

Six New Products in Two Years

An Interview with Sidney Taurel, Chairman, President, and Chief Executive Officer, Eli Lilly and Company, Indianapolis



Sidney Taurel

EDITORS' NOTE The recent public skepticism about pharmaceutical companies "is a source of frustration for everyone who works in this industry," reflects Sidney Taurel, but particularly for Eli Lilly and Company, which intends to be "beyond reproach in all our business practices" and "very trustworthy and reliable in everything we do." Indeed, much of the criticism leveled at the industry is based on a misconception, the chairman, president, and CEO believes, because "what we do goes way beyond the financial interests of the companies in this industry." In his experience, "our people come to work every day to make a difference in the lives of others," not to boost the share price.

However, while some of the negative perceptions of the industry may be groundless, others reflect legitimate worries, Taurel concedes, and consequently, Lilly has "started to address some of the public's concerns." For instance, one complaint "is the lack of access to our drugs by seniors, people of low income, and people in developing countries," he reports, and in response to this criticism, the company has "created a couple of patient-assistance programs." The first, called Lilly Cares, is aimed at people on very low incomes; the second, Lilly Answers, is for eligible senior citizens. As Taurel proudly notes, "between the two programs, we give away, either at zero

cost or for a nominal amount, up to \$300 million worth of drugs every year." Meanwhile, "for countries outside the United States, we've developed a program that helps companies manufacture Lilly products that are effective against tuberculosis," he explains. Specifically, Lilly provided technology and invested in facilities so local firms "could develop the Lilly-invented drugs that are effective against TB and make them available to patients in countries where drug-resistant TB is still a danger." For Taurel, these developments set a fine example in an industry frequently accused of paying "too much attention to physicians, Wall Street, and politicians, and insufficient attention to the general public."

After graduating from Ecole des Hautes Etudes Commerciales in Paris in 1969, Taurel received an M.B.A from Columbia University in 1971 and joined Eli Lilly International Corporation as a marketing associate the same year. Since that time, he has served in positions of increasing responsibility in Eastern Europe, France, Brazil, and the United States. Taurel was appointed CEO in July 1998 and chairman of the board of directors in 1999, having served as president and COO since February 1996. Additionally, a member of the boards of IBM Corporation; McGraw-Hill Companies, Inc.; and the RCA Tennis Championships, Taurel was appointed to President Bush's Homeland Security Advisory Council in June 2002, and in early 2003 was named to the president's Export Council, the United States' premier advisory committee on international trade issues.

COMPANY BRIEF Founded in 1876 and based in Indianapolis, Eli Lilly and Company develops, manufactures, and sells some of the world's best-known pharmaceutical products – including the schizophrenia drug Zyprexa®; the oncology agent Gemzar®; the world's first biotech product for humans, Humulin (human insulin); and the antidepressant drug Prozac® – as well as antibiotics, growth hormones, antiulcer agents, cardiovascular therapies, and animal

health products. Employing more than 46,000 people worldwide, with around 8,700 of them engaged in research, Eli Lilly reported sales of \$12.6 billion and net income of \$2.6 billion in 2003.

Lilly has come out with an impressive range of new products in the last couple of years. What are the highlights?

We've launched six new products in the last two and a half years. The first one was Xigris®, which is a treatment that helps battle sepsis, a condition whereby the body's immune system overreacts to infections and, in the process, causes more damage than the initial infection. Xigris really saves lives. The second one was Straterra®, a product for attention deficit hyperactivity disorder [ADHD]. It's the first non-stimulant for that condition as well as the first drug for adults with ADHD. When we launched it last year it was the most successful neuroscience product launch in the U.S. market and it continues to do very well – its sales exceeded \$300 million in the first half of this year.

Then we launched Cialis®, a competitor to Viagra®. Unlike Viagra, it works for 36 hours and has no interaction with food, so it has been very popular. We initially rolled it out globally, outside the United States, then we launched it here late last year. We've also launched Alimta®, the first treatment for asbestos-related lung cancer; Forteo®, the first product for advanced osteoporosis – it helps rebuild bones and is really changing the lives of people with the disease; and finally, we launched Symbyax®, the first product for treating the depression aspect of bipolar disorder.

The amount of research required to develop a single product is phenomenal. How did you manage to juggle the development of so many innovations in such a short period of time?

This is the result of a concerted effort over the last decade to increase our investments in, and improve the quality of, our research and development [R&D] division. Today, we invest between 18 and 20 percent of our sales into R&D. The industry average is more like 15 percent, so we're now at the top of the industry in

R&D investment percentage. We've also revamped our organization over the last decade. We brought in a few top names from academia, changed our processes, and, perhaps most importantly, invested heavily in biotechnology. All of this has resulted in this tremendous crop of new products.

Are there more coming down the pipeline?

We have a number of very exciting drugs ready for launch. Exenatide® is a treatment for Type 2 diabetes, Yentreve® is the first product for stress urinary incontinence, and we are also working on a drug for stroke and advanced coronary disease. So this wave of new launches was not a one-off. We have a number of new products in development. Consequently, we're quite bullish about the future, and so, I think, is Wall Street.

