



Consume Services in Moderation

Lisa Martin
SVP Pfizer Worldwide Procurement

November 29, 2007

Today's Objectives



Review recent developments of Procurement at Pfizer

Outline opportunities for Procurement in Professional Services

- Share examples of successful initiatives at Pfizer
- Share metrics and measures for tracking success

Discuss role of Procurement in today's corporate environment



Agenda

► Procurement at Pfizer Today

Opportunity: Professional Services

Pfizer's Recent Initiatives

How Do We Measure Progress?

Broader Procurement Skill Set Required

Conclusion

Q&A

Pfizer Is A Fortune 50 Leader



“Life Is Our Life’s Work”

Our Purpose

We dedicate ourselves to humanity’s quest for longer, healthier, happier lives through innovation in pharmaceutical and animal health products

Our Mission

We will become the world’s most valued company to patients, customers, colleagues, investors, business partners, and the communities in which we work and live

Pfizer Inc.

- **Is the #1 Health Care Company in the world**
- **Earned \$48.4 Billion in revenue in 2006 in Over 180 Countries**
- **150 million patients treated annually**
- **1 billion prescriptions annually**

Pfizer Manufactures And Markets Leading Pharmaceutical Brands



Source: Pfizer 2006 Annual Report

Pfizer's Global Reach Covers 180 markets And 90,000 Colleagues



Pfizer

- **90,000 colleagues**
- **\$48B revenue**
- **\$10B net income**
- **180+ markets**
- **33 major brands**

Procurement

- **670 Procurement colleagues**
- **\$15.5B addressable annual spend**
- **\$2.0B+ purchased goods and services savings target**

Pfizer And Procurement Facing Many Challenges

Internal & External Forces Have Elevated Procurement To A Greater Role At Pfizer



Pfizer's Operating Environment



Impact On Procurement

- Pfizer streamlining operations in addition to developing & marketing new drugs
- Procurement given a greater role:
 - Collaborating across regions and functions
 - Working with businesses to design new ways of doing business
 - Penetrating new areas and geographies
 - Increasing the Procurement organization's capabilities in new areas
 - Allowing for clearer, more streamlined decision making
 - Enabling innovative sourcing solutions of goods and services

Pfizer Procurement Targeting Professional Services

Area Where Consolidating Spend Can Also Improve Service



- Leveraging internal knowledge to reduce need for more services
- Consolidating spend with fewer suppliers improves buying power
- Opportunity to embed sourcing tools and skills through the Pfizer
 - e.g., supplier management, online auctioning, RFI tools

- Long-term partnerships with suppliers
 - Preferred partners fully committed
 - Opportunities to collaborate
- Deeper knowledge of Pfizer's business

In Professional Services, Sourcing Strategies Are Not “One Size Fits All”



