the discovery of prednisone embodies the unique principle that characterizes the prednisone molecule and that distinguishes it from cortisone and hydrocortisone. Prednisone blazed a new trail in anti-inflammatory steroid therapy.

Moreover, as the discoverer of prednisone, we are even today involved in servicing that compound, continuing research with it, in seeking to broaden its application and to expand the line of prednisone products. As the discoverer of prednisone, we carry, and must assume, the responsibility of continuing research not only with respect to that product, but with derivatives of it. At this point, some 12 years after we first introduced prednisone, we continue to supply clinical investigators with experimental forms of prednisone for further exploration of its potentials. These things, costly as they are, are not performed in any way by any of the generic distributors of prednisone.

To achieve our objectives, to maintain the kind of organization we are—research, development, Government clearance, worldwide marketing, total service to the physician and the trade—all this far exceeds to cost of operating a generic enterprise which ordinarily requires bare manufacturing cost and nominal sales expense. Many of our costs apply to failures, as well as successes, but only the successes are copied.

The "striking differences" in price you referred to are the inevitable consequence of these contrasts. In my judgment, they are fully justified. At generic level prices, we cannot have new discoveries. At generic level prices we will stifle research and the development of new medicines, and soon we will have neither the new drugs nor the generics.

If we were to attempt to compete at the same price level as the generic distributor, we would have to eliminate a large proportion of the activities and services which I have described as characteristic of our company. We would have to limit our activity to simple manufacture and distribution of drugs discovered, proven, and established by others—as they do—and one important source of new drugs for the treatment of sickness will have been removed from this country. I do not believe this would be in the public interest—certainly it would not advance medical science nor contribute to further development of higher health standards.

You also asked me to discuss our pricing *policy* with respect to prednisone. Let me answer that by giving you some of our guidelines in pricing—the highlights of the criteria we consider in establishing, and subsequently in reviewing, the prices for Schering products.

The ultimate responsibility for pricing policy at Schering rests with me as president. Pricing decisions and approvals, in each marketing division, must be in accordance with procedures and practices which I approve.

Schering prices are established at a level which covers our research budgets, including the cost of both our successes and our failures, the cost of materials and of efficient manufacture at reasonably attainable volumes, the cost of quality control under the highest standards, the cost of efficient marketing, including that of communicating product facts and benefits, the administrative cost of operating the company, and the taxes payable to national, regional or local governments. The cost of the active substance is a small portion of total costs.

Our pricing should also provide an average, long-run corporate-wide, after-tax return on stockholders' equity at a rate at least equal to that of the pharmaceutical industry as a whole, since we require earnings to support continued corporate growth and to compensate investors for the use of their capital.

All of this is evaluated against a background of the high risk involved in bringing a new pharmaceutical to market.

We consider the expected response, based on analysis of value of the product to the user, as compared with the value and price of alternatives he may have. We attempt to forecast the attainable sales volume for the product at various possible price levels, and at various times during the expected product life cycle. We give thought to the significance of the product with respect to our entire product line and its effects, if any, on the prices, sales and profit margin of our other products. And finally, we consider the magnitude of the investment required and the degree of risk we undertake.

These are broad principles—and like all broad principles, there are exceptions. We make exceptions under certain circumstances; for example, where economies in production or marketing are attainable in serving certain types of customers and where making a product available at a special price is expected to result in increased long-term usage.