CHAPTER 7

A STUDY OF INTERNATIONAL CASES OF M&As

7.1 Introduction

7.2 The JP Morgan Chase Merger

7.3 The Glaxo SmithKline Beecham Merger

7.4 The Pfizer and Parke-Davis Merger
7.1 INTRODUCTION

The era of globalisation and liberalization has spurred the process of M&As widely in the international area. Before understanding individual cases of M&As, the development of M&As needs to be understood in brief.

There have been at least four distinct merger waves in the corporate history of the USA. The exact timing of these episodes were:

- 1897-1902,
- 1926-29,
- 1965-69 and

During the first wave, eight industries, namely, primary metals, food products, petroleum products, chemicals, transport equipment, fabricated metal products, machinery and bituminous coal experienced the greatest merger activity. The bulk of the M&As, were horizontal among these industries. The second wave is characterized by vertical M&As. The industries, which witnessed largest merger activity, were primary metals, petroleum products, food products, chemicals and transport equipments - leading to integration of manufacturing, suppliers and distributors. While the first merger wave is treated as "merger for monopoly", the second merger wave is termed as "merger for oligopoly". In the third wave both horizontal and vertical merger were regulated through anti trust laws, there was a surge of conglomerate M&As offers a mixed picture with hostile takeovers and leveraged buyouts (LBOs) dominating the composition of M&As. One of the notable features in the fourth wave of M&As is that they assumed an international dimension.

The current wave of M&As (since the mid-1990s) may be treated as the fifth wave. According to the World Investment Report 2000 (UN 2000), M&As worldwide have grown over the past two decades (1980, 1999) at an annual average rate of 42 per cent and reached $2.3 trillion in 1999 in relation to GDP, total M&As in the world were hardly 0.3 percent in 1980, which rose to 2 percent in 1990 and further to 8 per cent in...
1999. During this period, cross-border M&As hovered around 25 percent in terms of both value and the number of total M&As transactions. Cross-border M&As have assumed significance since the late 1980s mainly because of gradual liberalization and globalisation. Although the bulk of the cross-border M&As continue to be concentrated among the developed countries, they have emerged as an important mode of FDI flows to the developing countries. The total value of cross-border M&As increased from US$ 74.5 billion in 1987 to US$ 720.1 billion in 1999.

Cases of international M&As have been analysed so as to get a better understanding of the rationale behind, benefits accruing from, implications of M&As in the global field.

7.2 THE JP MORGAN CHASE MERGER

7.2.1 Introduction

- **J.P. Morgan – 1838:2000**

  In the development of modern global finance, few institutions have played a more prominent role than JP Morgan. The firm built its reputation over the last 150 years. Morgan served as advisor, underwriter, and lender to an extensive roster of major companies. During the late 19th and early 20th centuries, the firm was instrumental in the initial structuring and financing of U.S. Steel, General Electric, American Telephone & Telegraph, and several other prominent corporations. Most of those early clients maintained relationships with Morgan, as did a wide variety of promising new companies, which relied on the firm to help formulate business strategies, determine optimal capital strategies, and increase long-term shareholder value.

  In world financial markets, Morgan was an important intermediary, linking issuers and investors around the globe. In addition, Morgan forged a solid reputation as an investment manager of institutional assets. The firm also served the investment and fiduciary needs of many of the great personal and family fortunes amassed during the past century – a role it continued to play as a leading financial adviser to wealthy individuals.
A Study on the Management of Mergers and Acquisitions

• Chase Manhattan Corp. – 1977:2000

The genesis of Chase Manhattan Bank dates back to as early as the year 1799. This entity was founded to help solve a crisis, not a financial one but a health crisis. Since then the entity has undergone complete change. Chase Manhattan Bank was formed as a result of the merger between the Bank of the Manhattan Company and the Chase National Bank. Discussions between The Bank of The Manhattan Company and Chase National Bank began in early 1951 and on August 21, a tentative merger agreement was signed, creating “the biggest consolidation in the history of American banking,” in the words of The New York Times. However, by the following day the newspaper proclaimed: “Bank Merger Off; Talks Are Ended.”

For the next four years, Chase National searched for another merger partner, only to be frustrated in attempts to match the strengths of The Bank of The Manhattan Company was effected, and The Chase Manhattan Bank was born.