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Pfizer's Recent Initiatives

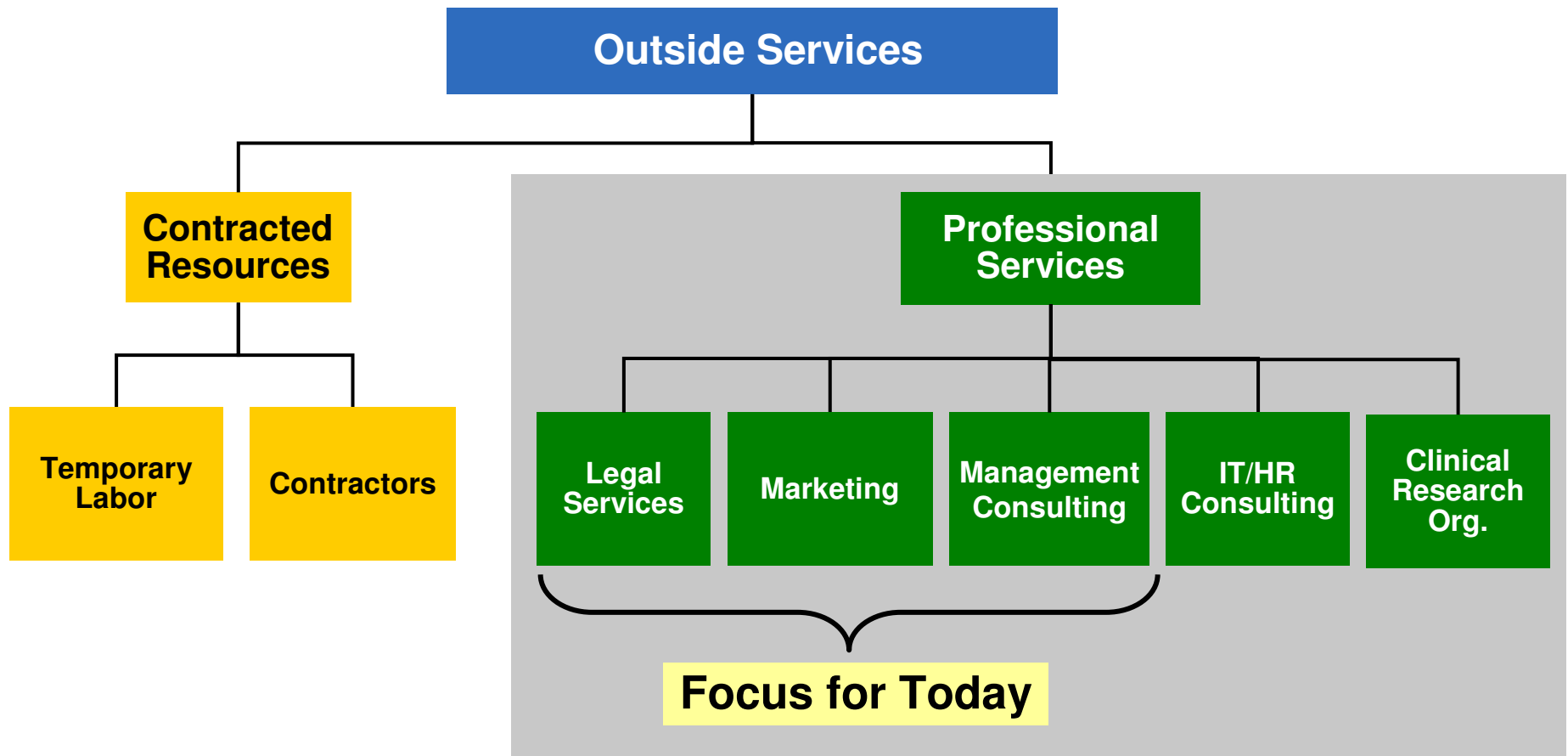
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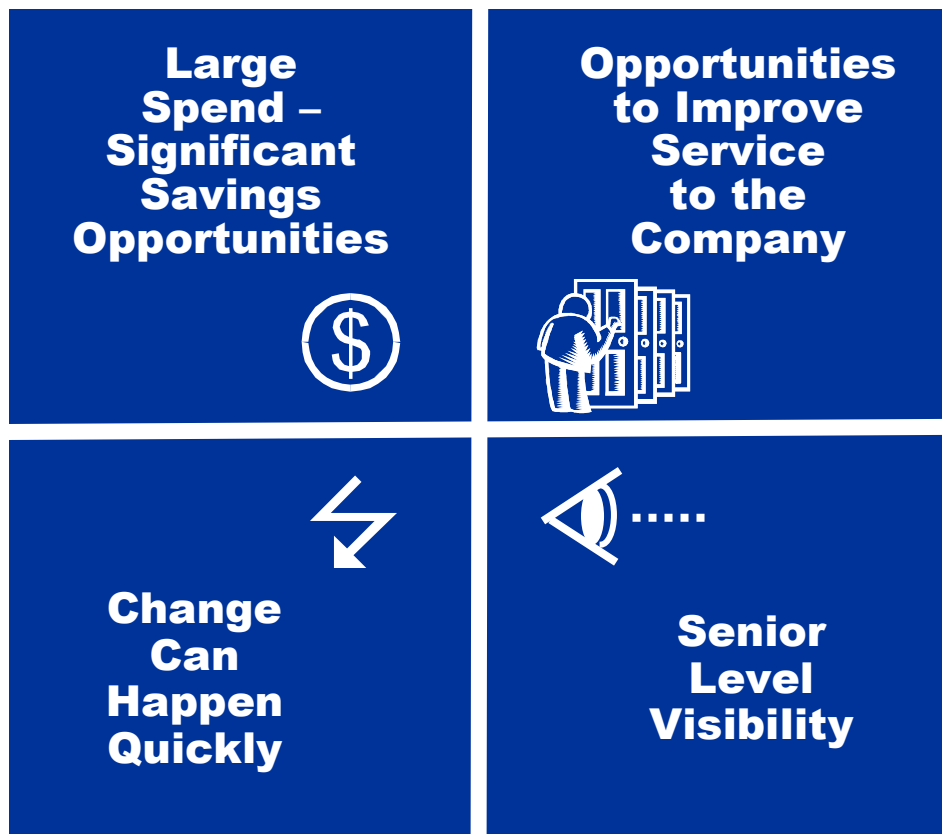
What Do We Mean by “Professional Services”?





