



Prescription for Better Health and Health Care

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



Henry A. McKinnell

EDITORS' NOTE Like many leaders of pharmaceutical companies, Pfizer Chairman and CEO Hank McKinnell recognizes that elected representatives and the public value what his industry does less today than was the case a decade ago. In order to address this situation, McKinnell contends that the health-care industry needs to shift its focus from sickness to "health and wellness." Pfizer is transforming itself from a traditional pharmaceutical company, "which makes the medicine that you don't want or think you need," to that of "a company that partners with you, with the government, and with health-care providers to keep you healthy and help you live a long life." And while McKinnell is confident that Pfizer can successfully make this journey, he concedes that "it will require us to act differently, communicate differently, and partner differently." The key will be "to focus on the benefits of wellness, prevention, and early treatment," he believes, which, in the end, will

lead to "cost savings" throughout the health-care sector. After all, recent studies demonstrate that "patient-centered health-care systems, based on providing people with the information and the help they need to achieve their goal of healthy aging, serve us all well." The chairman and CEO asserts, "We see better health outcomes and we see lower costs."

With a bachelor's degree in business from the University of British Columbia and an M.B.A. and Ph.D. from Stanford University's Graduate School of Business, McKinnell joined Pfizer in 1971. 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 Moody's, ExxonMobil, and John Wiley & Sons, and is chairman of the Business Roundtable.

COMPANY BRIEF New York-based Pfizer Inc became the world's largest pharmaceutical enterprise in 1999, just before its acquisition of Warner-Lambert Company in 2000. In 2003 Pfizer acquired Pharmacia. The company markets or co-promotes 10 prescription drugs (Celebrex, Diflucan, Lipitor, Neurontin, Norvasc, Viagra, Xalatan, Zithromax, Zyrtec, and Zolofit) 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 120,000 employees on six continents and 33 major products in 10 therapeutic areas, the corporation reported total sales of \$45.2 billion in 2003.

Pfizer acquired Pharmacia last year. Are you happy with how that merger has progressed?

Yes, I've been very pleased with the integration process. We are now being held up as the poster child of corporate integrations by many experts in this field. However, we did have several advantages that made the process easier. One is that we had just completed the merger with Warner Lambert, so when we began the Pharmacia integration, we were able to draw on the lessons we had learned during the earlier integration. We had templates for analysis and experienced teams to carry out the hard work. Obviously, in mergers involving two big organizations, there tends to be a lot of duplication. However, we decided not to focus on the cost savings. Instead, we went looking for best practices. So we had a wonderful opportunity to end up with a much stronger organization, by pulling out and adopting best practices. That aspect of the merger has been exceptionally successful.

Do you foresee continued consolidation among pharmaceutical companies?

There is a historic mechanism in our industry that requires us to reinvent ourselves every 10 years or so, because our patents expire and we can't support research with the prices of generic drugs. We need to produce a new generation of products. Inevitably, those companies that are not successful in reinventing themselves will end up being acquired by, or merging with, other companies, so they can drive out cost in the short term and buy time for their discovery efforts to pay off.

Interestingly, the top 10 companies in 1960, 1980, and 2000 have been entirely different. That shows the very dynamic nature of this business. In fact, in the '60s,



the leading company in the world was Parke Davis, which is now a sales force within Pfizer. The Parke Davis company has gone; it wasn't able to reinvent itself. We also have a sales force called Upjohn. The Upjohn Company was once the industry's leading company and it, too, has now disappeared. These companies did not succeed in innovating, which is why we put such an emphasis on research – it is the lifeblood of everything we do.

What is your outlook for the development of new drugs?

When I became CEO of Pfizer, I knew I was going to have three good years followed by three or four challenging years, and we are just now going into those challenging years, because of the expiration of patents on four or five key products. When you first apply for a patent, you know it has a 20-year life span. So we've known for some time that a number of our very large products, which have been driving our growth through the '90s, would lose their exclusivity a few years from now. Accordingly, we've been working on what we came to call "the cliff," in preparation for the loss of a significant fraction of our revenue. In fact, this was part of the rationale behind our recent acquisitions.

