

Pfizer's Growth Strategies Under Different Internal and External Environments

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Abstract

The internal and external environments of enterprise are constantly changing, and incentives and obstacles existing in the internal and external environments are important factors of influencing enterprise growth. Company's policy makers should learn how to use enterprise growth incentives to make enterprises continue to grow. Taking Pfizer inc., for the empirical analysis, the conclusion are as follows: no matter internal or external the growth incentives exist in, enterprise should develop in the direction of the growth of incentive, to overcome the barriers that exist in the environment, and to gain the ability of sustainable growth.

Key Words: Incentive; obstacle; sustainable growth

Introduction

Every enterprise needs sustainable growth. It is very important to help find the way to grow in every environment. SWOT analysis method, by the professor of management at the university of San Francisco in the early 1980s, is used to accurately assess a company's real situation. The environment of an enterprise is divided into the internal environment and external environment. S stands for Strengths and W stands for Weakness. We use Strengths and Weakness to describe the internal environment of the enterprise. O stands for Opportunity and T stands for Threats. Likewise, we use Opportunity and Threats to describe the external environment of the enterprise. Strengths and Opportunity are the internal and external incentives of enterprise growth, and Weakness and Threats are the internal and external obstacles of enterprise growth. In the process of an enterprise growth, with the internal and external environments, intelligent decision makers need to discover and use the incentives to keep enterprise sustainably grow.

1. Four kinds of internal and external environments.

Enterprise is not exist in isolation, so every enterprise has its internal and external environments. Internal and external causes, internal and external barriers, both of which affect the growth of enterprise, are also exist at the same time. In order to facilitate research, we assume that a firm's internal environment is characterized by internal incentives (barriers) when the internal incentives (barriers) are the principal contradiction. Similarly, we assume that a firm's external environment is characterized by external incentives (barriers) when the external incentives (barriers) are the principal contradiction.

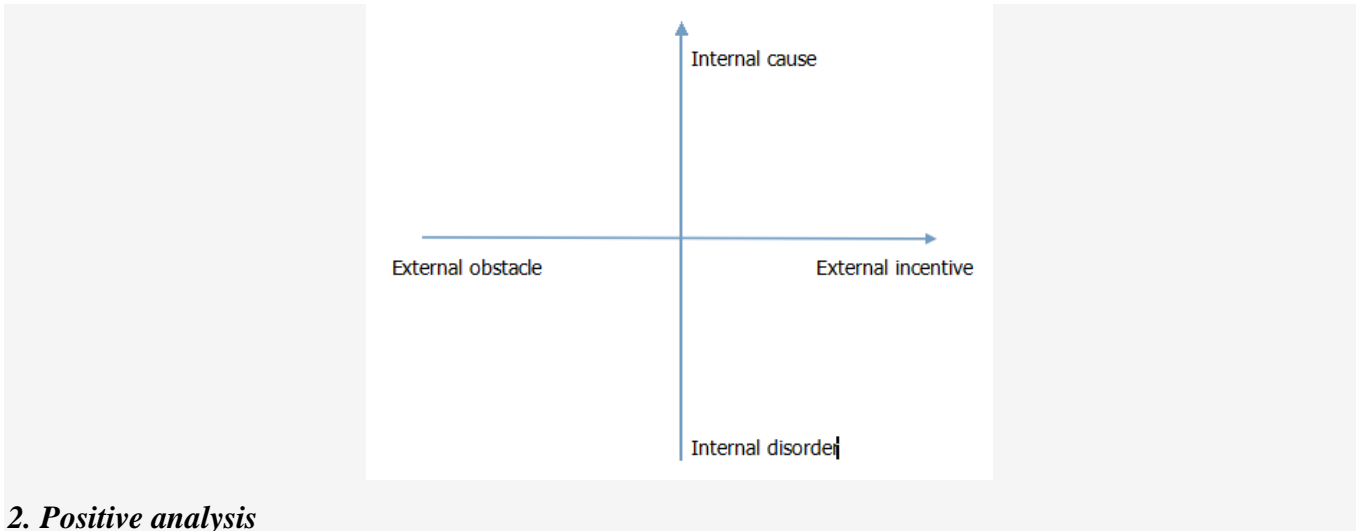
If we do a permutation and combination of the enterprise internal environments (incentive and disorder) and the external environments (incentive and disorder), there will be four combinations below:

Internal cause + External incentive.

Internal cause + External obstacle.

Internal disorder + External incentive.