Why Target Professional Services?

Professional Services Characteristics



Improved Services/Benefits

- Integrate preferred providers more closely
- Improve quality of engagements, project management, post mortems
- Be more selective about individuals working with you
- Exchange ideas and avoid duplication of effort

Procurement in Professional Services Also Presents a Unique Set of Challenges

Challenges to Keep in Mind When Targeting Professional Services



Challenges

High-Value Decisions

May involve increased resistance to change

Close Individual Relationships

May lead to resistance to change

- Some suppliers have closer relationships with parts of the company than Procurement staff

Relatively New Trend

Centralized sourcing of Professional Services is a relatively new trend

- Procurement may be perceived as outsiders in the company when sourcing Professional Services

Account for Individual Talent

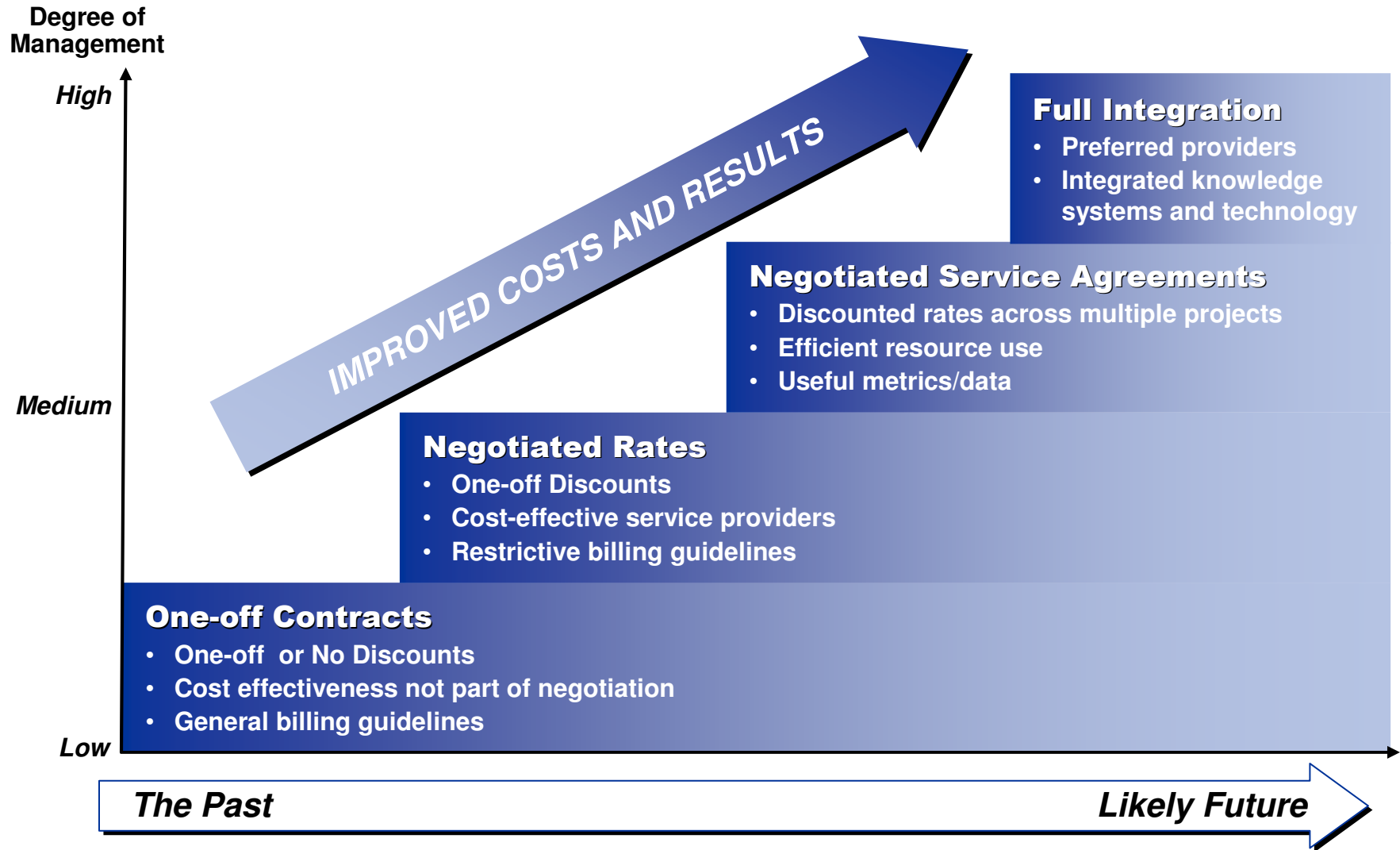
Account for talent of individuals and overall firm capabilities

