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## Strategy for an Industry Leader

### History

Imagine starting a Fortune 500 company with only \$2,500. That is exactly what Charles Pfizer and Charles Erhart, young entrepreneurs from Germany, did. The two cousins borrowed \$2,500 from Charles Pfizer's father and opened up Charles Pfizer & Company as a fine-chemicals business in New York, New York in 1849 (Pfizer).

Over the years, Pfizer earned itself a reputation as a leader in fine-chemicals developing products such as tartaric acid, cream of tartar, iodine, morphine, chloroform and the manufacturing of citric acid. The success of the business can be found in a statement delivered by Charles Pfizer in 1899 at the company's 50<sup>th</sup> anniversary celebration, "Our goal has been and continues to be the same: to find a way to produce the highest-quality products and to perfect the most efficient way to accomplish this, in order to serve our customers. This company has built itself on its reputation and its dedication to these standards, and if we are to celebrate another 50 years, we must always be aware that quality is the keystone" (Pfizer).

Pfizer continued their successful operations into the next century, filing for its certificate of incorporation in the state of New Jersey in 1900, with authorized capital of \$2 million. Pfizer remained private until 1942, when it offered 240,000 shares of common stock to the general public (Pfizer).

### Pfizer & The General Environment

Today, Pfizer is one of the world's largest research-based biomedical and pharmaceutical companies, with a rich history of innovation and care. Pfizer has medicines across eleven therapeutic areas, which help treat and prevent many of the most current, common health hazardous conditions (Pfizer). Their product portfolio includes both pharmaceutical products and animal health products. The pharmaceutical products portfolio includes twenty-four different drugs most notable being: Celebrax, Lipitor, Viagra and Zoloft. Pfizer also serves niche markets including hair loss treatments and smoking cessation aids (Crossley, *par.* 2) Pfizer has built a strong, diverse portfolio through acquisitions. To continue their successful path long into the future, Pfizer should be aware of three factors of the general environment that can have a significant impact on their future. They face challenges specifically within technology, sociocultural and legal & political trends.

#### Technology:

A company in the healthcare industry is constantly bombarded by new technology. New technology presents a situation for a company: they have to decide to jump on board or decline the opportunity. The technological trend that will have a great impact on Pfizer is biotechnology. Biotechnology is defined as



any technological application that uses biological systems, living organisms, or derivatives thereof, to make or modify products or processes for specific use (Humer, 2). This is especially important because it relates specifically to the development of pharmaceutical drugs.

**Sociocultural:**

The major sociocultural trend that will affect Pfizer’s operations in the future is the trend towards natural medicine and preventive healthcare. Table 1 shows health-related statistics specifically for the U.S. market (Vora, Cuddihee, 13-6).

Table 1

<b>Select U.S. Health-Related Statistics</b>	
Number of Americans (2007 estimate)	301,139,947
Life expectancy—male (2005)	75 years
Life expectancy—female (2005)	80 years
Population growth rate (2007 estimate)	0.89%
Birth rate (2007 estimate)	14.16%
Death rate (2007 estimate)	8.26%
Number of uninsured Americans (2007 estimate)	47 million
Number of underinsured Americans (2007 estimate)	25 million
Number of deaths attributed to medical errors	44,000-98,000
Percentage of bankruptcies attributed to healthcare debt	50% (10% of those are attributed to mental health issues)
U.S. spending on healthcare (1970)	\$75 billion
U.S. spending on healthcare (2007)	\$2.2 trillion
U.S. spending on healthcare (2016 estimate)	\$4.1 trillion
1970-2007 growth in GDP	6.6 percentage points
1970-2007 growth in healthcare spending as a percentage of GDP	9 percentage points
© Decision Resources, Inc., 2008	
Source: Decision Resources, Inc. Based on information from the Kaiser Family Foundation, the Institute of Medicine, the Commonwealth Fund, the Centers for Medicare and Medicaid Services, and Health Affairs.	