Internal disorder + External barrier. (see picture 1)

Picture 1:four combinations of internal environments and external environments

2. Positive analysis

Select Pfizer as a case, mainly based on the following reasons:

- (1) Pfizer inc., founded in 1849, is a company with a history of more than 160 years, a relatively long process.
- (2) Pfizer is the world's largest biological pharmaceutical company on the base of research, which was ranked 126th of fortune global 500 companies in 2012, with the annual total revenue of \$59 billion.
- (3) The biopharmaceutical industry Pfizer works on belongs to a branch of real industry.

2.1 Internal cause + External incentive

2.1.1 Internal cause

2.1.1.1 Pfizer's 7 big fist products

From 1994 to 2002, Pfizer's internal advantages are obvious. Pfizer's 7 big fist products: Norvasc, Zoloft, Zithromax, Diflucan, Viagra, Feldene, Sulperazon.

2.1.2 External incentive

2.1.2.1 China opened its pharmaceutical industry to the outside world.

China's pharmaceutical industry was one of the earliest industries opened to the outside. Due to the size of the market's rapid growth and China's huge population base by means of inviting potential market capacity, most of the world's leading multinational pharmaceutical companies set up their subsidiaries in China one by one. Pfizer first set up subsidiaries in China in 1993, the second peak where multinational companies build branches in China.

2.1.2.2 China had a clear legal framework and stable market.

At the period of Pfizer's setting up subsidiaries in China, China's laws and regulations on drug administration had a relatively clear framework, and market development was relatively stable. So the Chinese local market conditions to the decision makers of the multinational companies was no longer elusive, to some extent, had some rules to be followed. That is to say, the development of China's domestic market conditions may become a factor considered by policymakers. In spite of facing the competitions from both Chinese pharmaceutical enterprises and other subsidiaries of multinational pharmaceutical companies in China, there may be a benign competition between enterprises in a clear legal framework.

2.1.3 Coping strategies

2.1.3.1 Set up joint venture subsidiary with Chinese local pharmaceutical company

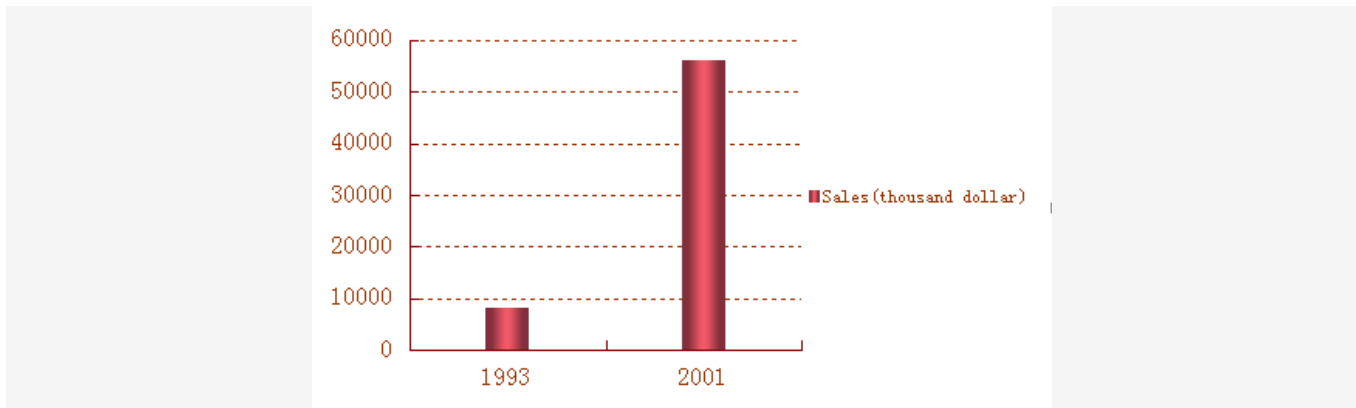
Pfizer and Dalian pharmaceutical company set up joint venture of Pfizer pharmaceutical (China) co., LTD in Liaoning Province in 1993, Pfizer holding a 67% stake (Economist Intelligence Unit, 1997).

Joint venture started operations in the same year, was the first to be awarded the certificate of GMP in China in April in 1997 (that is, advanced manufacturing process certificate).

