

# Pfizer-Pharmacia Merger

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In July, 2002, Pfizer, Inc. announced the acquisition of Pharmacia, Corp., which would create the largest pharmaceutical company in the world with a projected \$48 billion in annual revenue and a research budget of more than \$7 billion. The CEO of Pfizer, Hank McKinnell, stated that, “The combination brings together two young, strong, broad and complementary product portfolios, enhanced research and development pipelines and outstanding sales and marketing organizations.” However, before the companies could operate as one entity, their merger had to be approved by both the European Union and the Federal Trade Commission of the US Government, to ensure that no violations of antitrust laws. During the ensuing 9 months that it took to gain the approval of both organizations, employees at Pharmacia were increasingly concerned about their future employment with the company. This concern was especially intense in Kalamazoo, Michigan, where Pharmacia was the largest employer in area with approximately 7300 total workers.

Pfizer announced that it would seek \$2.5 billion in total cost savings as a result of the merger. This created speculation in the Kalamazoo area that much of these cost savings would be in the form of labor costs due to downsizing, as well as the complete closure of one or more local operations. Pharmacia had several business sites in Kalamazoo County, including: manufacturing in Portage; human and animal research and development operations in Kalamazoo, Portage, and Richland; and allergy diagnostic operations in Kalamazoo.

While other employees in Pharmacia were worried about their financial futures, the 1250 research scientists at the “Discovery” research and development site held a bit more hope for their jobs. There was ample evidence that this site, which focused on creating drugs for infectious and central-nervous-system diseases, was considered by many to be one of the most effective in the industry. Therefore, many employees at this site, in addition to community leaders, thought that Mr. McKinnell would retain this operation almost intact, since he had stated the importance of improving Pfizer’s drug ‘pipeline’, a term used to describe the process of testing, developing, and producing the drug for market.

In April, 2003, when it was announced that the merger would occur in the next few months, the anxiety about job loss in the community hit a fever pitch. In addition to the Pharmacia employees who could potentially lose jobs and thus their income, community leaders were concerned about the ‘trickle down’ effect on other area businesses that provide products and services to these consumers, as well as the effect on the tax bases of the local communities (a loss estimated to be around \$9.3 million per year). There was so much concern that local governmental and business leaders joined forces to create a \$635 million incentive plan to offer Pfizer to keep local jobs. Even state governmental officials stepped in to try to keep jobs in the area. After meeting with state of Michigan

governor Jennifer Granholm to discuss state Medicaid laws designed to reduce drug costs (which would be unfavorable to Pfizer), Mr. McKinnell stated that,

“It’s clear that Michigan has a budget problem. We respect that and we’re certainly willing to work with the state to resolve that problem. We need to make sure that the state understands the complexity of our business and how that is related to what we do in Michigan and around the world. Almost every state has a need to control spending. We just think there are smart ways to do it and dumb ways to do it”.

Some in the press interpreted Mr. McKinnell’s statements as an attempt to coerce Michigan’s governmental leaders into removing the Medicaid policies, using local jobs as leverage.

On April 22, a senior vice president at Pfizer, Inc. sent the Kalamazoo city commissioners, Portage city council, and other local governmental bodies a memo warning of “mass layoffs” in each of their communities. This memo was sent as required by the federal Worker Adjustment Retraining and Notification Act (WARN), which is designed to give communities ample notice when facing substantial layoffs of local jobs. The memo stated that “The number of affected employees cannot be estimated at this time, but it is anticipated that the number of terminated employees will reach the threshold numbers for mass layoff under the regulations cited”. A “mass layoff” is defined by WARN as affecting at least 500 employees.

Needless to say, the reaction to the memos in the local community was strong. Regarding possible losses to the city and surrounding areas, Kalamazoo’s Mayor, Robert Jones (a retired Pharmacia scientist), was quoted in the local press as saying “It is as serious as it gets. We have seen in this state cities with major manufacturers that pull out and leave brownfields, how devastating it can be to those cities”. Kalamazoo city manager, Pat DiGiovanni, described various situations that could occur, including seeking a financial bailout from the state of Michigan, or possible bankruptcy of the city if Pfizer were to close down operations.