The numbers show that healthcare is growing more costly specifically in the U.S. The trend in preventive healthcare will help combat the rising costs in healthcare, by addressing preventive methods that will lower the number of individuals affected by health hazards due to a lack of education around health related issues.

**Political & Legal**

Pharmaceutical companies lose majority of their revenue within the R&D aspects of product development. They must follow close regulations by the Food and Drug Administration (FDA) especially when a drug reaches the stage of clinical trials. The political & legal implications for any pharmaceutical company are very complex, and require close attention to ensure all aspects of a firm’s business are closely inline with governmental and third party mandates.

There are two major trends within the political & legal sector of the general environment that will have a large impact on Pfizer’s operational success. The first issue is a revision of federal, medical marijuana laws



in an attempt to try and align them with state laws. The second issue is a legal matter of patents expiring on specific drugs held by pharmaceutical companies.

### **Innovation Through Acquisition**

Over the last sixty years, Pfizer has had five major acquisitions, each adding to Pfizer's diverse business portfolio. The five acquisitions were J.B. Roerig & Company, SmithKline Beecham's animal health business, Warner-Lambert, Pharmacia Corporation, and most recently Wyeth Pharmaceuticals (Pfizer). Each of these companies offered unique products in specialized areas, where the Pfizer portfolio was lacking. For example, J.B. Roerig & Company specialized in nutritional supplements, which was an area Pfizer had no resources (Pfizer). By acquiring J.B. Roerig, Pfizer was able to gain resources in the nutritional supplements division of the pharmaceutical drug market without having to completely develop their resources from scratch.

Another acquisition that brought new resources under the Pfizer name was when they acquired SmithKline Beecham's animal health business (Pfizer). In 1952, Pfizer established their Agricultural Division, which was dedicated to offering cutting-edge solutions to animal health problems (Pfizer). This department within Pfizer didn't take off until it acquired SmithKline Beecham's animal health business in 1995. Pfizer was able to add considerable resources to a relatively new division within the firm. This acquisition was a step in the right direction, allowing Pfizer to build their animal health portfolio into what it consists of now, which includes fourteen drugs, the most notable being Draxxin, Dectomax, and Sientrol (Pfizer).

The most prominent, and important acquisition that will have a direct effect on Pfizer's performance in the coming years is that of Wyeth Pharmaceuticals.

### **Wyeth Acquisition & What it Means for Pfizer**

The Wyeth acquisition represents a bold move to directly increase Pfizer's competitive advantage. After a year of talk back and forth between Pfizer and Wyeth, the acquisition occurred in a cash-and-stock transaction valued at \$50.19 per share, or a total of approximately \$68 billion (Johnson, *par.* 1). This is a big purchase for Pfizer, but according to Jeffrey Kindler (Pfizer CEO), "the combination with Wyeth advances every single one of (our) strategies... those goals include increasing sales in emerging markets, enhancing the ability to treat specific diseases, such as Alzheimer's, and becoming a top player in vaccines and biologic drugs, which are made from living cells" (*par.* 3).

In a report released by Pfizer titled, *Creating the World's Premier Biopharmaceutical Company*, corporate executives provide a strategic platform broken down into four strategic priorities, each with various sub topics. The purpose of the report is to show that the acquisition of Wyeth provides resources to achieve all of the strategic priorities:



- Extends Global Health Care Leadership
- Human, animal, consumer health; nutritionals
- Primary and specialty care
- Vaccines, biologics and small molecules
- Developed and emerging markets

#### Drives Improved Performance Through Unique, Flexible Business Model

- Focused, agile business units
- Backed by resources, scale of global enterprise
- Significant financial resources available for investment

#### Strengthens Platforms for Improved, Consistent and Stable Earnings Growth

- Definitively addresses revenue loss from Lipitor loss of exclusivity (LOE)
- Forms broad, diversified portfolio of growth drivers
- Supports continuing progress in establishing a lower, more flexible cost base

#### Enhances Ability to Meet Unmet needs of Patients, Physicians and Other Consumers

- Augments in-line and pipeline portfolio in “invest to win” disease areas
- Enhances scientific, manufacturing and pharmaceutical science capabilities
- Provides the best opportunities for world class, high performing talent

The acquisition of Wyeth provided Pfizer with the resources it needed to achieve a continued long-term success and a continued competitive advantage.