FIGURE – 7.1
Business Within JP Morgan Chase

<table>
<thead>
<tr>
<th>JP MORGAN</th>
<th>CHASE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Bank</td>
<td>Credit Cards</td>
</tr>
<tr>
<td>Private Equity</td>
<td>Consumer Banking</td>
</tr>
<tr>
<td>Private Banking</td>
<td>Small Business Services</td>
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<tr>
<td>Treasury &amp; Securities Services</td>
<td>Investment</td>
</tr>
<tr>
<td>Middle Market</td>
<td>Home Finance</td>
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<td>Management</td>
<td>Auto Finance</td>
</tr>
<tr>
<td>Investment</td>
<td></td>
</tr>
</tbody>
</table>

Source: http://www.jpmorganchase.com/
7.2.2 Chronology of events

6th Sep'00

German magazine reported Deutsche Bank AG, Europe's biggest bank, is in talks to buy the U.S. investment bank. JP Morgan rose 9.56 to 169.50 and Deutsche Bank fell 1.85 Euro to 96.4 in German trading. Officials from both companies declined to comment on the speculation.

7th Sep'00

Strategic co-operations in retail banking are the way forward," said Breuer, Deutsche Bank, Chief, said. "Mergers are facing too many difficulties at the moment." One possibility is "a Europe-wide network for direct banking and securities trading," he said.

8th Sep'00

JP Morgan & Co.'s Chief Financial Officer Peter Hancock resigned after one year on the job, as the fifth-largest U.S. bank becomes the subject of increasing merger speculation.

13th Sep'00

Chase in talks to buy JP Morgan for more than $30 billion to help build a niche in underwriting stock of technology companies.

14th Sep'00

The new company is dubbed as JP Morgan Chase & Co.

16th Oct'00

JP Morgan announces the earnings for the third quarter.

18th Oct'00

Chase announces deputation of high ranked officials.
22nd Dec'00

Shareholders vote to approve the merger.

31st Dec'00

Merger between JP Morgan and Chase finally closes.

7.2.3 Motivation for merger

Leveraging on premier brands and comprehensive capabilities across an unparalleled client franchise, J.P. Morgan Chase & Co. was deemed to be a formidable global competitor in financial services, positioned for superior growth and profitability.

The merged company (then) had assets of approximately $660 billion and stockholders' equity of more than $36 billion. On a pro-forma basis, J.P. Morgan Chase & Co. in 1999 would have had net income of approximately $7.5 billion and revenues of approximately $31 billion.

The merger combined the competency of JP Morgan in strategic advisory, equity and debt capital raising, credit, and global trading and market-making activities, operating services, wealth management, institutional asset management and private equity to the retail business of Chase consisting of credit cards, regional consumer banking in the New York tri-state area and Texas, mortgage banking, diversified consumer lending, insurance and middle-market banking.

Mr. Warner, Chairman & CEO of JP Morgan, said -

"This merger is a breakthrough for J.P. Morgan and Chase that will position the new firm as a global powerhouse. With a formidable client franchise and a potent array of capabilities to address the full spectrum of clients' needs, we see exceptional prospects for sustained growth and profitability. A diversified revenue stream enhances those prospects. And our clients will find a common commitment to high standards of integrity, excellence and service."
Mr. Harrison, Chairman & CEO of Chase, said -

"This transaction combines the most comprehensive group of clients with extensive financial and intellectual capital. We will have the capability to meet our clients' needs anywhere in the world with trusted advice and integrated execution. Our new firm will have leadership positions across a broad array of businesses in growth markets. Our past mergers have demonstrated that the expansion of product capabilities applied to a complementary set of clients results in incremental revenue growth. Expense savings will also result as we combine duplicate functions. As in the past, we will focus on a smooth integration and make the new organization the best of both.

The merger was expected to result in synergies of approximately $1.9 billion, consisting of estimated cost savings of approximately $1.5 billion and estimated incremental net revenues of approximately $400 million. The synergies are anticipated to be achieved by the end of the second year following the merger, with one-third estimated to be realized in the first year. It is anticipated that the merger will result in costs of approximately $2.8 billion, a portion of which be taken as a charge upon closing.

The merger allowed the entity to leverage on three very essential aspects of banking industry

1. **Global Client Base** - JP Morgan Chase now has a client base in 50 countries all over the globe. It is a combination of 30 million individual customers and small businesses that belonged to Chase and corporate clients and wealthy individuals & families that belonged to JP Morgan.

2. **Product Leadership** - This gave them leadership in M&A advisory, structured finance products, derivatives and risk management, syndicated house loan, custody & transaction services, private banking, etc.

