Supporting Documentation

Supporting Detail

In 2007, an initial spend analysis revealed a large, and mostly untapped, opportunity at Pfizer to create a better process to manage the external spend related to Knowledge Management Services. This opportunity analysis demonstrated that Pfizer was spending an average of $824M annually for the addressable services. Research by The Hackett Group indicates that the savings opportunity for World Class Savings for Indirect Materials and Services is in the range of 5% - 7% annually. As demonstrated by the graph below, Pfizer has been able to achieve an average savings of 14% during the time period outlined.

Within the various types of spend that make up KMS services at Pfizer, two major opportunities were distinctly identified: consulting services and legal services. The following sections will outline the steps taken in order to create a new process for managing each of these areas of spend, growing customer engagement and bringing increased value to the company. Since each of these two areas has a distinct audience and supplier base, the work took separate, but parallel, paths. It is important to highlight that the members of the PS team work closely together across these categories in order to share ideas and leverage best practices from one area to the next.

Case Study #1: Consulting Services

In consulting services, the primary needs were reigning in spend and developing a disciplined approach in the use of consulting services. Fragmented spend and little oversight either within or across most Pfizer divisions led to higher than needed spend levels and duplication of work across areas. Many consulting organizations were charging different rates to different parts of the organization and provided little in the way of overall account support and coordination. The process and accompanying governance model crafted ensured that Pfizer, as one organization, received maximum value on each and every project.
After gaining the support of Pfizer’s Executive Leadership Team (ELT) in the fourth quarter of 2007, the PS team rolled out a Consulting Approvals Process in order to provide senior leaders with visibility into consulting spend across the organization. There were several components to this process:

1. **Concept of “Designated” Firms** – The approvals process targeted engagements with key, strategic suppliers who, as a whole, made up about 85% of all consulting engagements. These are classified as “Designated” firms with whom all work over $100K was required to be competitively bid (unless granted an exemption by Procurement). Account leaders for these firms are required to meet with Procurement on a regular basis, and report project activity monthly. The list is refreshed a few times a year.

2. **Procurement Review/Approval of Engagements** - The process also positioned members of the PS team to play a critical role in the selection, engagement, and evaluation of consulting services. One process was designed for the entire Company, while some customization was required for each Pfizer division to meet business/governance needs. Members of the PS team worked with each division to communicate and appropriately implement the new process.

3. **Senior Business Leadership Oversight** - Executive Leadership Team (ELT) member approval became required for all engagements with “Designated” consulting firms. In addition, all ‘transformation-budgeted’ engagements required CFO approval. These reviews were achieved through implementation of system-driven controls within Ariba and internal budgeting systems, as well as through the introduction of a tailored business case process for each division.

The greater level of scrutiny on each project resulted in a more thorough and thoughtful review by business colleagues before engaging consulting suppliers on a project. Great emphasis was put on reviewing the suitability of sourcing the work externally. Before the engagements even began, clients were encouraged to ask questions such as:

- Can internal resources perform some or all of the work instead?
- If not, are the external firms under consideration appropriate for the work to be done?
- Is there similar activity in another part of the business that could be leveraged?

Three years later, the PS team is still responsible for reviewing all consulting activity in the company’s budget approval systems prior to final approval. We have worked closely with the business to implement appropriate approaches and to mature this process. Team members now meet regularly with division level and business unit level leadership teams to review consulting activity and forecast future needs. Some business units have adopted this framework to come up with their own internal prioritization and review process for consulting work. In addition to ‘traditional’ management consulting work, the processes developed now governs a variety of strategic healthcare advisory firms which play critical roles on the commercial side of the business.

