Drug maker Merck announces 8,500 more layoffs

By Dan Brennan
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The US-based global pharmaceutical giant Merck announced Tuesday a plan to lay off approximately 8,500 employees, in addition to 7,500 job cuts previously unveiled. These cuts, which will take effect through the end of 2015, will bring Merck's total number of employees down to approximately 65,000, a staggering 35 percent decline from its peak in 2010.

The announcement came the same day that the federal government shutdown idled 800,000 federal workers, including staff at the National Institutes of Health and other agencies involved in medical research. Merck and the other major pharmaceutical companies increasingly rely on outside research for their own drug development.

The layoffs at Merck are part of a restructuring effort that will dismantle company jobs in research and development. Approximately half of a total $2.5 billion in cost savings are expected in this field. Administration and marketing jobs at Merck will also be targeted for elimination.

Most of the details about the location and timing of the job losses have not been released, though Merck indicated it will close its facility in Summit, New Jersey, which houses 1,600 employees. Currently Merck is Summit's second biggest employer and largest single taxpayer.

The company's headquarters in Whitehouse Station will be consolidated in the New York City suburb of Kenilworth, NJ. Kenilworth is also home to a recently shuttered drug manufacturing plant. Its closure this summer was part of a previous consolidation plan that included the mothballing of 16 research laboratories and manufacturing facilities after Merck's merger with rival Schering-Plough.

Merck recently suffered a number of setbacks that diminished the company's profits. The drug maker struggled to demonstrate compliance with FDA requirements for several new medications, including a sleeping drug, an anesthetic and an osteoporosis treatment. Increased competition from generic drugs and poor sales of its top selling allergy and asthma medication Singulair added to financial difficulties.

In announcing the layoffs, Merck CEO Kenneth Frazier highlighted his commitment to improving stock performance at the expense of the workforce. "Today's announcement," Frazier said in a press release, "further underscores that we are committed to improving our performance in the short term while also investing for the long term to create value for patients, customers and shareholders."

Despite all its recent troubles, Merck remains profitable, albeit at rates not palatable to Wall Street. Net income for 2012 exceeded $6 billion. However the most recent figures from the second quarter of 2013 show a 50 percent decline in profits. While 16,000 Merck employees are made to pay with their jobs, Frazier, the first African-American to head a major drug company, is handsomely rewarded. Last year he pulled in more than $15 million in compensation, including stock options. He stands to gain even more as stock prices soar.

Wall Street, in a typical reaction to news of job cuts, pushed the stock up 2.4 percent at close Tuesday. The financial newspaper Barron's estimated that shares of Merck could shoot up 25 percent from their current levels if the restructuring restores investor confidence. The projected $2.5 billion in cuts may go a long way towards that end.

The cuts at Merck accelerate a trend already well underway at the major pharmaceutical corporations to slash jobs, close down plants and disinvest from their own research and development capability. Pfizer, the country's largest drug maker, has been even more aggressive in slashing its global workforce. Since 2005, the drug company has eliminated approximately 51,700 jobs, with an additional 10,500 layoffs yet to come. They are currently in the process of closing more than a dozen laboratories and plants around the world. At both Merck and Pfizer, the research and development divisions are particularly hard hit.