3. **Scale** - The combined entity had $660 billion under management and had equity of around $36 billion on its balance sheet. It had become one of the largest financial institutions on this earth.
7.2.4 Impact of merger on JP Morgan chase

- Internal Risks

Merger of Chase and JP Morgan may fail to realize the growth opportunities and cost savings anticipated to be derived from the merger. If JP Morgan Chase is not able to successfully combine the businesses of Chase and Morgan and achieve its objectives, the anticipated benefits from the merger may not be realized fully or at all or may take longer to realize than expected. For example, it is possible that the integration process could result in the loss of key employees, the disruption of ongoing businesses or inconsistencies in standards, controls, procedures and policies that could adversely affect JP Morgan Chase's ability to maintain relationships with employees, clients or suppliers.

- Exogenous Risk Factors

The profitability of JP Morgan Chase's investment banking, trading and securities services businesses and retail and middle-market banking businesses could be adversely affected by a worsening of general economic conditions in the United States or abroad. Factors such as the liquidity of the global financial markets, the level and volatility of equity prices and interest rates, investor sentiment, inflation and the availability and cost of credit could significantly affect the activity level of clients with respect to size, number and timing of transactions effected by JP Morgan Chase's investment banking business, including its underwriting and advisory businesses, and may also affect the realization of cash returns from JP Morgan Chase's private equity business. Such factors will also affect trading market conditions in domestic and foreign securities and the revenues derived from the mark-to-market values. Any economic downturn could adversely affect its credit quality on-balance sheet and off-balance sheet by increasing the risk that a greater number of its customers would become delinquent on their loans or other obligations to JP Morgan Chase.
7.2.5 Conclusion

Banking industry globally is poised for consolidation. It is very much like natural selection. If one is big and has a balance sheet then it will be approached by everyone. So, in such a scenario it only makes sense to be there in the top brackets otherwise you will be wiped out. The merger between Chase & JP Morgan precisely addresses this problem. After combining, the group has scale, product leadership and client base very few have. Also, in the recent years it has been seen that more and more commercial banks are pairing up with investment banks to gather mass and enhance competencies. Recent phenomenon has shown that the boutique service providers are not there in the fray compared to what was the trend in the last decade. They have been wiped out by bulge brackets like Merrill Lynch, Goldman Sachs, etc. Industry is poised for more consolidation and it seems that it is going to shape up into an oligopoly.

7.3 THE GLAXO SMITHKLINE BEECHAM MERGER

7.3.1 Introduction

On January 17, 2000, UK pharmaceutical companies Glaxo Wellcome and SmithKline Beecham announced that they would be merging their operations. Glaxo SmithKline would be the largest drug company in the world as well as the largest company outright in the UK. Glaxo Wellcome and SmithKline Beecham had been involved in merger discussions over the past two years. In 1998 a proposed merger was shelved after it was reported that there were major disagreements over how the new company would be lead.
### 7.3.2 Chronology of events

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>17th Jan, 2000</td>
<td>Glaxo Wellcome, SmithKline Beecham agree to merge.</td>
</tr>
<tr>
<td>26th May, 2000</td>
<td>Boston Consulting Group to advice Glaxo India and SKB India on the merger.</td>
</tr>
<tr>
<td>17th August, 2000</td>
<td>Announcement that the Indian operations of Glaxo and SKB would be merged after September 25, after the completion of the global entities - Glaxo Wellcome Plc with SmithKline Beecham Plc.</td>
</tr>
<tr>
<td>21st August, 2000</td>
<td>Original date for global merger.</td>
</tr>
<tr>
<td>25th September, 2000</td>
<td>New scheduled date for merger completion.</td>
</tr>
<tr>
<td>1st November, 2000</td>
<td>Announcement that Glaxo Smithkline to split research labs after merger.</td>
</tr>
<tr>
<td>27th December, 2000</td>
<td>Date of the global merged entity being listed on the London and New York exchanges.</td>
</tr>
<tr>
<td>23rd February, 2001</td>
<td>Glaxo, SmithKline fix swap ratio at 1:2</td>
</tr>
<tr>
<td>27th September, 2001</td>
<td>The amalgamation of Glaxo India Ltd and SKB Pharmaceuticals India Ltd. receives approvals from the Karnataka and Bombay High Courts.</td>
</tr>
<tr>
<td>October 2001</td>
<td>SKB Pharmaceutical (India) Ltd. merges with Glaxo India Ltd. to become GlaxoSmithKline Pharmaceuticals Ltd.</td>
</tr>
</tbody>
</table>
7.3.3 Motivation for merger

The merged entity - Glaxo SmithKline will be the world's biggest producer of prescription drugs and will have a market share of more than 7 percent. Currently, Merck is the world's largest prescription drug manufacturer, with a market share of 4.2 percent. Below are discussed some of the major motivations for the merger:

- **Cost Savings**: On a global level, the merger is expected to yield cost savings to the tune of $1.8 billion in the next three years (2000-2003).

