5-1-2009

# Pfizer, Inc.

Nadezhda Smirnova
*Pace University*

# Pfizer Inc.

*United States*

Nadezhda Smirnova
May 20th, 2009
Finance
Dr. Baugher- Management

## Table of Contents

## Executive Summary

This paper addresses a few major problems that the pharmaceutical company Pfizer Inc. has recently been facing. The paper also provides promising solutions to these major problems, which without action can lead to the demise of the pharmaceutical giant. The implementation of the proposed solutions would allow Pfizer Inc. to improve its position and inevitably save it from possible demise.

The paper is separated into two major chapters. The first of these chapters deals with management while the second deals with finance. Within the management chapter, there are three problems of Pfizer Inc. as well as three solutions. The first management problem is the rigid top-down decision making structure of the company. The solution is to decentralize the decision making to promote a more diverse assortment of products. The second management problem is the mass approach to the market. To correct this problem Pfizer should develop a more targeted sales strategy. The third management problem is the cutting of jobs. Pfizer Inc. should undergo internal restructuring of employees.

The finance chapter also includes three problems and three solutions. The first financial problem is the declining sales of Pfizer Inc. To alleviate this problem the drugs that have the highest amount of generic competition should priced cheaper. The second financial problem is the expense on legal bills. Pfizer should place stricter warning labels on their products. The third financial problem is declining productivity. Pfizer should rectify this by spending less on research and more on acquiring of licensing of products from other companies.

In total, there are six major problems and solutions addressed in this paper. The financial and managerial problems sometimes overlap due to the fact that there are many various aspects that need to be taken into account when looking at each problem and solution. These problems did not develop over night nor will they have quick fix solutions. The proposed actions however, would better the general well being of Pfizer Inc. and allow it to once again prosper.

## **Precis**

The financial and managerial problems of Pfizer Inc. have often stayed not only unsolved but also undefined. As a representative of many other pharmaceutical companies as well as companies in other industries the definition of common problems as well as feasible solutions would allow for these and other companies to be able to function better. The implementation of these solutions would mitigate the job loss during times of economic recessions. Also if similar solutions would be taken by other companies across the world, it would possibly even minimize the general negative effects of a slowing economy and allow for more growth and revenue in times of economic development.

With the dramatic turns that economies all over the world have experienced over the last year it is imperative to study and develop means for companies and people to overcome economic turmoil. Through out the time period of the recent economic crisis, companies have had to shut their doors and many people lost their jobs. This was not only a bad outcome on the company but it had a spiraling effect on the general economy. When people were laid off, consumer spending decreased because people no longer had the income to spend. This in itself contributed to an even greater economic decline. If companies were able to adjust to better business models and practices, it would allow for the downturns in the economy to take on less of an impact on the companies and thus the employees. This would help to alleviate rolling effect of the economic slowdown on companies, people and in effect even on countries.

The most important step in being able to provide solutions to detrimental problems is to identify the problems themselves. To do so much research is needed to be done on the company behavior as well as on the behavior of other companies in the same industry. The key here is to look at not only how the company behaves in normal times but to forecast behaviors of the company when unpredictable changes take place in the economy. It is only after the identification process of the problems occurs that it is possible to find solutions to these tribulations.

To go about finding solutions one needs to look at how other companies, perhaps even in fields that are completely unrelated have taken on similar problems. Just because solutions may work well for one company does not mean that they would work well for all but it also does not mean that they should be immediately discarded. When looking at possible solution one needs to adjust them to fit the framework and structure of the company. Financial reports, capital structure, products produced, mission statements, consumer reports as well as numerous other company data needs to be inspected only after which could the solution be formulated in terms of having any validity to the company at hand.

Since Pfizer Inc. is a very good representation of other companies around the world, it is used as the means to the findings about solutions. Not only financial solutions but managerial solutions as well are very important. In terms of financial solutions, Pfizer Inc. must first of all lower prices on drugs to compensate for expiring patents so that competitors would not adopt all of the company customers by making replicas of the drugs that would be sold at a cheaper price. Pfizer must also impose stricter warnings on drug labels so that they could decrease their growing legal expenses from law suits. Finally the company should also lower expenses that stem from research and development. Although this does not seem like a logical step, there is plenty of evidence to suggest that it is in fact a rational step.