2.1.3.2 Expand sales team, increase sales volume.

Pfizer established the China regional office in Beijing in 1997, to strengthen customer service and business coordination. It had sales offices in China's big cities, did some projects for the clinical trials of new drugs research and development. In 2000, Pfizer China company employed about 750 employees. Since Pfizer set up subsidiaries in China in 1993, Pfizer China sales revenue has increased rapidly, from \$1993 in 8.1 million to \$2001 in 55.9 million, with an average annual growth rate of 7.3%. (see chart 1)

Chart 1: Pfizer's average annual growth



2.2 Internal cause + External obstacle

2.2.1 Internal cause

2.2.1.1 The successful development of Viagra

Sildenafil is a kind of safe and effective drug which can cure erectile dysfunction lead by a variety of causes, and there will be good tolerance if take medicine according to need. When Viagra just came out, it was called "the 20th century to the 21st century the most valuable, the most exciting heritage". The United States <<time>> magazine said: "the world has waited for the drug for 4000 years".

2.2.2 External obstacle

2.2.2.1 Chinese local drug firms and multinational pharmaceutical companies competing for the market

Pfizer had lost its leading advantages because 1990s was the second peak for multinational pharmaceutical companies to set up subsidiaries in China. At that time, Chinese local pharmaceutical companies also grew rapidly, and they were able to maintain a certain market share by producing and selling generic drugs that were relatively cheap but reliable curative.

2.2.2.2 The reformation of China's medical insurance system

The further control of medical expenses in the country's social medical insurance system was promoted from 1998, which brought stress to the development of multinational companies' subsidiaries in China, making them transfer the management of imported drugs to local production.

2.2.3 Coping strategies

2.2.3.1 Obtain the marketing approval in China for Viagra

Pfizer was the first to get production license for Viagra in China in 2002. Compared to Levitra (Germany Bayer, Chinese listed 2004) and Cialis (USA Lilly, Chinese listed 2005), both of which are similar products for male ED treatment, Viagra was earlier to take the preemptive strategy.

2.2.3.2 Strengthen the viagra's patent protection

When the patent for viagra brought huge gains to the shareholders, competitors naturally did not want such a huge interest by Pfizer exclusively. Pfizer accepted Viagra patent lawsuits from other competitors, and continually strengthened the protection of patent of Viagra.

2.3 Internal disorder + External incentive

2.3.1 Internal disorder

2.3.1.1 Products problems in research, approval and security

In 2004, MSD's famous "Vioxx event" led to the termination of development approval process of Bextra. Through many times of evidence-based medical research and government relations, Celebrex reluctantly kept on the market in the cost of "black box" warning.

On October 18, 2007, Pfizer announced to stop the marketing Exubera, finally causing all the investment unprofitable and the company's shares dropping sharply. Exubera became a classic negative case called by "product research and development technology is only focus on public relations, regardless of the patient experience".

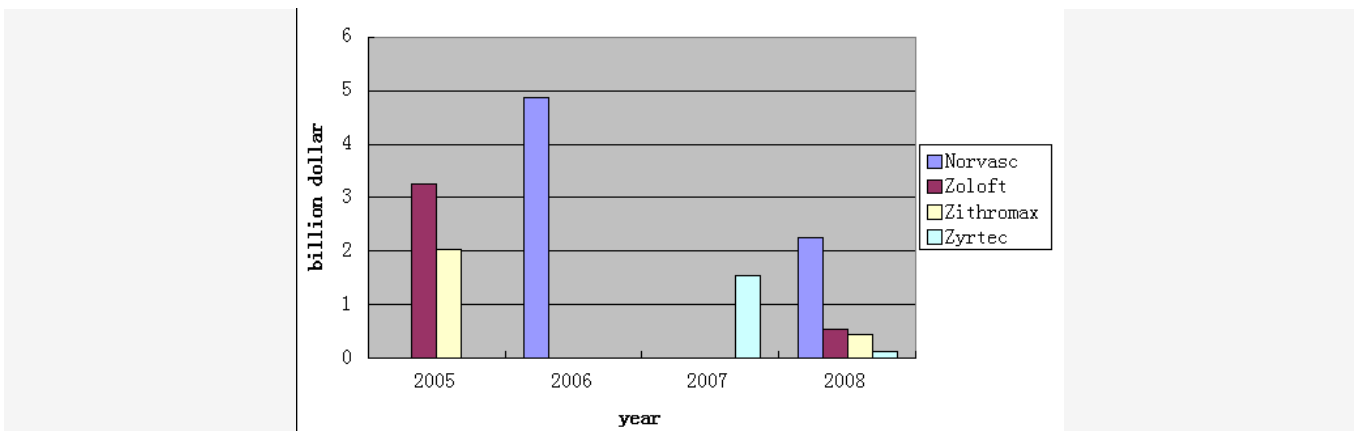
2.3.1.2 The decision-making errors of management

In July 2006, Pfizer's chief executive, Hank McKinnell, resigned under price pressure. Jeffrey B. K., with legal background, took office as CEO.