Suppliers Refuse to Negotiate

Unified internal responses to suppliers required

Despite Challenges, the Role of Procurement in Professional Services Is Evolving

Procurement Has Evolved from One-off Contracts to Full Integration





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Pfizer Procurement Completed Numerous Initiatives in Professional Services



Sample Initiatives

Legal

- **Established preferred partners among litigation outside counsel**
 - Consistent and more efficient processes
 - Management of firms across cases
 - Improved outside counsel representation
- **Initiative co-led by Procurement and Litigation attorneys**

Management Consulting

Phase I

- Improved process of engaging and managing consultants
- Established consistent pricing with leading firms
- Developed tools to improve category management

Phase II

- Establishing more innovative approaches
- Establishing more stringent billing guidelines
- Segmenting supply base

Marketing

- **Improved and coordinated agency engagement model**
- **Built proper procurement support model in each region**
- **Optimized compensation structure**

Legal Program Goals



What Drove the Change

Pfizer Litigation Group working with 400+ outside counsel law firms

High potential for duplication of work across regions

Limited coordination between firms

Law firms charging high and inconsistent rates

Legal Program Goals

Retain best legal representation for Pfizer

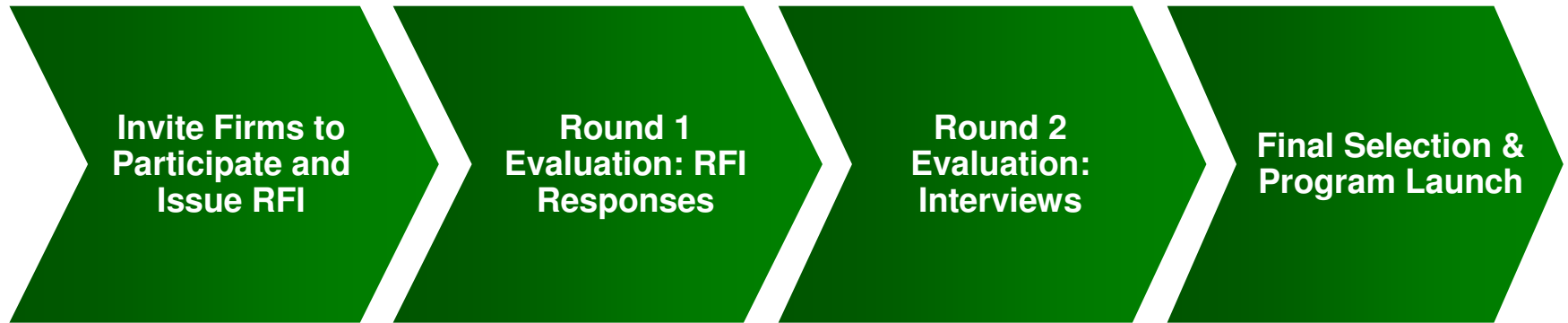
Manage law firms with highest level of effectiveness and efficiency

- **Coordinate approach to managing outside counsel**
- **Minimize attorneys' time managing outside counsel**
- **Negotiate fixed fee arrangements (where appropriate)**



Legal Program Goals Process Overview

Stages of the Process



| | | | | |
|------------------------|-----------|-----------|-------------|-----------------|
| Approx. # Firms | >150 | ~100 | ~50 | ~1-3 per Region |
| Approx. Timing | ~4 months | ~2 months | ~1-2 months | |

Procurement Colleagues Worked Closely with Litigation Attorneys Throughout the Process

Source: External interviews.