In terms of managerial problems, Pfizer Inc. has to take a very different approach. The company must first and foremost, impose a decentralized decision making process. This would allow for better utilization of employees and their ideas while giving the upper management a better understanding of the company needs. Pfizer Inc. must also develop a more targeted sales strategy when providing their products to the market. This would allow for resources to be utilized in a more efficient way so that company revenue does not suffer. Finally, the company must restructure its' employees internally which would lead to more knowledgeable staff in all departments while avoiding high job cutting and turnover rates.

When these steps are implemented, it would be detrimental to measure the results in a concise way and then follow up with further research. It is only after these initial changes take place that it would be possible to take further steps in bettering the company.

## <u>Introduction</u>

Pfizer Incorporated is a major pharmaceutical company. It is based in New York City and produces a large amount of number-one selling drugs which are used around the globe. Some of these drugs include Lipitor used to lower cholesterol; Zoloft used for treating depression, the anti inflammatory Celebrax and the well known erectile dysfunction drug Viagra. [1] Even though the pharmaceutical and biotech sectors are some of the best sectors for investors to be in during a time of economic slow-down like the one the U.S. is currently experiencing, Pfizer has often been thought of as the least appetizing of the big pharmaceutical companies due to its increasing financial and managerial problems.

Pfizer has been pursuing an all-too-common strategy. It focuses on financial engineering, cost-cutting, share buybacks and acquisitions while neglecting innovation and capital spending today in order to generate profits tomorrow. Lack of innovation is at the core of Pfizer's problems, but at Pfizer generating solid future growth may be even more of a challenge. The company has never been especially good at finding new drugs and now with the approaching expiration of patents on many of their top selling drugs there need to be other measures taken.

As of April, 2008, Pfizer shares have hit the lowest price that they have seen in over 10 years to under $20. In the quarter ending on April 18, Pfizer profit tumbled 18% on stiffer competition and signs of weakness in blockbuster drug Lipitor, falling short of Wall Street's estimates and adding to long-term downward pressure on the company's stock.[2] Throughout the downfall of Pfizer in the last few years investors as well as customers waited for a change in the company's overall business strategy but none has yet been announced. Financial and managerial problems have recently escaladed for Pfizer but with proper implementation of new practices positive changes are sure to occur.

---

[1] Pfizer.com
[2] Johnson, A. p.1

# Chapter 1: Management

*Problem 1: Top-Down Decision Making*

In the case of Pfizer Inc. the decision making process is organized in a very top-down manner. The major decisions are made by high executives with other workers having less and less of an impact on the final decision. This does not allow for much innovation throughout the company which is making attempts to find new sources of revenue.

*Solution 1: Decentralization*

Decentralization might be a better match for Pfizer Inc. due to the fact that they are trying to maintain a more diverse assortment of products. Pfizer Inc. should inject the sort of bottom-up decision-making approach into its operations that has worked out so well at companies such as Johnson & Johnson. Decentralization might be a better match for a company that fights to have a more diverse portfolio of products requiring more targeted sales strategies. [3]

Although this would be a huge shift for famously top-down Pfizer, top officials have said that they recently began using such an approach for product planning, linking managers from drug discovery through licensing, focused around specific disease categories, such as cardiovascular or metabolic disorders. Even though this implementation is sure to assist Pfizer in achieving its goals, this approach needs to be implemented on a greater scale throughout the entire company. This would in effect create a series of smaller, more focused businesses.[4]

[3] Barrett, A. p.3
[4] Barrett, A. p.3

The series of smaller, more focused businesses could in turn be able to sustain much more diverse operations. It would also allow for more innovation in development of strategies that are specific to each kind of operation being conducted.

*Problem 2: Mass Approach to the Market*

Pfizer Inc. has sent out a very large number of sales representatives into the field in order to potentials sell their drugs to various doctors and medical facilities. In the 1990s, Pfizer was one of the most aggressive drug makers in building up its sales force of representatives. According to research firm Verispan LLC, the number of U.S. reps grew nearly 8% over only two years from 2002 to 2004. [5] This is largely in part due to the fact that since the 1990s, other pharmaceutical companies have also adopted this approach. With the growth of the pharmaceutical industry, it is getting much harder for each representative to get time with doctors.

