause)

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