

Interview

A Call to Action

An Interview with Hank McKinnell,
Chairman and Chief Executive Officer, Pfizer Inc, New York



Hank McKinnell

EDITORS' NOTE With a bachelor's degree in business from the University of British Columbia and M.B.A. and Ph.D. degrees from Stanford Graduate School of Business, Henry A. "Hank" McKinnell Jr. joined Pfizer in 1971. Before becoming chairman in 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 and ExxonMobil, and is chairman of the Business Roundtable.

COMPANY BRIEF Founded in New York, in 1849, Pfizer Inc became the world's largest research-based pharmaceutical company in 1999 and acquired Warner-Lambert in 2000. In 2003, Pfizer acquired Pharmacia and today has the world's largest privately funded biomedical research effort. Pfizer's branded medicines include Lipitor, Celebrex, Lyrica, Norvasc, Viagra, Xalatan, Zithromax and Zolofit. The company also markets a wide array of consumer healthcare products, such as Benadryl, Listerine, Lubriderm, Sudafed and Visine. In addition, Pfizer is one of the world's largest developers and marketers of vaccines and medicines for animals. The company has 115,000 colleagues and operates in more than 150 nations. Pfizer reported sales of \$52.5 billion in 2004.

You recently published a new book, *A Call to Action: Taking Back Healthcare for Future Generations*. What made you feel there was a need for this book, and have you been happy with how it has been received?

I felt there was a need for a book like this because I've been very disappointed in the quality of the debate around health care for a long time now. It is very unusual for an active CEO to write a book. What determined the timing was, in part, the fact that Congress is currently dealing with health care. I thought that one way to catalyze productive debate on this issue would be to put my ideas forward in a book.

Something else that drove the timing of the book was the birth of my first grandchild, Sarah, two years ago. I realized at that point that if we stayed on the present track toward rationing and price control of health care, she would most likely end up with less access to health care than my generation had enjoyed. This generation-to-generation thinking made me realize what our parents and grandparents had sacrificed in order to deliver a better world to us. They fought wars, they saved money, they worked hard, but, nevertheless, we're at risk of leaving less to the next generation if we don't reform what we call health care. I say "health care," but I really think the system we now have is better defined as "sick care." We don't really have a system of health care.

So the book was conceived to change the terms of the debate and provide not a complete solution, but some ideas for a solution. I've been very pleased with the reception of the book so far. It has sold more than 30,000 copies. Many of the people I visit in Washington, DC, have read it, and they tell me it provides a different and welcome perspective.

In pushing forward these ideas, do you have the support of other CEOs in your industry?

I belong to an organization called Partnership for Prevention, which consists of more than 1,000 companies. That organization is founded upon the central tenet of my book, which is that we need to

invest in health to reduce our health care costs. Somewhat paradoxically, if your approach is to reduce costs by rationing access to routine physicals, specialists, and preventive care, you can actually cause costs to go up. We've been in this cycle for over a decade now, and it's time to accept that it's a lot better, both morally and financially, to work to prevent heart attacks and strokes, rather than wait until they happen and then treat them.

Do you think the public is aware of these issues?

We haven't really had this debate yet, and that is one of the recommendations I make. Nothing has ever been accomplished in health care that didn't have the support of both political parties, so the debate needs to be bipartisan. We need to look critically at the road we're on, and consider where it is leading us. Then we need to have a serious debate around how we should reform health care.

To what extent must this be a political debate? Can politics be taken out of the discussion?

In Washington, I suspect you can never take politics out of the discussion. However, I do think that there are leaders of both parties who are serious about health care. They're well informed people like former Democratic Senator John Breaux and current Republican Senator Bill Frist. There are several people who are very well informed on health care who need to come together in a bipartisan way to solve what I think is one of the major challenges facing the U.S. economy and U.S. society in general.

In addition to bipartisan political efforts, I think all those involved in health care, from the pharmaceutical manufacturers to hospitals and doctors, need to work together to find a solution to this problem.

Many people think of Pfizer as a pharmaceutical company, rather than a health care company. Are you happy with public perception of the pharmaceutical industry? Do people really understand what you do?

Total pharmaceutical spending is about 10 percent of the total cost of health care. Forty years ago it was also 10

percent of the nation's health care cost. If you ask the public what percentage of health care costs relates to pharmaceuticals, you'll get an answer of between 40 and 60 percent, because that's how it looks to them. They only pay the pharmaceutical costs – the other costs are usually paid by insurers. Because of this, I think we do receive more than our fair share of criticism.

You have said in previous interviews that the expiration of patents has created a few challenges for Pfizer. How much has that issue affected the company's growth?

The loss of exclusivity of the leading products we introduced during the '90s was totally predictable. It has led to a period of time when our growth rate has remained fairly flat. We're about halfway through that period now. We anticipate that our new generation of medicines will get us through this flat period and build a platform for solid growth.