*Solution 2: Develop a More Targeted Sales Approach*

It is prudent that Pfizer Inc. develops a more targeted sales approach in order to deal with the problems that are arising from its mass approach to the market. Instead of paying sales representatives to often pitch the same drugs to doctors that other company representatives have already seen, the company needs to establish separate sales teams to head particular products while giving them each some independence.

While the company does have some salespeople selling to specialists today, that sales force is dominated by reps who pitch a lot of drugs to a wide array of practitioners. The establishment of such an approach would create an environment in which there would much less overlapping of representatives when they are in the field and it would also allow doctors more freedom to see these representatives.

[5] Barrett, A. p.4

Having separate independent teams to head particular products would also allow for much more innovative developments of selling tactics. This is due to the fact that each individual team would have less of an array of drugs that they need to present in a single meeting and they would be able to cover all of the bases pertaining to their individual products.

*Problem 3: Cutting Jobs*

Since January 2007, Pfizer has made several cut backs in its U.S. sales workforce as part of its plan to reduce costs and boost earnings in the coming years.[6] The job cuts affected thousands of employees at all levels of the drug giant's sales operation, from field sales representatives to upper-level management, according to Pfizer spokesman Paul Fitzhenry.[7] The cutting of jobs does not present a valid source of progress for the company's future but rather just temporary solutions to a much bigger problem.

*Solution 3: Internal Restructuring of Employees*

Pfizer spends approximately $3 billion annually on advertisements and over $16 billion on sales and administrative expense. This is almost double what the company spends on research and development of new products.[8] The company's once valued labs, have hit a dry patch, with introductions of promising new treatments slowing alarmingly. To aid this problem the company needs to put more emphasis on creating positions in the field of scientific development and limiting the positions available in the marketing and sales sectors.

---

[6] Fraser, J. p.1
[7] Fraser, J. p.1
[8] Barrett, A. p.1

In the recent years there Pfizer has developed many drugs which did not turn out to be adequate. Many of their potential projects have failed. However, despite the decreasing number of new drugs introduced to the market the company's marketing budget still remains high and positions in the marketing sector are not limited very much. There is no doubt that the company needs to promote development by hiring more people in that field and increasing its budget because this would undoubtedly lead to an increase of finalizing drugs that individuals would be able to purchase. With better development of drugs, not only more of them would be generated but also there would be less likelihood of the drugs failing.

Cutting jobs has become a reflex, not because it works especially well at fixing the real problems but because firings produce the kind of immediate earnings improvements that help CEOs keep their jobs and collect billions of dollars in salary and options. This is because getting rid of workers lets a company forecast the kind of immediate cost savings and surging profit margins that keep shareholders from being in an upheaval. Firing a large amount of workers not only does not help the company in the long run but actually throws the company into turmoil just at the time when it needs everybody to pull together.[9] Pfizer needs to forego the major layoffs throughout the entirety of the company as well as its emphasis on immediate profits but rather restructure the employees and positions to work towards a better long-term future.

## **Chapter 2: Finance**

*Problem 1: Declining Sales*

---

[9] Jubak, J. p. 1

In the past few years Pfizer has been experiencing very greatly declining sales. This is due mostly to the increasing competition provided by the cheaper generic alternatives to drugs. Unless something is done, this problem will only continue to grow with the nearing expirations of patents on many of Pfizer's most profitable drugs between 2010 and 2012. Pfizer will see blockbuster drugs worth $14 billion in sales per year lose their patent protection and be subject to competition.

*Solution 1: Lower Prices*

Pfizer has been taking a multibillion-dollar hit from continuing worldwide patent expirations for many of its lead drugs including Lipitor. Sales of the cholesterol-lowering drug fell 5% in the third quarter last year. Five percent may not seem like much, but in reality it translates into hundreds of millions of dollars in reduced sales annually.[10] With cheaper alternatives being available, few people are opting to pay for the more expensive version of the drug. To combat the rising generic competition, Pfizer needs to lower the prices on some of its drugs.

The decline in price should affect those drugs which are facing the most competition from the expiration of patents. At this point the loss of sales on these drugs is becoming so great that lowering the price to consumers may lead to an influx in revenue from drugs that would otherwise remain unused. Billions of dollars have already been spent on the development of these drugs which are now sitting idle because health insurances are often unwilling to cover the more expensive drugs which could be substituted with a generic version and consumers unwilling to pay out of pocket for them.

