

Leading in Tough Times

An Interview with Henry A. McKinnell,
Chairman and Chief Executive Officer, Pfizer Inc., New York

EDITORS' NOTE Whether "at the center of a corporate-governance maelstrom or at the forefront of the global fight against HIV/AIDS," Chairman and CEO Hank McKinnell steadfastly maintains that "we can all achieve our objectives by working together." And along these lines, "partnering is essential" to strengthening Pfizer's enviable position as the "the patients' most valued company." The firm's impending merger with Pharmacia, for example, will enable it to enhance its ability to "discover, develop, and deliver products that meet patients' previously unmet medical needs." Then, in the developing world, where "Pfizer has always been a leading presence," it has "launched a number of partnership initiatives," including programs for AIDS/HIV patients in Africa and another aimed at "the complete eradication of trachoma." Finally, on the domestic front, Pfizer is "both improving the quality of care and reducing cost" via its "Florida, A Healthy State" program; a program called "Sharing the Care"; and the Pfizer for Living Share Card program. With all these initiatives, plus "a full pipeline" of 160 products currently in development, the chairman and CEO is confident that Pfizer will enjoy "continued success." For ultimately, he concludes, "I believe we can do more good for more people than any other company on the planet."

McKinnell joined Pfizer in 1971 after receiving a bachelor's degree in business from the University of British Columbia, as well as an M.B.A. and a Ph.D. from Stanford University's Graduate School of Business. Before becoming chairman in April 2001, he held a number of senior-management positions at the company, including president and COO; executive VP; CFO; and president of Pfizer Asia. He also serves on the boards of ExxonMobil, Moody's, and John Wiley & Sons, and is chairman emeritus of PhRMA (Pharmaceutical Research and Manufacturers of America).

COMPANY BRIEF New York-based Pfizer Inc. became the world's largest pharmaceutical enterprise after its acquisition of Warner-Lambert Company in 2000. Pfizer markets or co-promotes 10 pre-

scription drugs (Celebrex, Diflucan, Lipitor, Neurontin, Norvasc, Viagra, Zithromax, Aricept, Zyrtec, and Zolofast) with annual sales of more than \$1 billion each, as well as leading consumer-product brands such as Listerine, Lubriderm, and Visine. In addition, Pfizer is one of the world's largest developers and marketers of vaccines and medicines for livestock and companion animals. With more than 90,000 employees on 6 continents, the corporation reported total sales of \$32.3 billion and net income of \$9.1 billion in 2002.

Our concern was with maintaining our core values and integrity while expanding.

In light of recent failures regarding corporate integrity, the public's perception of the business world has been tainted. Are you concerned that honest companies are also being stigmatized?

It concerns me a lot, and I can only tell you what President Bush said to me last summer: He believes that 99 percent of Americans are honest and hard working, and he thinks the same is true of CEOs. The 1 percent who've betrayed

investor and employee trust should suffer the consequences promptly, and that seems to be happening. Fortunately, Pfizer has always been in a unique position. Integrity is at the very heart of everything we do. Our board was named one of the top five in the country in 2002 and was honored with the 2002 Spencer Stuart-Wharton School of Business "Best Board in America" award. In addition, Pfizer has always viewed good corporate governance as vital to our long-term success.

You're personally known for setting clear values and goals. Have your employees embraced these standards with the same enthusiasm you've shown for them?

Pfizer's core values have always been well understood by our colleagues. In 1990 we were the 14th largest pharmaceutical company, by mid-decade we were the sixth largest, and our projections had us at number two by the end of the decade. My experience as a leader has always shown that if I set high yet achievable goals and trust the organization to get us there, I'll do much better than trying to tell people what to do every day. So our goal was to become the number-one pharmaceutical company by 2001, and we actually achieved it in 1999 and again in 2000 through the Warner-Lambert purchase. Nevertheless, we realized that if we wanted to maintain that position we'd have to secure additional products and sales and marketing capabilities. We needed to expand our organization to twice its size, and in fact, we've gone beyond that.