## Financial Analysis

The acquisition of Wyeth came just after Pfizer released their fourth-quarter and full year 2008 reports and 2009 financial guide. During the fourth quarter, Pfizer announced reported revenues of 12.3 billion down 4% from \$12.9 billion the previous year. Their reported net income for 2008 was \$8,104,000, down \$40,000 from the previous year (Pfizer). The decrease was attributed to the loss of exclusivity for some of their drugs including: U.S. exclusivity for Zyrtec in January 2008, and for Camptosar in February 2008, as well as the loss of exclusivity for Norvasc in Korea and Japan in February 2008 and July 2008 (Pfizer).

	Fourth-Quarter			Full-Year		
	2008	2007	Change	2008	2007	Change
Reported Revenues	\$ 12,346	\$ 12,870	(4%)	\$ 48,296	\$ 48,418	--
Reported Net Income	266	2,724	(90%)	8,104	8,144	--
Reported Diluted EPS	0.04	0.40	(90%)	1.20	1.17	3%
Adjusted Revenues <sup>(1)</sup>	12,311	12,795	(4%)	48,341	48,209	--
Adjusted Income <sup>(1)</sup>	4,389	3,402	29%	16,366	15,113	8%
Adjusted Diluted EPS <sup>(1)</sup>	0.65	0.50	30%	2.42	2.18	11%

Pfizer posted reported net income of \$266 million, a decline of 90% compared with the prior-year quarter (Pfizer). The acquisition of Wyeth would boost Pfizer up from total revenue of \$48 billion to \$71 billion (unaudited figures, Pfizer). With such a low net income, Pfizer had to make a strategic action to acquire



Wyeth, which would give them a competitive advantage leading to increased innovation and diversified sources of revenue.

Shareholders would end up owning 84% of the stock in the combined company (Pfizer). Pfizer financed the acquisition through cash, equity, and debt, with debt financing from JPMorgan, Bank of America, Merrill Lynch, Barclays, Citigroup, Goldman Sachs (Pfizer). Pfizer decided to pursue an acquisition despite economic downturn and an increased wariness of the financial security of America's banking structure. This could be a risky move for the firm, depending on the future of the dollar and how the exchange rate holds up.

## **Compatibility of Pfizer & Wyeth**

### **Pfizer**

**Mission-** to improve health for people around the world and create value for our diverse stakeholders.

**Vision-** To adapt to the evolving needs of society and contribute to the overall health and wellness of our world.

### **Corporate Values**

- Integrity
- Community
- Performance
- Respect for People
- Innovation
- Leadership
- Customer Focus
- Teamwork
- Quality

Leader Behaviors: Bringing Values to Life

- Sustain focus on Performance
- Create an INCLUSIVE Environment
- Encourage Open DISCUSSION and Debate
- MANAGE Change
- DEVELOP People
- ALIGN Across Pfizer  
(Pfizer).

### **Wyeth**

**Mission-** We bring to the world pharmaceutical and health care products that improve lives and deliver outstanding value to our customers and shareholders.

**Vision-** Our vision is to lead the way to a healthier world. By carrying out this vision at every level of our organization, we will be recognized by our employees, customers and shareholders as the best pharmaceutical company in the world, resulting in value for all.



### **Corporate Values**

- Quality
  - Integrity
  - Respect for People
  - Leadership
  - Collaboration – “Teamwork”
- (Wyeth).

After a short analysis, it is apparent that Pfizer and Wyeth share similar missions, visions and values making them a likely fit for a successful acquisition.