2.3.1.3 Drug patents expired.

From 2004 to 2006, Pfizer had a total of five branded drug patents that expired, four of which were "heavy bombs". The global sales of Norvasc fell from \$4.87 billion in 2006 to \$2.24 billion in 2008. After depression treatment Zoloft anti-infective drug Zithromax expires, the global sales of them decreased respectively from \$3.26 billion and \$2.02 billion in 2005, to \$540 million and \$430 million in 2008, shrinking by more than 80%. Allergy drug Zyrtec also plunged from \$1.54 billion in 2007 to \$129 million within a year. The smallest decline of antineoplastic drug Irinotecan Hydrochloride Infusion was also from \$970 million to \$560 million. The cholesterol drug Lipitor which was the leading product and brought high profits to Pfizer, also faced a patent expire in 2011. (see chart 2)

Chart 2: Decrease of Pfizer's sales



2.3.2 External incentive

2.3.2.1 The high external financing credit rating

To complete the merger and acquisition, Pfizer needed to raise about \$22.5 billion. Despite of the financial crisis, there were still five commercial Banks willing to provide loans for Pfizer, which indicated apparently Pfizer's current credit rating was very high.

2.3.2.2 Wyeth patent drugs

In 2008, Wyeth biotechnology drugs Enbrel contributed \$3.8 billion sales revenue in total to Wyeth, with more than 20% of the growth in both local and international market, so Enbrel was worthy to be the housekeeping product of Wyeth. The sales revenue of Pneumococcus union vaccine Prevenar increased from \$2.72 billion in 2008 by a year-on-year growth of 11.3%.

2.3.3 Coping strategies

2.3.3.1 Pfizer acquired Wyeth

Pfizer took over Wyeth by \$68 billion in 2009, focusing on core products, strengthening key areas, restarting the diversified business, reducing operational costs and restructuring other business after the merger.

2.4. Internal disorder + External barrier

2.4.1 Internal disorder

2.4.1.1 Pfizer's products out of patent protection faced homogeneous competitions

The core technology patent protection sessions of Lipitor, Zithromax, Norvasc, Zoloft expired in 2009, 2005, 2006, 2005 respectively. Pfizer's several big fist products in the patent protection expires facing homogeneous competitions from multinational companies and native firms, the sales declined significantly.

2.4.1.2 The regulatory loopholes of sales department

According to the SEC charges, in 8 countries such as Bulgaria, China, Croatia, the Czech republic, Italy, Russia, Kazakhstan and Serbia, the employees and agents of Pfizer's subsidiaries bribed local officials and doctors, in order to get the admission in regulation and prescription, and expand sales. To conceal the bribery behaviors, Pfizer listed these costs as sales promotion, marketing, training, clinical testing, shipping, travel, meetings and advertising legal spending, violating the U.S. Foreign Corrupt Practices Act (FCPA).

2.4.2 External barrier

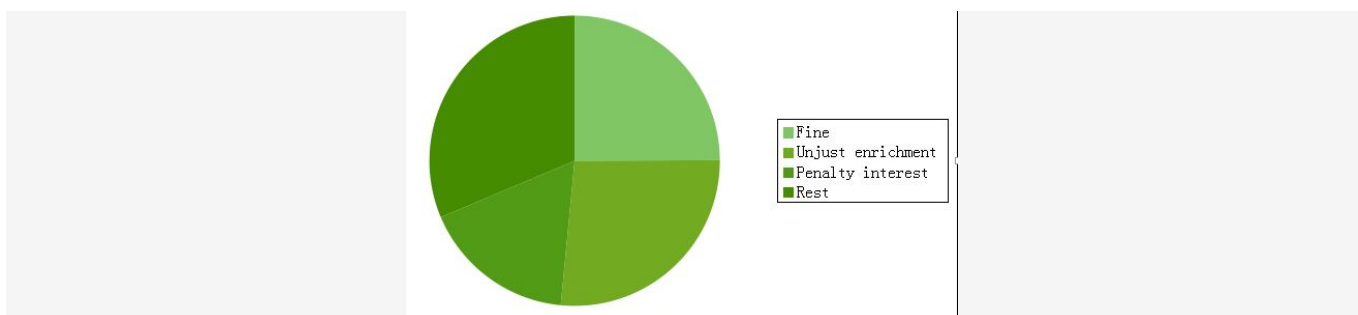
2.4.2.1 The Chinese government vigorously improved and rectified pharmaceutical market

The Chinese government improved and rectified foreign-invested enterprises such as GSK on a large scale in 2013, which indicated the strength and determination of the Chinese government on the pharmaceutical industry. For Pfizer, as Chinese government's reorganization efforts strengthened, its own risks were also on the increase.