Team members get involved in all aspects of project planning in order help business colleagues meet their objectives:

- Use consulting histories to assist in project scoping
- Estimate project costs to support the budgeting process
- Conduct supply market analysis to identify viable consulting firm candidates
- Engage marketplace to provide breadth of ideas and pricing
- Facilitate consultant selection, where final decision is made by business areas
- Negotiate commercial arrangements and support Statement of Work development and contracting processes
- Advise on compliance matters related to procurement policies

The team recognized early in the process that merely instituting a policy to govern consulting spend was not sufficient to achieve the desired outcome. Given that professional services is a complex category, and the outcomes of consulting engagements often have a direct impact on top line decision making, bottom line financials, and/or critical business decisions, several elements were needed to make the program successful:

- **Executive Level Business Support:** The team worked closely with the heads of all major divisions and enabling functions to introduce the program. Over time, as the work was moved from policy driven to value driven, partnership with leaders at multiple levels of the organization continues to grow.
- **Structured Supplier Governance:** Through the “Designated” firm program, we have partnered closely with key firms, often coaching them how to improve their account management methods through regular meetings with PS team colleagues. The strict reporting requirements (see Tools below) help us to ensure consistent pricing and firm investments across the global organization.
- **Team Composition:** The PS team was staffed by individuals who either had experience in consulting or who had prior experience working within Pfizer’s business units. These sourcing managers each had 10+ years of experience working with relevant business area(s) and a range of educational backgrounds (primarily MBAs). Over time, each team member has developed strong core competencies as a “consultant of consultants” and a “legal advisor for lawyers”. Critical to this has been the ability to understand client needs and to match the appropriate firm(s) for the work at the right price.
- **Marketplace Knowledge:** The team regularly engages the marketplace to understand consulting firm capabilities and quickly finds matches to business area needs. They do this through regular attendance at industry events, research reports from Kennedy Information and other recognized consulting industry sources, and frequent meetings with existing and new suppliers which support various elements of the healthcare industry (life sciences, payer, provider, etc.). This knowledge has been critical in positioning the team as business partners who can quickly assess and meet critical needs at Pfizer.
- **Tools:** Project level data was impossible to mine from the company’s complex and disparate financial systems, so the team created the Pfizer Supplier Portal (PSP), an online tool for the monthly reporting of all project data by the Designated Consulting firms. The portal now contains 1000+ projects, allowing the team to share knowledge and leverage experience across Pfizer organizations.

By applying a disciplined sourcing process to non-traditional areas, each PS team member has developed a reputation as a strong business partner and advisor to the global organizations that they support. The relationships with customers have matured from “policing” to partnership as members of the team actively create and grow relationships with business leadership to drive value for Pfizer. Through these partnerships, the team drives opportunities to influence clients and deliver value through the sourcing process, and continues to develop a deeper understanding of the supplier landscape and firm competencies to meet objectives of the changing business environment. They negotiate and maintain
pricing information to leverage Pfizer-wide relationships with key suppliers, manage contracting efforts, and advise clients on compliance processes to make consulting firms readily available for engagement.

The range of projects that the team has supported covers the entire pharmaceutical lifecycle, including R&D productivity, early commercial development planning, product launch, in-line brand strategy, loss of exclusivity planning, and Rx to OTC switch. Corporate efforts have ranged from support of major Finance initiatives to major organizational restructurings. The greatest impact was certainly the team’s end to end support of the Wyeth acquisition. The PS team was involved in the early due diligence stages of the deal and facilitated the critical selection of a consulting firm to lead and run the Program Management for integration. This critical supplier selection process took place in less than 2 days and resulted in a special rate card with unprecedented discounts off of regular fees. The PS team worked closely with the supplier through the integration process to ensure coordination across divisional efforts. This example demonstrates our level of partnership with senior leaders and the trust they have in our ability to navigate a very complex, critical supplier selection activity in such a short timeframe.

The PS team has worked diligently to ensure that Pfizer teams are selecting the right firms for the right types of work and are limiting engagements to those projects that add significant and measurable value and cannot be done internally. These efforts have helped to ensure that consultants continue to be engaged in the most economical way possible and that Pfizer is not duplicating project work in different parts of the company. Finally, by opening the lines of communication with key suppliers, the team has driven an increased understanding of the value of Procurement’s role in the organization.