Our concern, however, was with maintaining our core values and integrity while expanding and bringing in new colleagues. For this reason, we decided to communicate our values in a much more explicit and visible manner. The fact is, the reasons we've been successful will be the reasons for our continued success. So in addition to discussing our core values, we also discussed the quality of leadership we expect at Pfizer. It's no longer just about values; it's also about behavior – a philosophy that has been broadly accepted across the organization.

What's happening with the Pfizer-Pharmacia merger? Has there been much progress, and how are your people reacting to the prospect of change?

In terms of our progress toward approval, we signed a definitive merger agreement in July 2002, the SEC released the S4 proxy statement in September, and the two shareholder groups voted overwhelmingly in favor of the merger in early November. So we're now working on Federal Trade Commission approval. We've narrowed the issues down to a few, and we're confident that we'll close the deal in the first quarter of 2003.

Right now, there are about 700 people involved in transition planning. We'll be ready for "Day One" – the day the two firms will be cleared to operate as a unified company. So regarding transition planning and approval processes, we're in very good shape.

It's true that a major acquisition like this one can be a source of anxiety to many people. But we've done a lot to communicate that there will still be jobs for the majority of Pharmacia's people and that the future will be very exciting for the world's largest pharmaceutical company.

Why is Pharmacia the right acquisition for Pfizer?

The pharmaceutical industry is consolidating, and there are both long- and short-term benefits to merging our two successful, fast-growing companies. Fred Hassan and I have talked for many months. We believe that by bringing the two firms together, we will be able to create more top-line growth opportunities than either company would have had on its own.

Pfizer is arguably the best at serving general medical practitioners, with a very large, highly-respected sales force. Some of Pharmacia's products, which are intended for broader medical use, would be worth more in the hands of the Pfizer sales force. Conversely, some of Pfizer's products in fields such as oncology, ophthalmology, and endocrinology would be much more valuable in the hands of Pharmacia's specialty sales force. We'll also see a very large one-time cost savings, an estimated \$2.5 billion over three years. Additionally, there's a very important risk-reduction element; the combined company will be much less dependent on any individual product, therapeutic category, or market.

The fact is, in this business, success is determined by innovation. The ultimate test of a pharmaceutical company's strength is whether it can discover, develop, and deliver products that meet patients' previously unmet medical needs. Both Pfizer and Pharmacia have been very successful in that regard for many years now, and through a combined effort, we believe we'll be even more successful.

What's your outlook for growth

in your three business segments: health care, animal health, and consumer health care?

Pharmaceuticals are potentially the fastest growing industry, in large part because of the new scientific information that's available for pharmaceutical discovery and because of the demographics. There's an increasingly large aging population as well as a wealthier population overall. So it stands to reason that those populations around the world, particularly those that are well educated, will demand higher-quality health care.

ing to spend a lot of money on their companion animals today.

The third area, which is consumer health care, has historically been a lower-growth business when compared with pharmaceuticals. But over time I think the combination of a strong Rx pharmaceutical business with a vibrant consumer health-care business gives us the competitive edge and allows us to take products, upon expiration of their patents, from prescription to over-the-counter status. We can do that for our products, and we can do that for other



Within animal health, our business is constrained by the number of animals available for treatment. Unfortunately, livestock populations around the world haven't been growing. Nevertheless, we've continued to gain share in the companion-animal or pet business, which is a good growth opportunity. People are will-

ing pharmaceutical companies' products.

Are there strong opportunities in developing markets?

Pfizer has always been a leading presence in the developing world. However, problems in those areas are doubled by underinvestment in education and health, particularly in light of the HIV/AIDS epi-

dem, and restrictions on trade, particularly in agricultural and high-labor-cost products. The developing world is trapped in a cycle, which we need to break by increasing overall investments in education, health care, representative governments, and law, and then by allowing additional trade. We've launched a number of partnership initiatives in the developing world, which are proving successful, and we have 5- and 10-year data that, when taken in total, is amazing.