- **Size provides cushion**: The most striking aspect of the merger between Glaxo and Smithkline is that the merged company will clearly be the largest in the domestic market and the sales will be spread over a more diverse product basket. The merged entity would be able to handle the shocks of price increases better.

- **Complimentary product portfolio**: Globally, Glaxo has its strength in biochemical knowledge while Smithkline has its strength in genomics. In India, Glaxo India's traditional areas of strength have been antibiotics and drugs catering to respiratory ailments. SmithKline Pharma has been a market leader in vaccines, balms and has a well-known antibiotic brand. The key brands of both the companies complement each other, making for a more powerful product portfolio.

- **Strength in Research and Development**: Both the companies are committed to R&D. The two companies will together create an exceptionally strong research and development base with an annual R&D spend of $4 billion. This figure will be next only to the combination of Pfizer and Warner Lambert, if they merge. The merged entity would be able to spend a higher volume in research and would be able to bring out new drugs faster and in a larger number in the market.

- **High growth opportunities**: Because of low product overlap, the merged entity is expected to have a high growth rate in its earnings. It is expected that globally, the earnings would be around 13 per cent in the first year and they are expected to rise after that when the effects of cost savings set in.
• **Low Job loss**: The group has a global workforce of 105,000, and it is likely that around 10,000 jobs may be lost after the merger, which will take about six months to complete.

### 7.3.4 Conclusions

Merger between the two companies will create the largest pharmaceutical company in the world and the second largest in India after Ranbaxy. The main motivations for the merger are synergy, cost cutting and complimentary product portfolio. The new entity is projected to have combined net sales of Rs 1278 crores as compared to Rs 1382 crores of Ranbaxy.

This merger was carried out in response to the international merger of Glaxo Wellcome and Smithkline Beecham. So the effect on the Indian pharma industry is not going to be very direct. Moreover, the big companies in the Indian market are experiencing good growth and are not under pressure to cut costs. So the merger activities amongst large players is unlikely. However small and medium scale companies might want to join hands to be able to compete with the vast distribution networks, higher R&D spend and lower costs of the big players.

### 7.4 THE PFIZER AND PARKE-DAVIS MERGER

#### 7.4.1 Introduction

Pfizer was a pharma major looking out for aggressive growth. At the global level it acquired Warner-Lambert, which is the parent company of Parke-Davis in India, for $90 billions. This was on February 7th 2000. This made it second largest pharma company in the world level and the combined entity is positioned as the first in terms of growth through annual R&D expenditure which is over $4.7 Billions, double that of the nearest competitor Merck. This merged entity to have over 130 products in the product development pipeline at various stages. Many other envisaged benefits of the merger are detailed out.
As a logical extension of the global level merger, the Indian arms of these two companies Pfizer and Parke-Davis have also merged subsequently and swap ratio was announced on June 27th 2002. The merger was to reach a legal status in Dec. 2001. The combined entity in India became the fourth largest pharma firm with combined sales figure of over Rs. 700 crores and market share of nearly 3.5 per cent in a highly fragmented market.

7.4.2 Chronology of events

November 1999
Speculation in the media about the possible acquisition of Warner-Lambert the parent of Parke-Davis India and the possible impact on the industry structure and for the company itself.

7th February, 2000
Merger announcement by Pfizer. Press release from the Pfizer to this extent and the subsequent publication in major newspapers. It was made clear that it is a merger at the global level for $ 90 Billions and in its logical conclusion shall include all the arms of Warner Lambert. Parke-Davis from the above announcement shall become a part of Pfizer. Immediate to this discussion of synergies and merger impact for the both parties were discussed.

November 2000
Internally in both the companies merger exercise begins but it gets delayed due to operationalizing problems.

Nov-December 2000
New business heads get appointed to oversee smooth merger.

May 2001
Merger in India action plan prepared and announcement is made that it shall be over in 2002.
July 2001
Meanwhile performance of Pfizer which acquired Parke-Davis has been going well and this had positive sentiment for the merger and the subsequent management of synergies for both.

August 2001
Hocine Said, Lele were appointed as directors in Parke-Davis India to facilitate smooth transition.

August-September 2001
Merger plan being worked out and integration systems are planned to be put in place.

January 2002
Field forces of Parke-Davis and Pfizer to be rationalized. Pfizer board meets and discusses and reviews the integration mechanism.

Feb 2002
Joint product strategy worked out for two to project stronger brand in each segment.

April 2002
Pfizer is essentially marketing focused. In this light the manufacturing facility of Parke-Davis is closed successfully.

May 2001
Pfizer has decided to drop few products from their portfolio to accommodate stronger ones in these segments from PD.