Case Study #2: Legal Services

At Pfizer, the Procurement and the Legal Divisions have partnered closely for almost a decade. During the course of this relationship, several large projects have been implemented that focused on the consolidation of service providers and cost savings. These include the global consolidation of patent and trademark agents, as well as a significant consolidation of law firms for litigation services. The outcome of these successful projects was a strong collaboration and partnership between the two divisions.

While the past projects delivered significant savings and value to the organization, much of the focus was on the billable hourly rates of the law firms. Increasing industry scrutiny of this model led many to believe that the billable hour model was broken, from both the client’s and law firm’s perspectives. This mindset was demonstrated by relationships that are often focused on discrete matters where the incentives are not aligned to produce proactive partnering and where the same hourly rates are applied to all tasks performed by a set of individuals, regardless of their value to the overall matter. This task-based billing approach creates a significant obstacle to teamwork and collaboration, because it motivates the wrong behavior for law firms to bill more hours. This attitude was shared by Pfizer’s General Counsel, Amy Schulman, who joined Pfizer in 2008 after a successful career as a litigator at DLA Piper. One of her first initiatives was to change how law services were addressed and sourced within Pfizer’s Legal Division. Procurement was a strong and active partner in all stages of this project and continues to provide ongoing support as the project evolves and expands globally.

There were several underlying issues that were creating frustration and impacting the outcomes: Pfizer’s attorneys and outside counsel were spending a large amount of time focusing on the financial aspects of the relationship instead of the substantive legal work, legal work was highly fragmented - 80% of the spend resided with 85 law firms, there was lack of continuity across cases, and a gap of understanding by the law firms of Pfizer’s priorities. Strong supplier management and information sharing practices
were not possible with such a large pool of law firms. As a result, the Pfizer Legal Alliance (PLA) was conceived to create one program across all practice groups with the Legal Division to achieve the following:

- Reconfigure the value paradigm
- Promote proactive, solutions-based legal work
- Foster trust and collaboration
- Channel at least 75% of outside counsel work to the PLA program
- Select the most capable law firms to support the work
- Rationalize the number of law firms to an appropriately sized pool that balances capability with risk [16 firms were selected initially]

A key component of moving the focus away from the fees to substitutive work was the creation of an “all-in flat fee” approach. This is an annual fee for all work performed during a calendar year by a PLA firm. Each firm is provided a list of matters for which they are responsible along with general guidelines regarding routine counseling activities, secondments and special projects that are encompassed by the fee. Matters can be added or deleted at Pfizer’s discretion throughout the year. Each firm is responsible for managing its portfolio of work within the flat fee.

In order to operationalize this project, a cross functional team of Legal, Procurement, and Finance was organized to go through the steps of selecting the appropriate firms for all of the legal work within the division, including litigation, employment law, compliance, and patent enforcement. Additionally, it was recognized that significant legal work was being procured by the Tax Division and that work was pulled within the fold of the PLA structure. The timeline from idea formation to implementation was achieved aggressively considering the scope of the work at hand.

- **Data Gathering and Supplier Selection Process [Q3 & Q4 2008]** A four month selection process was started in August 2008 that included a review of the law firms’ previous work with Pfizer, structuring of the future state and an RFP submission. Procurement structured and led the selection process with criteria focused on expertise, reputation, commitment to diversity, ability to collaborate and a sincere interest in engaging in a new and progressive way of providing legal services. In parallel, Procurement led a sourcing process to identify an appropriate consulting partner who could help focus on the key implementation PLA steps.

- **Firms short listed and selections finalized [Q1 2009]** It was critical to identify a group of law firms that had the capability and capacity to meet Pfizer’s diverse legal needs. Face to face meetings with the key front runner firms helped to finalize the selection process. The outcome of the selection process yielded the selection of 16 US-based law firms, including one legal group that was the amalgamation of three local firms that came together to function as a single regional firm. The firms’ willingness to participate in the PLA and operate under the flat fee structure was a key component in the final selection, recognizing that this approach is contrary to how most law firms function and compensate their staff. The foundations of the PLA started to be developed. Guidance was provided by the chosen consulting partner with heavy involvement from Procurement.