At the very least lowering the price of the drugs with high generic competition would bring in minimum revenue which would otherwise not be existent. This revenue could in turn be used to fund

[10] Lawler, B. p.1

research and development of new drugs that are not yet available on the market and thus not subject to harsh competition.

*Problem 2: Legal Bill Expense*

In the past several years, Pfizer has been the center of many lawsuits brought by consumers. These lawsuits are stemming from companies that it has acquired or merged with, including asbestos litigation as well as litigation stemming from the ill effects caused by its manufactured drugs. Although many of these lawsuits are still pending, they can increase expenses by approximately $20 billion.

*Solution 2: Stricter Warnings on Drug Labels*

Many of the lawsuits that Pfizer is now facing stem from the fact that customers were misguided by Pfizer by the lack of harsh warnings on their drugs. They created an image that the drugs that they are producing are safe and often did not emphasize potential major side-effects. One example of this is Pfizers anti-smoking drug Chantix. The Food and Drug administration said that it has received reports of 37 suicides and more than 400 of suicidal behavior in connection to the drug.[11] In response to consumer worries, the company stressed that a direct link between Chantix and the reported psychiatric problems has not been established. Pfizer also suggested that since nicotine withdrawal alone can cause mood swings and agitation, it may be impossible to determine if Chantix aggravates those behaviors.

In numerous cases such as that of Chantix, Pfizer neglected urges to put stricter warning labels. Pfizer instead, placed the responsibility to doctors to decide on the risk-reward ratio. This has left the company open to numerous pending lawsuits that could have been avoided by the implementation of stricter warning labels. To prevent further increasing litigation expenses, Pfizer needs to begin placing very strict warning labels on its drugs.

---

[11] Interactive Investor p.1

Although the proposed solution may deter some customers from purchasing the drugs, the financial repercussions would be far less than bearing $20 billion lawsuit expense. Stricter labels should also include all substantial possible links to side effects not just those that the FDA has mandated the company to include. This would limit the liability that Pfizer would have to face for misguiding consumers and place more of an emphasis on the customer to read all of the warnings.

*Problem 3: Declining Productivity*

Currently Pfizer is experiencing huge expenses on research operations while new hits are few and far between. Most of the drugs that are currently in the last phase of development are actually not new at all but rather they are simply expansions of older products. Pfizer spent approximately $70 million on each product in its pipeline in 2004, up from $53 million just two years earlier even though a number of the most exciting products in the pipeline were either acquired or licensed from other companies.[12] This is a sign of the weakness in Pfizer's early discovery operations.

*Solution 3: Lower Expenses on Research*

In order to help Pfizer overcome declining productivity, the company needs to lower the expense on research and spend this money on acquiring of licensing of products from other companies and on further development of these products. Some of Pfizer's most successful products were obtained in that manner.

[12] Barrett, A. p.3

When Pfizer's Viagra pipeline ran virtually dry, the company made an art of locating already assembled masterpieces at other companies' labs. Then they either licensed the right to sell the drug like they did with Eisai Co.'s Alzheimer's drug, Aricept, or simply bought its owner. In 2000 that strategy led to Pfizer's record-setting $90 billion acquisition of Lipitor maker Warner Lambert after a brutal bidding war against American Home Products.[13] Lipitor went on to be one of Pfizer's top sellers and to generate billions of dollars in revenue. The company should make many more acquisitions of this type to generate the revenues that it has so greatly been lacking.

To supplement this solution, Pfizer should also make attempts to diversify into other health care businesses to reduce the reliance that it has on pharmaceuticals. Diversification as well as expansion on the new areas of business that diversification provides would lower the influence that declining drug sales have on the total revenue of the corporation.

## Concluding Remarks

Over the years, Pfizer went from being one of the greatest pharmaceutical companies, to one which struggles to stay afloat. In order to overcome the numerous financial and managerial problems

[13] Simons, J. p.4

that the company is now facing, it needs to take many actions. These actions need to take place as soon as possible, before the company completely looses the market that it has so vigorously worked for through the duration of many years.