Legal Program Benefits



Benefits to Firms

- Potential higher volume
- Greater predictability
- Focus on high value work
- Close collaboration with the business
- Deeper knowledge of Pfizer's business

Benefits to Pfizer

- Higher quality representation
 - Deeper knowledge of Pfizer's business
 - Collaborating across cases
- Increased efficiency
 - Fewer firms for attorneys to manage
 - Streamlined communication
 - Minimized learning curve
 - Compliance with Pfizer processes
- Financial benefits
 - Better billing rates
 - Compliance with budgeting requirements
 - Flexibility with alternative fee arrangements

*Regions identified based on prior learning and administrative convenience.

Legal Program Lessons Learned



- Ensure direct involvement of attorneys throughout all phases of the project
 - Experience and subject matter expertise
 - Prior relationships with outside counsel attorneys
- Clearly define objectives of the initiative
 - e.g., Cost reductions, compliance improvement, etc.
- Plan proactively
 - Requires time of in-house attorneys, whose schedules are very busy and often unpredictable



Management Consulting Programs Goals

Why Establish A Program

- High annual spend on consultants
- Inconsistent process for use of management consultants
- Limited visibility into company-wide use of management consultants
 - Information about performance of most frequently used firms
 - As a result, total volume under-leveraged

Program Goals

- Establish a disciplined process for engaging, managing, and measuring management consulting firms
- Improve knowledge-sharing and management visibility into consulting expenditure
- Optimize spend to ensure high quality at most efficient cost

Sourcing Decisions of Consulting Services Made by the Businesses, But Procurement To Be More Involved

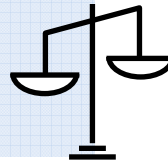


Management Consulting Program Overview

Program Overview

1 Option Assessment

- How should Pfizer engage consulting firm, and what processes can we use to manage them effectively?
- Can we establish a tiered model?
- How can we leverage lower cost locations?



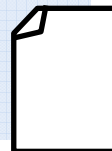
2 Internal and External Benchmarking

- How do Pfizer divisions engage and manage consultants?
- How do other companies engage and manage consultants?



3 Internal and External Guidelines

- Set of Best Practices for working with management consultants
- Standard Templates and Training tools
- Billing guidelines for firms



4 Virtual Consulting Office (VCO)

- Select the best technology using RFI process
- Build web-based database of information on consulting firms



Management Consulting Phase I Program Results



Negotiations

- High savings from negotiating billing rates with key Firms
- Master Service Agreements with key Firms based on Pfizer's volume

Internal Processes and Guidelines

- Rigor and discipline in working with consultants
 - Firm selection
 - Project management
 - Post-Project Evaluation
- Streamlined engagement and billing processes
- Training Tool for working with consultants

Virtual Consulting Office

- Knowledge-sharing across divisions via VCO
- Increase visibility into Pfizer-wide management consulting activity

Supplier Management Program

Comprehensive supplier management program to enhance partnerships with key Firms

- Master Service Agreements
- Quarterly reports
- Post-Project Evaluations
- Annual Supplier Review Meetings

**Phase I Was Viewed As Optional,
Phase II Focused On Optimizing And Enforcing**

Management Consulting Lessons Learned



- Ensure alignment from divisions across the company on overall objectives and specific Firm requirements
 - Include divisional representatives as active members on the team
 - Establish clear roles and responsibilities regarding authorship, input, and ultimate approval
 - Obtain approval for new process and tools
- Integrate technology into the proposed solution
 - Large amounts of data may be available; analyze for maximum effectiveness
- Identify and focus on highest impact practices
 - Understand cost drivers and performance metrics



Advertising Agency Goals

What Drove The Change

US

- 40 brand teams each using unique set of agencies
- No coordination between brand teams

Europe and Asia

- Transition from local to regional marketing teams
- Focus on marketing effectiveness

Overall

- Varied level of procurement and business readiness
- Suppliers with varied capability and footprint globally

Agency Management Goals

Establish and reinforce best practices in agency management and marketing effectiveness

Build the proper procurement support model in each region

- Coordinate approach to selecting, managing and engaging agencies
- Establish optimal rates and compensation agreements
- Embed center expertise in regions and local markets

Advertising Agency Example: Procurement Adapted Engagement Model By Region



| Region | Engagement Model | Results |
|---------------|--|---|
| US | <ul style="list-style-type: none"> • Full procurement support • Partner with marketing | <ul style="list-style-type: none"> • Rationalized agencies • Streamlined processes • Negotiated better contracts |
| Europe | <ul style="list-style-type: none"> • Procurement leads process and coordinates across region | <ul style="list-style-type: none"> • Coordinated all regional brand work with one agency network • Implemented brand-driven agency model, rather than country driven • Established group of preferred agencies |
| Asia | <ul style="list-style-type: none"> • Procurement educates local markets | <ul style="list-style-type: none"> • Establishing best practice agency management • Concepts of procurement in early development |

“We appreciate the opportunity to provide feedback & build a stronger partnership. We believe this will result in a more effective relationship.”