- **Program Implementation [Q2 2009]** With the selection of the firms completed, the hard work of implementing the new program began. Procurement and Finance partnered to model the impacts of various financial approaches related to savings and the formal engagement process. This effort was focused on creating an appropriate flat fee for each firm that was able to
encompass the scope of all of the work for the remainder of the year, while also taking an opportunity to deliver savings. There was a large effort in transitioning existing matters from current firms to the PLA firms in order to maximize the volume of work with PLA firms. In parallel, Procurement worked to design the innovative retainer agreements which encapsulated the spirit of the PLA, while still providing protections for Pfizer. While it is unusual for law firms to sign services agreements, Procurement helped to educate the internal group on the necessity this document and then worked with the firms to inform them of the documents and obtain signature. Finally, the development of the governance structure began during this time. Procurement led the charge of creating the job descriptions for the internal dedicated resources yet to be hired to focus on the PLA.

- **Program Rollout [Q3 and Q4 2009]** With the flat fees in place and matters transferred, the PLA began to officially operate as an entity. In July, firms started to bill Pfizer with a single monthly invoice based on a predetermined amount. Significant efforts were employed in order to increase awareness and knowledge of this new way of operating, both internally within Pfizer, as well as across the participating firms. The Q4 acquisition of Wyeth brought additional challenges and opportunities, especially with limited overlap in the usage of law firms. The majority of the legacy Wyeth work was moved away from legacy firms and transferred to the PLA firms. The role of the PLA Executive Director was filled with a legacy Wyeth colleague, increasing the internal focus.

- **Full Operational Year and International Expansion [2010 – Present]** While several of the PLA firms have globally capabilities, a geographic gap was identified. As a result, Procurement led two targeted selection processes that resulted in the addition of two firms to the PLA membership. One firm is based outside of the US and has expansive global reach, while the other was selected specifically to meet the distinct legal needs of the Canadian market. It has become clear that even the expanded PLA firms are not capable of supporting all of Pfizer’s geographically diverse legal needs. As a result, Procurement is working with specific countries to help them source, negotiate and contract with local/ regional firms under a capped fee or flat fee approach. This will help to create a parallel financial approach to the PLA globally, while rationalizing the number of law firms and driving savings, exact figures are still being determined. Additionally, much of the litigation activity conducted in the US by the law firms relies upon third party vendors who provide necessary administrative services, such as court reporting, trial graphics, medical records collections and chronology. Procurement has been leading the effort to rationalize the number of these providers and has rolled out a formal Preferred Legal Vendor Program, which will not only deliver savings, but will also create consistency of services across matters, decrease vendor start-up time and increase MWBE spend.

While the General Counsel continues to be directly engaged in maintaining the Pfizer Legal Alliance success, daily governance of the Pfizer Legal Alliance is divided amongst several bodies – the Steering Committee composed of three senior Pfizer lawyers. The Steering Committee is supported by the Alliance Roundtable, a group of outside lawyers drawn on a rotating basis from the PLA firms, and key Pfizer colleagues from within the Legal division, as well as from Procurement and Finance. Other sub-committees are established, as needed.

Several tools and new processes have been created in order to support the unique needs of the PLA. Two key components are the New Work Allocation process and the monthly Activity Tracking report. The New Work Allocation process is an automated process that flags all new cases/matters and provides guidance with the assignment of those matters to the most appropriate PLA firm. Activity Tracking has
been designed in order to capture the level of activity and value add that each firm is performing, while not capturing hourly details [for insurance reimbursement purposes, some matters require that hourly details are provided]. Both tools were designed based on feedback and strong involvement from Procurement, Finance and Legal team members.

The Pfizer Legal Alliance has been recognized and written about widely. Articles have appeared in both the mainstream press such as the Wall Street Journal, as well as legal journals, such as American Lawyer. Numerous Fortune 100 Companies have met with Pfizer’s Legal Leadership to better understand the PLA model as a mechanism to managing legal spend differently. Most recently, Pfizer has been working with Dr. Lisa Ellram from Miami University of Ohio as the basis of her research in the services procurement space in which she is highlighting legal services procurement based on numerous interviews conducted across Pfizer.