Do you also see growth in a geographic sense, both in the U.S. market and internationally?

The U.S. market has been our biggest source of growth over the last few years, because our country tends to adopt new products faster than others. But now, as we roll out the six new products I mentioned, we are seeing faster growth in foreign markets. We are doing very well right now in Europe and Japan, and we believe China will become a top priority in the future. India is a bit more difficult, because of the lack of respect for patents and very low price levels there. So, broadly speaking, we plan to expand our existing presence in Japan, the Far East, and Europe over the medium to long term.

How does Lilly maintain its market-leading position in the face of stiff competition?

First, we aim to put out products that are either the first in their class, or the best in their class. We employ the highest number of physicians in the industry and use that medical expertise to help patients and providers address diseases. We have an excellent reputation for the quality of our science. It's also very important, especially at a time when the pharmaceutical industry is under such scrutiny and criticism, to be beyond reproach in all our business practices, and we are very trustworthy and reliable in everything we do. And finally, customers who are trying to contain health-care costs don't want to see us just push our pills, if you will. So we're responsive not only to the needs of the physicians we've focused on for decades, but more and more to patients who want information on their diseases and how to treat them – not just with our drugs, but in general.

You hinted at the negative perception of the pharmaceutical industry among the public today. How much does that concern you?

This is a source of frustration for everyone who works in this industry. What we do goes way beyond the financial interests of the companies in this indus-

try. Our people come to work every day to make a difference in the lives of others. And whenever we hear a testimonial from a patient or a caregiver about how a Lilly product changed a life, we are reminded of the importance of what we do. So it can be frustrating when the public in general does not recognize that.

How have you coped with this negative perception?

Well, we've started to address some of the public's concerns. A big complaint, for example, is the lack of access to our drugs by seniors, people of low income, and people in developing countries. We have created a couple of patient-assistance programs: One, called Lilly Cares, is for

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very low-income people; the other, called Lilly Answers, is for eligible seniors. Between the two programs, we give away, either at zero cost or for a nominal amount, up to \$300 million worth of drugs every year. For countries outside the United States, we've developed a program that helps companies manufacture Lilly products that are effective against tuberculosis [TB]. We provide the technology and invest in their facilities so they could develop the Lilly-invented drugs that are effective against TB and make them available to patients in countries where drug-resistant TB is still a danger. We've done this in India, China, and South Africa. We hope this will help address some of the criticism, but we have much more to do besides. I believe that, as an industry, we have paid too much attention to physicians, Wall Street, and politicians, and insufficient attention to the general public. But we are starting to change that.

Staying on the subject of public perception, what is your view of the various lapses in corporate governance we've seen in the last couple of years? Do you think the new regulations have been effective?

I believe that the majority of people working in corporate America are honest. We were in a bubble during the '80s and '90s that has more or less burst, and I think

some of the legislation that has come out of that has had some negative short-term side effects. For example, an inordinate amount of time is now spent on controls and regulations. The boards of directors on which I sit have spent up to 50 percent of their time in the last 12 to 18 months looking at whether their companies comply with all those guidelines. But the bottom line is, you can't really legislate ethics.

Nevertheless, I think we are now getting through this period, and as we learn to live in a different governance environment – which for some companies, like ours, has taken only some fine-tuning – we can get back to the business of taking appropriate risks and being as aggressive as necessary within strict ethical and regulatory boundaries. There has been a reduction in the amount of risk-taking within corporate America, and that may be why the recovery has been taking a little longer than it should. But I see that changing. We're a very adaptable society, and I'm optimistic that more good than bad will come out of all of this.

There has been a major focus on partnering in the pharmaceutical industry. Has that also been an objective at Lilly?

Very much so. We have felt for a long time that having access to state-of-the-art technology is essential, but it's impossible to have everything we need in-house. So back in the '80s we teamed up with the biotech company Genentech, and the result was the very first biotechnology product: human insulin, or Humulin®. Since then, we have focused on partnering as a way to gain a competitive advantage. But we've taken the whole idea further, and that is to recognize that partnerships very often fail – not just for technical reasons, but for cultural ones. So a few years ago we created the Office of Alliance Management, which aims to manage our partnerships in a way that is good for both partners. It's a unique initiative, and it's starting to serve as a model for other companies.

You joined Lilly in 1971 as a marketing associate. When you think back to the early years, did you ever think you'd be running the company 30 years later?

No, not at all. I joined the company for only one reason: I really liked the people who interviewed me. So it was the corporate culture that attracted me; I did not, at the time, have any particular attraction to the pharmaceutical industry or to the health-care system. After a while, however, I saw the impact of our work on people's lives and that certainly made an impression on me. What also kept me there was being able to move around a lot within the company. Lilly honestly considers its people its greatest asset, and a key value of the company is to give development opportunities to employees. This is not just an empty claim; it's a philosophy that has been in practice since the company began. ●