### **Cultural Integration**

Pfizer and Wyeth each had their own corporate cultures. Those cultures must now integrate to form one successful culture. Both Pfizer and Wyeth were large corporations spanning internationally and competing within the same industry. Each company had cultures that varied between departments and locations, which shows that the communication of corporate values from a top down structure was lacking. All departments and locations should have been aware of the larger vision in place by both firms, in order to make employees feel they were contributing to a larger goal, not just the day-to-day grind.

In researching on social networking sites revolving around sharing the internal secrets of an organizations culture, it became apparent that both Pfizer and Wyeth shared similar issues in corporate culture:

- Power hungry management
  - Ineffective top-down structure
  - Communication issues
  - Overall sense of contribution to goals from employees on every level
  - Dissatisfaction with treatment of sales team
- (Indeed and Cafepharma).

The acquisition presents Pfizer the perfect opportunity to implement Knowledge Programs, which consist of allowing employees to give annual, anonymous feed back and require executive managers to share their strategic plans so every employee feels invested in the firms future. Knowledge Programs will help combat discontent between the hierarchical structures of the different departments and locations.

### **Strategic Action Plan**

In addition to successfully combining the two corporate cultures, Pfizer will need to take strategic actions to continue their competitive advantage and to please shareholders. The action plan for Pfizer consists of milestones that will occur on a two, five and ten year basis. Each milestone will have a direct relation to the concerns Pfizer faces in the general environment.

**Two Year Plan-** *Generate a Buzz: word of mouth.*

Patents on many pharmaceutical drugs will expire in 2010 through 2012. “Most of the large US pharmaceutical companies are facing more major patent expirations between 2010 and 2012. And with patented blockbusters dying off, companies are being challenged for replacements. But getting a new drug approved today is significantly harder than it was even a few years ago” (Bates, *par.* 7). With expiring patents pharmaceutical firms will be tasked to enhance their marketing objectives in order to sway their audience in the direction of branded labels instead of generics.

Traditional media is expensive, and ineffective, especially when the commercials list more side effects than the actual benefits. In order to combat the large number of expiring patents between 2010 and 2012 Pfizer needs to develop effective word of mouth through Web 2.0 and social media sites. In addition, Pfizer can implement an Interactive & Technology R&D team, which will allow Pfizer to stay on top of trends and prepare for the change in interactive marketing that will occur from the “coming soon” Web 3.0.

In addition to advertising efforts, and aligning with political & legal trends, Pfizer has the opportunity to establish groundwork in medicinal marijuana. Under the Obama administration, federal medical marijuana laws will change to align with state medical marijuana laws (Barrett, *par.* 1). Federal raids in states that allow medical marijuana may become illegal under the Obama administration. This brings two revenue possibilities to states that allow medical marijuana: tax medical marijuana growers or sell medical marijuana (Har, *par.* 4). If states start to grow and sell marijuana they will need to ensure safe growing practices to eliminate any chemical and pesticide remnants in the weed, which can affect the effectiveness for patients. Systems will need to be put into place that will allow the state to have a safe source of medical marijuana. One possibility would be third party, approved providers. This could open up the opportunity for Pfizer to expand into the medical marijuana field. Using their ample supply of land and infrastructure to grow safe medical marijuana and sell for a profit to the states that have legalized medical marijuana.

**Five Year Plan-** *Think preventive, not reactive.*

The World Health Organization has posted case studies of countries throughout the world, which have adapted preventive healthcare practices within their national healthcare structures. The case studies included Brazil, U.S. specifically Kaiser Permanente in California and India (WHO, *pars.* 9, 11 and 15). The importance of the case studies illustrates that preventive healthcare will be a positive solution to combat the rising rate of deaths associated with preventable diseases. Preventive healthcare starts with education around the issues of alcohol, tobacco, inactivity and poor nutritional diets. While Pfizer isn’t directly associated with national healthcare systems, they are directly affected by a change in patient care. The trend towards preventive healthcare can greatly affect Pfizer’s long-term performance and revenues based solely on pharmaceutical drug sales.