Our strategic response to this situation has been to develop new data and new uses for our existing products, such as Lipitor, Celebrex, and Norvasc. Those are particularly important accelerators of growth through this period. Clearly, we need to develop new products to offset what we will lose with the impending patent expirations. Our strategy involves investing \$7.6 billion in research in 2004, with the goal of having 20 new products in registration or approved in the five-year period ending in 2006. That date wasn't picked by accident. It's during the period when many of those older products' patents expire. So, as we lose some products, we have new products coming in. I like to think that what we used to call "the cliff" will become a temporary slowing of revenue growth.

In the future, do you think companies need to be a certain size in order to prosper in the pharmaceutical industry?

A company does not need to be very large in order to take an idea to the labo-

ratory and then to early compound. We have six major laboratories around the world doing that. There are many universities and smaller companies that also have good ideas, and they are able to take their ideas at least to the early candidate phase. However, to raise the capital needed to take that one compound into more advanced development, then into registration, is very difficult, even for the most successful companies. And it is exceptionally high risk. We prosper in this high-risk, high-return business through diversification. Specifically, we pursue multiple projects at once, around 200 at

experience in bringing forward new drugs. So we have the investigators in place, and we know the regulatory processes extremely well. In my opinion, success is not really dependent on size; it's more about capabilities and experience. Those qualities have certainly helped us at a time when we are registering and launching 20 new products.

What are some of the highlights from your portfolio of new products?

There are several potential blockbuster drugs among our 20 new products. The biggest of all is probably the new agent torcetrapib, which, in combination



the moment. We know that very few of them will succeed, but the ones that do succeed pay for the ones that don't. Whereas small companies with just one project will most likely fail, and investors know that.

How important have your partnerships been in facilitating the development process?

Our partnerships are critical, because the product-creation process starts with discovery. We spend something like 15 percent of the world's total investment into medical research. That tells me, of course, that 85 percent is being spent by other people, and we shouldn't be blind to that. As part of our development process, we've established more than 500 partnerships with universities and small companies to discover and develop medicines. Nowadays, we do a lot of our research through contract research organizations. This approach not only gets us the best services at the lowest prices, but it also gives us a lot of

with Lipitor, lowers bad cholesterol – LDL – and raises good cholesterol – HDL. We know from epidemiological studies and other sources that people with high HDL tend to have little or no cardiovascular risk. And we know from clinical studies on tens of thousands of patients that lowering LDL reduces cardiovascular risk by 30 to 40 percent. Research suggests that the combination of reducing LDL and raising HDL could reduce cardiovascular risk by another dramatic increment. So we expect this drug will be extremely effective in preventing heart attacks and strokes. That is the biggest drug in the pipeline. In addition, we have Exubera, which represents a major advance in diabetic therapy, and Sutent (SU-11,248), a promising novel agent for cancer, as well as a number of other product candidates in our pipeline.

Many people have talked about a drought in pharmaceutical research and development [R&D]. However, you seem to be optimistic that sufficient R&D is taking place.



I agree there has been a problem in R&D in the last decade. During the '90s, spending tripled, although the number of new drugs stayed about the same. About 25 new medicines appeared every year. When spending goes up three times but output stays the same, there's a decline in productivity, which isn't the same as a drought.

In the early '90s, we had access to many more tools than before, and we had many more targets in drug discovery. Scientists, being scientists, were following major new scientific leads. As a result, our research shifted, so that 75 percent of what we were doing was unprecedented. What we learned was that when you're trying to hit home runs, you strike out a lot. So during the '90s, the failure rate in research, in the early development process, went up quite dramatically – not because of bad science, but because many of those drugs were more complicated and more difficult to get through development. However, we learned a lot, and that education has led to much more targeted and, in many cases, now precedented mechanisms. I believe these developments will lead to a golden age of drug discovery in the next 20 years.

Does the financial community fully understand Pfizer's business objectives, and how the company is run?

The market is a big, diverse place, so it's hard to generalize about perceptions. However, I believe there is a good appreciation of how strong Pfizer is and how well it is run. We have the most experienced management team in the industry, and we've proven that, through good times and bad, this is an organization that can deliver results. Inevitably, there are concerns about the growth of our existing products and the entry of new competition. However, we've proven that we can compete and grow products despite the presence of new competition. Our licensing capability is well recognized, and we get high marks as the partner of choice across all phases of discovery and development. This year, we introduced Spiriva, and we'll shortly bring Macugen to market. Both of those are partnered products.