2.4.3 Coping strategie

August 7, 2012, Pfizer headquarters of the United States announced that the company settled improper payments with the United States Department Of Justice (DOJ) and two subsidiaries out of the Securities and Exchange Commission (SEC). In order to solve the historical problems, the indirect subsidiary of Pfizer (Pfizer H.C.P.) entered into a deferred prosecution agreement with DOJ and payed a fine of \$15 million. According to the civil settlement with the SEC, Pfizer agreed to pay \$16 million of unjust enrichment and \$10.3 million penalty interest. The above fees totaled \$60.16 million. (see chart 3)

Chart 3: The property of fees.



3. Conclusion

Above are the 4 changable conditions of internal and external environments and the corresponding coping strategies.

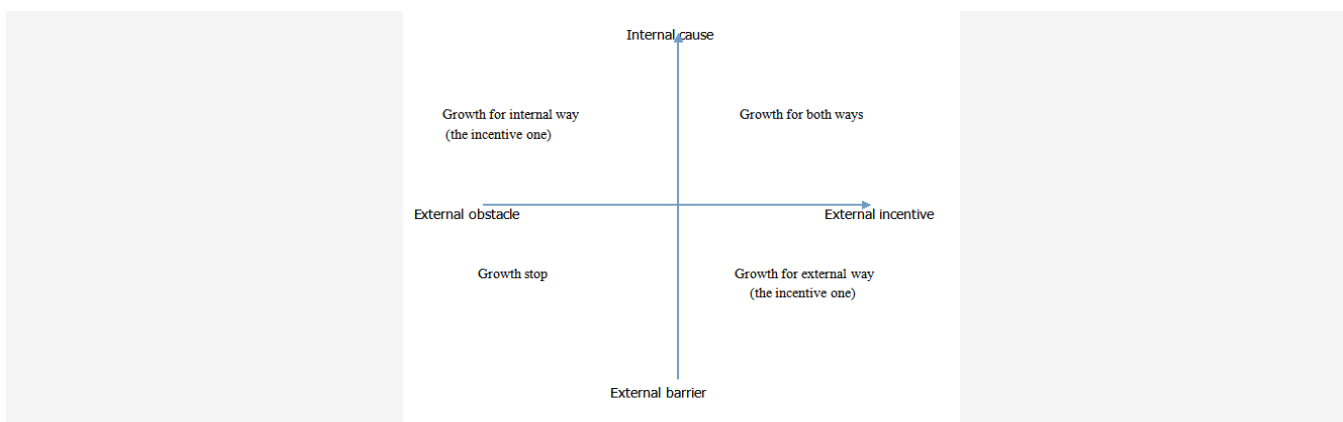
[1]When Internal cause + External incentive, Pfizer grew for both internal and external ways——Pfizer came to China in 1990s,and successfully listed 7 big fist products in the Chinese market.

[2]When Internal cause +External obstacle,Pfizer grew for internal way——Successfully developed Viagra.

[3]When Internal disorder + External incentive,Pfizer grew for external way——acquired Wyeth.

[4]When Internal disorder + External barrier,Pfizer stopped growing,and faced a sharp sell-off, social reputation decline, government fines, corporate restructuring,even the risk of failure.(see picture 2)

Picture 2: Strategies



In the particular meaning,no matter internal and external cause,or internal and external barriers,each factor here is decisive, but looking at each of them in isolation cannot have any decision effect.In certain companies, when their managements focus on meeting the needs of existing products,managers will not notice the significance of existing resources, but when the demand or the entrepreneurs no longer want to put all of resource into the existing production line expansion, it becomes very obvious.When we analyse the economic diversification, investigate how the expansions of internal and external incentives influence each other,and the influences of both internal and external obstacles, we should learn:The internal cause of growth itself is not expand the favorable opportunity,either is the external cause.

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