Pfizer has the opportunity to start a sub-endeavor that focuses solely on preventive healthcare through educational seminars. Pfizer can become a coaching firm, teaching their customers how to live a preventive lifestyle. The curriculum would examine tobacco and alcohol, exercise training, dietary needs and homeopathic medicines. This endeavor aligns with Pfizer's vision to lead the way to a healthier world.

Preventive health practices are a great way for Pfizer to achieve leadership in maintaining a healthier world. Instead of developing all efforts in house, essentially recreating the wheel, there are opportunities for Pfizer to form strategic alliances with gyms, vitamin & dietary companies and therapeutic trainers in an effort to lower the number of deaths associated with preventable diseases.

Adding preventive healthcare to the Pfizer portfolio allows for balanced revenues in the wake of an unforeseeable future in the sales of pharmaceutical drugs due to heavy R&D costs and an influx in federal regulations on approvals of new drugs and marketing practices.

#### **Ten Year Plan- Stealing the Thunder.**

The ten year plan focuses on technology trends with Pfizer's ability to stay ahead of the curb in biotechnology, thereby creating a competitive advantage. Pfizer has already developed its business structure to accommodate biotechnology. They have one of the world's largest pharmaceutical research efforts, with 13,000 scientists worldwide and research facilities in: Groton/New London, Sandwich, La Jolla, St. Louis, Cambridge, and Rinat South San Francisco.

The facility in Rinat South San Francisco is known as the Biotherapeutics and Bioinnovation Center (BBC). Pfizer developed this research facility to advance their commitment to excellence in biotherapeutics leadership. "Bringing together the right resources, alliances, products and people. This new, separate research and development (R&D) division combines cutting-edge biology, advanced biologic technologies and innovative R&D approaches to develop new, high-quality medicines, and in so doing, propel Pfizer to the forefront of bioinnovation and into the top tier of biotherapeutic companies" (Pfizer). Biotechnology will be the forefront of innovative changes in the development of pharmaceutical drugs. If Pfizer stays at the forefront of this technology, they will gain a competitive advantage in their industry.

To create a competitive advantage with biotechnology, Pfizer must consider the environmental impacts of their current drugs, specifically antibiotics. Antibiotics are considered the miracle drug saving millions of people's lives because they battle infectious diseases. There are negative consequences to the wide spread use of antibiotics though. A bacterium has the ability to adapt survival instincts to ward off competitors. The wide spread use of antibiotics has allowed bacteria to adapt by becoming resistant. "Significant change has occurred with the large scale human uses of antibiotics because these substances kill off antibiotic susceptible bacteria, and thus create favorable environments for the overgrowth of resistant strains" (APUA, *par.* 3). The continued use of antibiotics will result in more strands of resistant strains of disease causing bacteria, leaving no alternative treatments.



Pfizer can become the leader within the pharmaceutical industry, stealing the thunder from any of their competitors, if they use their capabilities with biotechnology to create an alternative solution to antibiotics. This will further their environmental efforts, and allow them to conduct business in a way that achieves their vision. Pfizer has many R&D efforts in place, especially after the acquisition of Wyeth. They can use their abundant resources to delve full-fledge into discovering alternative treatments to antibiotics. If they are successful in creating an innovative alternative to antibiotics Pfizer will be meeting consumer demands, and pleasing shareholders with a large return on investment.

## **Conclusion**

Pfizer is one of the world's largest research-based biomedical and pharmaceutical companies. They have over one hundred years of experience operating in the pharmaceutical industry and a history of acquisitions to create a diversified product portfolio and the ability to innovate. Their most recent acquisition of Wyeth has put the firm in a unique position to implement Knowledge Programs to set an example for other corporations on how to achieve effective top-down and down-top communication of strategic goals. In addition to the integration of cultures, Pfizer can achieve competitive advantage through a two, five and ten year plan involving: word of mouth marketing, medical marijuana, preventive healthcare and alternatives to antibiotics. Pfizer is in a great position to change the core of how they conduct business and to shed a new light on the pharmaceutical industry; a light that shows customers that Pfizer realizes the criticism facing the healthcare industry and they will take strategic action to address concerns.



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