But despite that recognition, I think that our potential to develop new products is not fully appreciated. That may be because we're a little reluctant to talk about products early in the pipeline. After all, there are no guarantees that they will all be successful. But if a product like Lipitor-torcetrapib works – and we're investing \$800 million in demonstrating that it does – it will essentially eliminate one of the major killers of Americans. Clearly, that has huge market potential.

The Internet has enabled the trade in counterfeit drugs to flourish.

Is enough being done to educate consumers about the risks of buying drugs online?

That remains a challenge for us. People are now used to buying things over the Internet and having Federal Express deliver their purchases the next day. They can often buy the same product they would buy in their local store but at a lower price, and it's more convenient too. I use the Internet for some of my personal shopping. However, what consumers don't understand is that pharmaceuticals are not like fruits and vegetables in the supermarket. You can't pick up a pharmaceutical product, squeeze it, smell it, and know that it's good. I could put an original Pfizer product and a counterfeit on a table and I would not be able to tell them apart without sending them off for chemical analysis. The counterfeiters – who are very well-organized, very sophisticated criminals – have copied the packaging, the holograms, and even the laser etching on the sides of the tablets. The Food and Drug Administration [FDA] and U.S. Customs have intercepted drug deliveries to the United States, ordered over the Internet, and have found that more than 8 out of 10 are fakes or substandard. Clearly, that's no bargain for people who have problems affording their medicine in the United States.

Related to this issue is my concern that our bargain with society is not well understood. We make enormous investments in drug development and discovery, almost \$1.5 billion over 10 to 15 years for each successful new drug. When we create new medicines, we have a 10- to 12-year period in which to earn back that investment. If we didn't have that opportunity to earn a return on our investment, we wouldn't be able to make any new investments. If you believed press reports, you would think that the top 10 drugs, by sales, in the United States are more expensive now than they were 10 years ago. However, the fact is that those drugs, which cost approximately \$44 a month, can be bought for about \$11 per month today. Now, how can that be? It sounds impossible. The answer is, once the patent expires, the price of a drug falls to 80 percent or so of the original price.

So, you may pay less if you buy your drugs in Canada, where the government sets prices artificially low, but the other side of that is you don't get the new drugs. There have been two drugs discovered in Canada in the last 50 years. Any reasonable person might say, "I want both: I want low prices and I want new medicines." But, unfortunately, that's not possible. Our bargain with society is that we need a period in which

to earn a return on our investment, and that way, we can continue to generate new drugs.

Why has it been so difficult to get that message out to the market?

Health-care costs are high in the United States and they're going higher. I believe that, managed differently, health-care costs could come down by 30 to 40 percent. In order for that to happen, our system of civil justice would need to be reformed. We would have to eliminate the frivolous, expensive lawsuits that are plaguing business, and we'd have to change the incentives in health care. The system would also have to be more free-market based. You can't have the government regulating an industry and expect innovation. But, perhaps most importantly, we'd have to change the definition of the problem. At the moment, we define the problem as the high cost of health care, and, as businesspeople, we know how to deal with those high costs: We control prices and ration access to care. But precisely because of those efforts to reduce costs, we've made it more difficult for people to get the prevention and wellness care they need. A recent study by the Rand Institute showed that the increase in co-payments has been far more dramatic than the increase in pharmaceutical prices. So prices are being shifted on to consumers, which makes those consumers less likely to fill their prescriptions. This, in turn, raises total health-care costs. Instead of preventing heart attacks and strokes, consumers are suffering those conditions, and that costs more money in the long run.

So, we really need to focus on the benefits of wellness, prevention, and early treatment. In the end, that's how we're going to get cost savings. To blame the high cost of health care on pharmaceutical companies doesn't reflect the facts. We are, after all, about 10 percent of total health-care costs, about where we were 50 years ago. I believe we have to advocate broader reform of health care in this country.

Are you optimistic that private- and public-sector leaders can pursue constructive dialogue along these lines?

Well, it's very difficult to have a rational discussion in years divisible by four. Health care always becomes a strongly debated political issue in election years. My recommendation to the next administration, whether it's led by President Bush or Senator Kerry, is that we bring together political, business, and health-care leaders in an attempt to reach consensus on how we deal with this major problem for America.