More specifically, we've found that the Pfizer antibiotic, Zithromax, is a very effective and convenient treatment for blinding trachoma, the world's leading cause of preventable blindness. It's ram-

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part in the arid, poor parts of the world. We got involved because we had a drug that could effectively minimize these cases, but we couldn't do it on our own; instead, we needed partners. So we turned to the World Health Organization, the Moroccan and Sudanese governments, the Edna McConnell Clark Foundation, and the Gates Foundation. Together we were able to lower infection rates by 75 percent or more in the areas we targeted. In fact, we're now committed to the complete eradication of trachoma by the year 2020 – a goal we believe is within reach.

Unfortunately, the HIV/AIDS epidemic is a much bigger problem. We're working together with a number of local governments in Sub-Saharan Africa, training health-care workers and providing Diflucan free of charge for secure distribution through clinics where HIV/AIDS patients are treated. Within a year, we trained more than 9,000 health-care professionals and distributed more than three million doses of Diflucan, which dramatically improves an AIDS patient's quality of life.

You mentioned partnerships. What role do these alliances play in Pfizer's business strategies?

Partnering is essential to a number of our strategies. In discovery and development, we partner with universities; and biotechnology companies for technology and early product leads. Regarding products in development, or in some cases after approval, we apply our global capability to a smaller company's products, particularly in development registration and doctor and consumer education. So we have a number of co-promotion partnerships around major products.

The next area, which may be the most important long term, is partnering with our customers to both improve medical outcomes and reduce cost. The best example of this is our “Florida, A Healthy State” program, which is Governor Jed Bush's initiative. This program focuses on chronically ill patients who come frequently to emergency rooms. Working together, we're both improving the quality of care and reducing cost for the Medicaid population in that state. Furthermore, this is a whole new model for the industry: bringing partners in patient care much closer together. In addition, we have a partnership called “Sharing the Care” which provides Pfizer drugs to those who couldn't otherwise afford them. It works through more than 300 community clinics in the United States.

What are some of the new products in your pipeline?

At the moment there are about 160 products, from the early development stages through regulatory approval, and we expect 20 new product approvals between now and 2006. A number of those products have blockbuster potential, including Exubera, a form of insulin that can be inhaled to treat diabetes, and a new cardiovascular drug that increases good cholesterol and reduces bad cholesterol. Plus, we have products for disorders that haven't yet been well treated, such as neuropathic pain and sleep disorders. So we have a full pipeline.

Is it difficult to determine the viability of a product in its early developmental stages?

It's a very frustrating process. On average, we spend 8 to 10 years on a product. Of the two products we launched in 2002, one was discovered 13 years ago, and the other was discovered 15 years ago. The estimated cost of bringing a drug from discovery to market is about \$800 million, and the failure rate is very high; in fact, we go through 5,000 compounds to find one to bring to doctors. Plus, it's exceptionally difficult to pick a winning product before it hits the marketplace. Only half of the drugs that actually get approved and marketed ever achieve a return on investment. Of course, we use a number of sophisticated

operations-research tools to analyze these problems, but it involves many high-risk, multifactorial issues. So that's definitely one of the most difficult aspects of the pharmaceutical business.

Despite those difficulties, was it obvious to you that Viagra would achieve such wildfire success?

Viagra is an important product, but it's one of our 10 products whose sales exceed \$1 billion a year. It's not even in our top five, but it's the product we're known for. Amusingly, Viagra failed in development. It was developed to treat patients with cardiovascular disease, and it worked, but not to our expectations. However, we noticed an unexpected side effect, which caused us to shift the development program, and the rest is history.

Do those sorts of coincidences happen often during the R&D process?

Yes, and they continue to take place. We've also found through anecdotal experience, which we're now documenting more fully, that Viagra can play a life-saving role for premature infants suffering from respiratory distress. Nitrous oxide is part of its mechanism of action, and Viagra affects that pathway. In addition, Viagra may prove to be quite useful in the care and treatment of diabetic patients.

In the history of a medicine, there's initial discovery, and sometimes additional hypotheses develop from the use of drugs.

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Celebrex is a very interesting example of this: It was initially discovered and developed as an arthritis treatment, but we now see that it could have a very important role in cancer care. In our business, a bit of

knowledge often yields other knowledge, and sometimes the end result is amazing.

What's the Pfizer for Living Share Card program?