Pfizer needs to focus more on development of products instead of cutting jobs to gain capital. It also needs to make more acquisitions of existing drugs from other companies, emplace stricter warning labels to minimize legal expenses, lower prices of highly competed drugs to gain at least minimum revenue, Pfizer needs to decentralize decision making to promote innovation and finally, the company needs to take a different, more specialized approach to field sales.

If the company implements at least some of the proposed solutions of this paper into its operations, it is sure to see growing sales, revenue and share price. Pfizer has the potential to once again be a pharmaceutical great it was years ago but only with the implementation of new procedures and operations.

## **References**


- ✓ Barrett, A. (2005, February 28). Pfizer's Funk. *Business Week* , p. 5.

- ✓ Fraser, J. (2007, January 23). *Pfizer Forced to Cut 20 Percent of U.S. sales Force*. Retrieved February 2, 2008, from NationalNews.com: www.naturalnews.com/z921482.html

- ✓ Interactive Investor. (2008). *FDA: Chantix may pose psychiatric risks*. Retrieved February 2, 2008, from WBSTV.com: www.iii.co.uk/news.

- ✓ Jubak, J. (2007, January 30). *Jubak's Journal: Firing Workers isn't Fixing Problems*. Retrieved February 2, 2008, from MSN Money: http://articles.moneycentral.msn.com/investing/jubaksjournal/firingworkersisntsolvingproblems

- ✓ Jubak, J. (2005, January 14). *Schwab, Pfizer fail the Clean Stocks test*. Retrieved February 2, 2008, from MSN Money: http://moneycentral.msn.com/content/p102173.asp

- ✓ Lawler, B. (2007, February 22). *Pfizer Bear*. Retrieved February 2, 2008, from Dueling Fools: www.fool.com/investing/2007/02/22/dueling-fools-pfizer-bear.aspx

- ✓ Lawler, B. (2007, October 15). *Save Your Cash, Pfizer*. Retrieved February 2, 2008, from The Motley Fool: www.fool.com/investing/high-growth/2007/10/15/save-your-cash-pfizer.aspx

- ✓ Prakash, S. (2005, December 5). *Pfizer Problems Emblematic of Industry Obstacles*. Retrieved February 2, 2008, from NPR: www.npr.org/templates/story.php?storyid=6580343

- ✓ Reuters. (2007, July 19). Pfizer Earnings Show a Decline As Sales Slow. *The New York Times* , p. 1.

- ✓ WSBTV. (2004). *Pfizer and Merck: Different Strokes*. Retrieved February 2, 2008, from WBSTV.com: www.wsbtv.com/print/4014162/detail.html

## Appendix

### Table 1: Pipeline Problem

*The table below lists many of Pfizer's top drugs whose patents have either expired or will soon do so. It also lists some new products that Pfizer has as a part of its future lineup.*

## PIPELINE PROBLEM

**Many of Pfizer's biggest-selling drugs will lose patent protection in coming years but its lineup of new products is a concern to some investors.**

**What's going out**

| DRUG | TREATMENT | SALES* | PATENT |
|---|---|---|---|
| Zithromax | Antibiotic | $1.9 | Expired 2005 |
| Zoloft | Anti-depressant | $3.3 | Expired 6/2006 |
| Norvasc | Blood Pressure | $4.7 | Expires 2007 |
| Zyrtec | Allergies | $1.3 | Expires 2007 |
| Lipitor | Cholesterol | $12.2 | Expires 2011 |

**What's next?**

| DRUG | TREATMENT | STATUS |
|---|---|---|
| Maraviroc | HIV | Filing to FDA |
| CP-945,598 | Obesity | Phase 3 |
| CP-675,206 | Melanoma | Phase 3 |
| Axitinib | Cancer | Phase 2 |
| Lyrica | Chronic Pain | On Market |

*IN BILLIONS
**SOURCE: PFIZER

NOTES: SALES FIGURES FOR LAST FULL YEAR DRUG WAS ON THE MARKET. LYRICA, ALREADY MARKETED FOR NERVE PAIN FROM DIABETES AND SHINGLES, IS BEING STUDIED TO TREAT FIBROMYALGIA, A CHRONIC PAIN ILLNESS.

**Table 2: Pfizer's Stock Price**

*The following graph depicts Pfizer Inc. stock prices over the past ten years. It is obvious from the graph that the value of the stock has declined dramatically over the last ten years.*