On April 24, Pfizer CEO Hank McKinnell made an unscheduled trip to the Kalamazoo area to try to address the concerns raised by the memo. In meetings with local officials, he stated that there would be a reduction in jobs in the area, including those at the downtown Kalamazoo “Discovery” site. At a quickly organized press conference, Mr. McKinnell stated that, “Most jobs will stay here, that’s No.1. There will be no change to most jobs on (the Kalamazoo research) site. There will be some movement of jobs from here to elsewhere...and there will be movement of jobs from elsewhere to here”. He was quoted as saying that the memo was “a really bad idea” which gave the impression that Pfizer was pulling out of downtown Kalamazoo. Further, he stated that:

“[The memo] created a great deal of uncertainty and pain, frankly, not only within the people working on this site and their families but within the community. In my discussion of how we might respond to what was

an unfortunate accident, which we take full responsibility for and apologize for... it seemed to me the best way to do that would be for me to come to Kalamazoo and talk to the senior leaders on this site”.

In addition, he assured city leaders that Pfizer would not pull out of the “Discovery” site, and that, “There will be research people in downtown Kalamazoo. It will be different because we need to fit our capability elsewhere. But we are not going to put plywood over the windows and close the doors”.

On April 29, employees were notified about the reorganization decisions made by Pfizer. Kalamazoo was designated as the primary drug-safety evaluation site, meaning the animal research operations in Richland would grow. Portage would also see growth in its manufacturing site, becoming Pfizer’s largest site in the country. However, the research and development work at the “Discovery” site in downtown Kalamazoo would be halted or moved to other sites in St. Louis, MO and Ann Arbor, MI. A Pfizer representative declined to estimate how many total employees would lose their jobs, but estimates have reached about 2000 for the Kalamazoo area. Mr. DiGiovanni, the city manager, stated that, “All in all, we did better than I think people expected. There are a lot more hurting communities (worldwide) today than Kalamazoo, Michigan”.

Pfizer officials argue that their decision to base two global centers (drug safety and manufacturing) in the Kalamazoo area indicates a strong local commitment and good organizational citizenship. However, quotes from former Pharmacia employees imply something different:

“Look, there was blood on the floor when they (Pfizer) got done with Kalamazoo. The core mission-critical functions of a pharmaceutical company is (sic) drug discovery, clinical development, manufacturing, and sales and marketing. Ten years ago they were all present in Kalamazoo. Today we’ve lost discovery, clinical development, and sales and marketing. We’ve retained manufacturing, but in the long run that is vulnerable because of cheaper off-shore manufacturing capability”.

“You save so much money based on the elimination of jobs without considering the skills here. Our skills are better than that of those who retained their jobs elsewhere”

“They told us they would look over the operations and take the best from each company. And we thought, well, everything here works great, even better than what they (Pfizer) have, so they’ll keep us. We had much more in the pipeline then they did. You would think they would have thought since they were buying this world-class operation that they’d want to keep it together, but instead they’re breaking it up... It would be like buying a machine that works really well and taking it apart and giving it all new parts. It’s not going to work as well”.

Sources: “Pfizer facts”, Kalamazoo Gazette, April 29, 2003; “Pfizer ups ante with Pharmacia deal”, Mergers and Acquisitions, September, 2002, vol. 37(9), pg. 15-16; J. Bennett, “Michigan will become heart of Pfizer”, Detroit Free Press, April 30, 2003; E. Finnerty, “Pfizer notification gives Kalamazoo officials reason to speculate”, Kalamazoo Gazette, April 23, 2003; E. Finnerty, “Researchers say Pfizer’s choices create bitterness”, Kalamazoo Gazette, May 4, 2003; “Pfizer job decisions next week”, Kalamazoo Gazette, April 22, 2003; D. Haar, “CEO strong-arming states over Medicaid policies”, Hartford (CT) Courant, April 25, 2003; L. Jarvis, “Pfizer redefines role as pharma juggernaut with Pharmacia deal”, Chemical Market Reporter, July 22-29, 2002, vol. 262(3), pg. 1-10; A. Jones, “Downtown to lose drug discovery research and medical development”, Kalamazoo Gazette, April 30, 2003; A. Jones, “It’s good-bye Pharmacia, day one for new Pfizer”, Kalamazoo Gazette, April 16, 2003; J. Prichard, “Pfizer to transfer some Michigan jobs, add others”, Associated Press State and Local Wire, April 30, 2003; J. C. Parikh, Jane C., “Pfizer workers sort out feelings about job loss”, Kalamazoo Gazette, May 5, 2003; L. J. Sellers, “Pfizer buys another marketing partner”, Pharmaceutical Executive, August 2002, vol. 22(8), pg. 16; L. Turner, “Pfizer chief apologizes, says most jobs will stay”, Kalamazoo Gazette, April 25, 2003; L. Turner, “Pfizer jobs will remain in Kalamazoo, but now the debate begins. Are those jobs vital or expendable?”, Kalamazoo Gazette, May 1, 2003.