The program demonstrates to the public and the government that we can all



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achieve our objectives by working together. There are some seven million Americans twice below the poverty level, and many of them don't fill or continue taking prescriptions because they can't afford them. So we've made any Pfizer prescription available – and yes, Viagra is included – for a flat fee of \$15 per month. The average prescription cost is \$69, so the small discounts offered by other programs aren't going to enable anyone at the poverty level to buy a drug. So we instead brought the price down to a typical co-payment fee.

Has Pfizer's working relationship with the public sector been a mutually beneficial one?

We generally have a very good relationship with the government. Unfortunately, however, some people tend to blame the high cost of health care on the pharmaceutical industry because, politically, we're an easy target. But the fact is, actual pharmaceuticals represent about 9 percent of total health-care spending in the United States. Many health plans spend more in administration than they do on prescription medicines. To this end, we're trying to send a message that by working together to develop a different kind of relationship, we can all succeed.

Does the financial community understand your long-term goals, even with its tendency to demand short-term returns?

Analysts do publish quarterly forecasts. However, most pharmaceutical analysts understand the nature of the industry very well; they understand the importance of research and development, productivity, and new products. Having said that, it's difficult for them to predict the future. As a result, they tend to look

for spending levels, an area in which we lead the industry; financial flexibility, which allows an increase in spending levels; a willingness to partner to yield additional opportunities; and nurturing drugs coming down the pipeline.

Has your tenure as CEO unfolded in the way you expected?

No. I didn't expect to be at the center of a corporate-governance maelstrom or at the forefront of the global fight against HIV/AIDS. I now serve on the president's advisory board for HIV/AIDS, and I've been very involved in the issues surrounding health care in the developing world. So it's a lot more complex than I expected.

You also serve on ExxonMobil's board, so your days must be pretty full. How do you balance the business and personal aspects of your life?

By not playing golf.

How do you define your role as a CEO?

I've always believed that a leader's career has three stages. First, you join an organization, and you're evaluated based on your personal output. If you're successful, you become the leader of a team, bringing you to the second stage during which you're evaluated on group results. And third, you become the leader of a large, complex organization. Each of these stages requires different skills and capabilities and, more importantly, a different attitude. People who are responsible for small project teams can probably succeed by telling people what to do every day. But I can't possibly do that, mainly because I don't actually know what 90,000 people should do every day.

So my role is to create and communicate a vision of what Pfizer can accomplish as an organization. Fortunately, that's pretty easy because I believe we can do more good for more people than any other company on the planet. Along these lines, it's important that all the stakeholders are committed to your success. If your success detracts from government, local communities, or other things that people think are important, you won't be successful. Our goal is to become the patients' most valued company – and yes, we put patients first. But the only sure route to success is to be valued by all your stakeholders.

Is it difficult being hands-off when you're trying to communicate that vision to the greater organization?

Interestingly enough, every year I have my direct reports evaluate my performance, and in 2001, the feedback indicated that people wanted me to do more coaching and to work more with them in finding solutions. And I thought that was odd: Why would talented, successful, and experienced people need me to coach them? Then, I thought about the fact that Tiger Woods, arguably the best golfer in

history, has a coach who can see things that Tiger can't see himself. The fact is, two people working together always produces a better result than one person working alone. So my coaching role within this very large organization is significant.

It seems like you're doing a lot of good for people, but that isn't always communicated to the greater public. Where should that message come from?

We need to hear more from patients in the health-care debate. We hear from payers, and they're not very happy. But if we heard more from patients about the good that health-care providers and modern pharmaceuticals have done for them, the public might have a much different view of the pharmaceutical industry.

In addition, we should hear more from our academic alliance, which works



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with infectious-disease specialists in the United States. We established an awareness-and-training facility on the campus of McGary University in Campolo, Uganda, where every year we hope to train hundreds in infectious-disease and HIV/AIDS treatment, care, and diagnosis. In turn, those hundreds can return to their regions in Africa and further spread their learning to positively affect millions. So we think this program can have a significant impact on the infrastructure and thus on the HIV/AIDS crisis.

With your medical knowledge, do you ever get sick?

I don't, but I know that if I do need medical attention, it will be there. ●