-EVP of a Global Agency Holding Company



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Metrics Used to Track Progress on Each Initiative



Sample Metrics by Initiative

| Legal |
|--|
| <ul style="list-style-type: none">• Compliance with Pfizer processes<ul style="list-style-type: none">• Budgets• Early Case Assessments• Early Warning Systems• Compliance with billing guidelines• Budgeted cost vs. actual cost |

| Management Consulting |
|---|
| <ul style="list-style-type: none">• Spend reduction• Consulting spend % captured by the VCO• Number of VCO hits• % Projects compliant with guidelines• Procurement penetration |

| Marketing |
|---|
| <ul style="list-style-type: none">• Spend reduction• Budgeted cost vs. actual cost• Programs compliance• Compliance with billing guidelines• 3rd party expenses |



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Evolving Role of Procurement Function Requires Colleagues to Adopt a Broader Skill Set



Traditional Procurement Staff Skills

- Know the marketplace and the strategic sourcing process
- Coordinate supplier monitoring and feedback process
- Know financial systems, policies and procedures (i.e., accounting, cash management)
- Familiar with technology solutions available

Broader Skill Set Required in Today's Environment

- Deep understanding of company's business and culture
 - Ability to identify suppliers whose business processes and culture make a good fit as long-term partners
- Displaying strategic, rather than operational or transactional, focus
 - Identify creative solutions to increase business efficiency

ISM's Talent Profile Expands Procurement Colleagues Skill Sets

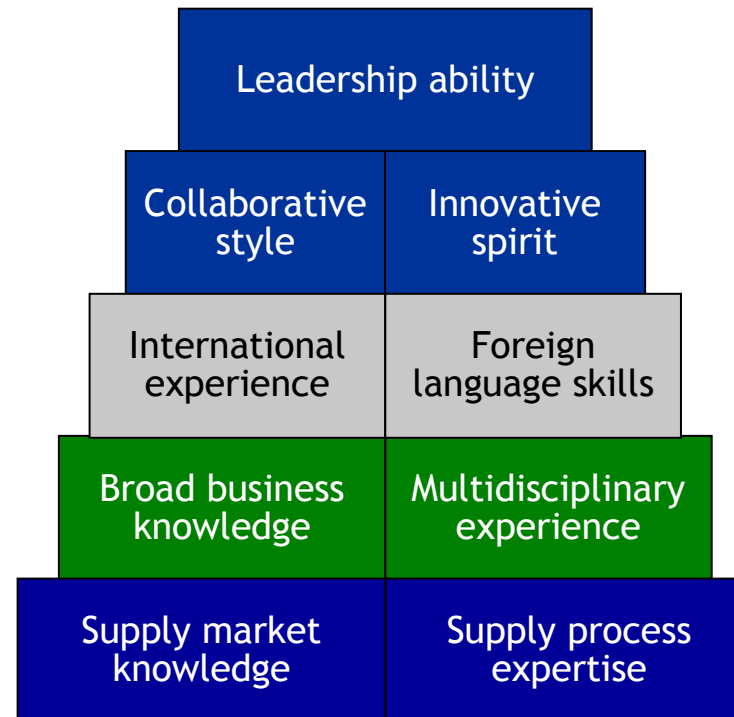
ISM's Talent Profile



ISM Talent Profile

Attract Outside Talent

- International opportunities
- Diverse hires
- Different industry backgrounds



Maximize Talent Capability

- Focus on training
- Secondments
- Movement between category teams
- Transfers in and out of functions

Talented People Key To Successful Organizations



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Conclusion

The environment is changing and so must the companies aiming to remain competitive

Procurement's role will continue to evolve and require a more proactive approach

In the area of Professional Services, consuming in moderation not only achieves savings, it can lead to better integration of suppliers and improvement of their services



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