You've had considerable success with a private-public partnership in Florida. How has that program progressed?

Yes, our Florida program has been an outstanding success. This is proof that we can achieve significantly better health outcomes and significant cost savings with different and better management. That's what the Florida program demonstrates. The most recent published results show that patient-centered health-care systems, based on providing people with the information and the help they need to achieve their goal of healthy aging, serve us all well. We see better health outcomes and we see lower costs. That program is now being duplicated in pilot programs in the U.K. and Germany, and we're also in discussions with a number of governors in other states in the United States. However, the obstacles are always the same. The governor thinks it's a great idea, but the person responsible for the drugs budget thinks it's a terrible idea, because even though there are savings elsewhere, and even though health outcomes are better, he will have to spend more money on drugs. And his job is to keep the cost of drugs down.

Some people would define Pfizer as strictly a pharmaceutical company. You seem to apply a much broader definition.

How Pfizer defines itself is under discussion at the moment, largely because consumers have made it very clear that they don't want to buy what we're selling. They don't want to pay a few dollars a day for a pill that they don't think they should be taking in the first place. What the public does want, however, is health and wellness. So, for several reasons, I think we need to move from being a pharmaceutical company – which makes the medicine that you don't want or think you need – to a company that partners with you, with the government, and with health-care providers to keep you healthy and help you live a long life. We know we're able to do that, but it will require us to act differently, communicate differently, and partner differently.

Pfizer has always been a leader in corporate citizenship and philan-

thropy. How important are those activities to the values and culture of the company?

Philanthropy is part of our DNA. Since our founding in Brooklyn in 1849, we've been concerned with much more than just maximizing value for our shareholders. It's clear to me that we won't achieve our goal of producing wealth for our shareholders unless we're perceived as a company that helps other stakeholders achieve their objectives. After all, unless we're serving our communities, people in those communities will want to see us fail.

One of the major problems in the United States is low-income seniors not having access to medicines. People without health insurance pay some of the highest prices for medicine in the country, because they don't have access to managed-care discounts. In the last two years, we've addressed that problem head on, with American solutions to what is an American problem. We offer low-income seniors access to Pfizer medicines for low or no cost, and we have recently introduced our Pfizer Pfriends program, which enables America's 43 million

message that integrity has now been restored to the market?

I think President Bush put it best a year or so ago when he said he believed that 98 percent of Americans are honest and hardworking. He said he believed the same was true of CEOs. However, if you asked the public what proportion of CEOs were honest, the answer would probably be a figure much lower than 98 percent. In my opinion, there needs to be prompt and effective punishment for the leaders who are not honest, who violate the trust placed in them, so the public is reassured. Just as people who rob banks are punished, those who steal from their shareholders should be punished too. Consequently, I think we need more effective, rapid enforcement of the laws that are already on the books.

Unfortunately, decision makers did not see enforcement as the solution to this problem. Instead, they advocated even more rules and regulations. Some of these might be helpful, but there is a danger that companies will become dominated not by visionaries, entrepreneurs, and innovators, but by compliance officers and others who are concerned about meeting all the rules and regulations. Of course, we need to have proper controls, and our leaders and colleagues must be honest and fair to shareholders and others. But, at the same time, we need the freedom to take risks, so we can continue the process of new investment, generating the innovation that will create new jobs for the 21st century.

How have the new regulations changed your role as CEO?

Integrity, community, and respect for people have always been part of Pfizer's DNA. Having been with the company for three decades, I know that to be a fact. Indeed, integrity was the bedrock on which this very successful, very large company was built. So, while the processes we've had to put in place to ensure compliance have been expensive, burdensome, and certainly a distraction, I am entirely confident about the integrity of our financial reporting.

Looking back to your early days with Pfizer, did you ever imagine you would one day lead the company?

No, I didn't. I joined Pfizer out of graduate school. I had a Ph.D. when I was 25 years old, and I planned to get two years of industry experience before going back to teach in a major research-based university. And I'm still getting my two years' experience! ●



uninsured to access managed-care-level discounts, irrespective of their age or income, and even greater discounts for low income individuals. Those with the lowest incomes get Pfizer medicines for free.

Corporate governance issues have created various challenges for business leaders in recent years. Do you think the business community has successfully communicated the