Are you developing new uses for your existing drugs?

We've benefited from a wealth of new data on all our products over the last two or three years. Since the launch of Lipitor, we've invested more than \$800 million in the development of new data, which supports the use of that drug in larger and larger populations. This is clinical information that's important to physicians and, therefore, to patients. We've seen some very powerful data supporting the expanded use of many of our products.

You have made major investments in research and development. Indeed, at one point you hoped to have 20 new products approved by the end of 2006. What products do you have in the pipeline?

The end of 2006 is not very far away. We've had a couple of disappointments, but we're on track to achieve our goal of 20 products filed for registration by 2006. Within that total there are some very innovative new products, ranging from medications for cardiovascular disease to drugs for diabetes, cancer, and HIV/AIDS. We have a very rich pipeline of new opportunities, which certainly benefits the patients we serve.

Some observers say there is a research shortage in the pharmaceutical industry. What is your view?

It's helpful to have a long-term perspective on this point. Our business operates in 12- to 15-year cycles. In other words, any investment in a new discovery program that we make today will not produce a new medicine for 12 to 15 years. So you really have to ask about what were we doing 12 to 15 years ago that might explain an admittedly flat spot in industry productivity. During the last 10 years, research spending tripled, while the number of new products approved every year stayed approximately the same. So, pretty clearly, there has been a decline in produc-

tivity in the industry. Twelve to 15 years ago, the early decoding of the human genome was taking place. We were investing in a large number of new, unprecedented targets and approaches that we thought at the time were highly worthwhile. Unfortunately, a lot of those unprecedented mechanisms did not work. So, in addition to increases in spending, we saw a very significant increase in failure rates early in the clinical-development process. I think we're through that period now, and the projects we're working on at the moment have a higher probability of eventual success.



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You've spoken out about the role the Internet plays in enabling the trade of counterfeit drugs to flourish. Is enough being done to make consumers aware of the dangers associated with buying drugs online?

This is a very serious problem. The politicians who tried to gain political favor by pandering to this issue used the rallying cry, “Show me the dead Canadians.” Sadly, there are now dead Canadians. Five died in the province of Ontario after using counterfeit medicines. Outside the United States, this problem is very widespread. Because of the Internet, there has been a very rapid growth in people trying to pass themselves off as Canadian Internet pharmacies, but the products don't come from Canada. They're not controlled by any regulatory organization. The opportunity for profit is enormous. The field has just exploded.

Now, we understand that too many Americans can't afford the prescription medicines they need. During the past two years, we've done a great deal to help them, including encouraging the passing of Medicare prescription drug benefit and creating several pharmaceutical access programs.

You've said that philanthropy is part of Pfizer's DNA. When you consider catastrophes like Hurricane Katrina, it must make you feel good to see the impact Pfizer had.

I don't really call what we do in this area “philanthropy.” I prefer to call it “corporate citizenship.” I concluded many years ago that if we are seen by society as part of the problem, we will be dealt with as a problem and, therefore, not be very successful. If, on the other hand, we work in partnership with others as part of the solution, people will want us to succeed, which will make it much more likely that we will succeed.

During the aftermath of the December 2004 tsunami, we put trained people on the ground in Thailand, Indonesia, and elsewhere to help with the rescue, relief, and reconstruction efforts. Something very similar happened after Hurricane Katrina. Pfizer has provided \$2.3 million in cash to relief organizations that are dealing with the short-term needs of the victims and are providing for longer-term recovery. Our employees saw the need and contributed over \$1 million, which Pfizer matched. Plus, Pfizer medicines and consumer products were available on the front lines the very next day. We also sent our own supply-chain management people to help rebuild the pharmaceutical supply chain in Louisiana, Mississippi, and Texas. For many decades we've made our medicines available free of charge in community health clinics, many of which were destroyed in the hurricane. We're going to help rebuild those community health clinics, so that people have access to the quality medical care that they need.

We're now working to help those hurt or displaced by the earthquakes in South Asia. I traveled there as part of a presidential council to rally financial support from Americans. The devastation is profound. Pfizer and many other companies are stepping up to help.

Would you ever be interested in working in government?

Well, I am already involved in government. I certainly would not want to be an elected official, but I serve on the president's advisory council on HIV/AIDS. Much of the work of the Business Roundtable, which I chair, involves dialogue on government policy to encourage economic growth and create jobs for more Americans. I am also very active on trade issues. So, like most CEOs, I am very active – maybe not in government, but certainly with government.

You always seem very calm. Yet, it must be frustrating at times when things don't go according to plan. How do you deal with that frustration?

My role model is the duck. I try to be calm on the surface and paddle like crazy underneath. ●