June 2002
Swap ratio worked out and both boards meet in the last week of June 2002 and agree. Finally 9 to 4 swap ratio is announced on late 27th June 2002.

7.4.3 Motivation for acquisition

Scale advantage and growth potential

The merger of Pfizer Inc was intended to capture the benefits of creating world's fastest-growing and second largest pharmaceutical company with very diverse and rich portfolio of products. This primarily propelled Pfizer to pay a premium of 34 per cent at global level and 26 per cent in India over already expectation factored in price. This can be seen from the fact that the combined company will have annual revenues of approximately $28 billion, including $21 billion in prescription pharmaceutical sales, and will have a market capitalization in excess of $230 billion. Compounded annual revenue and earnings growth are expected to be 13 percent and 25 percent, respectively, through 2002. When completed, Pfizer's shareholders own approximately 61 per cent of the new company on a fully diluted basis, and Warner-Lambert shareholders will own 39 per cent.

Broadened portfolio

The new company will have unprecedented depth and breadth of products, including seven billion-dollar products. These are Norvasc, Lipitor, Zoloft, Zithromax, Diflucan, Celebrex and Viagra. Pfizer will have the industry's broadest range of products that treat diseases associated with cardiovascular risks, including: Norvasc for high blood pressure and angina; Lipitor for high cholesterol, Accupril for high blood pressure; and Glucotrol XL and Rezulin for diabetes. A significantly expanded programme in treating central nervous system disorders such as depression, anxiety, epilepsy and schizophrenia. Acquired brings to Pfizer valuable expertise in this area and a sales force that has extensive experience in calling on mental health professionals.

Infectious diseases where Pfizer can have vastly expanded portfolio, including Pfizer's Zithromax and Diflucan anti-infective shall be a strength area. Cutting-edge HIV research comes from Warner-Lambert's Agouron, one of the world's foremost biotechnology companies. Pfizer's hospital-based field force fits seamlessly with Agouron's outstanding community-based specialists. Pfizer will also have a research programme in cancer, including work in anti-angiogenesis. Also women's health, with an expanded field force dedicated to women's health professionals. Pfizer will emphasize...
not only reproductive health but also the importance of cardiovascular and mental health for women.

The continuing success of cholesterol-lowering medication Lipitor, which has been co-promoted by Warner-Lambert and Pfizer since 1996 contributed. Lipitor is the number one statin in the US and the fastest growing product among cholesterol-lowering agents. This year, Lipitor is expected to exceed $5 billion in worldwide sales and a spring introduction is planned in Japan. The companies will benefit from Pfizer's strength in Japan. In addition, the Lipitor-Norvasc combination product represents an important opportunity.

Better R&D

The combined research and development operations of the company, headed by Pfizer vice chairman Dr John F Niblack, to have a worldwide scientific staff of over 1,200 and $4.7 billion in annual R&D expenditures in 2000, the largest in the industry. The combined entity have few research overlaps, and a total of 138 compounds in development in areas including central nervous system disorders, oncology, cardiovascular disease, metabolic disease and infectious disease.

International presence

A strong international presence with enhanced global reach in all major markets, including Japan, the second largest market in the world, where Pfizer is the leading non-Japanese pharmaceutical company. The company will be in the top tier in most major markets. Excellent opportunities for additional earnings growth based on anticipated cost savings and efficiencies totaling $1.6 billion. Two hundred million dollars of these savings are expected to be achieved by year-end 2000, $1 billion by year-end 2001, and $1.6 billion by year-end 2002. A major presence in the consumer healthcare field, including the Warner-Lambert confectionery business, through global brands including Halls, Benadryl, Sudafed, Listerine, Desitin, Schick, Visine, Ben gay, Lubriderm and Barbasol. Warner-Lambert's and Pfizer's long experience in retail and over-the-counter products provides a platform for future prescription-to-OTC switches for both companies. Significant opportunities exist for the company's animal health business, which has a growing pipeline of genetically engineered vaccines, gene therapy products and novel, convenient-to-use medicines.
7.4.4 Gains from merger

Increase in size

With this merger was expected to result in several competitive advantages for the merged entity. This merger shall result in the combined entity being the second largest company in the world. And combined company will have a market capitalization in excess of $230 billion and annual revenues of approximately $28 billion, including $21 billion in prescription pharmaceutical sales. Also the new Pfizer is expected to capture the combined strengths of the two companies that have very similar values. The combined entity was expected to provide critical mass to build on success of recent years and deliver on aggressive sales and earnings going forward.

Cost savings for the company

The merger was expected to result in cost savings of an estimated $1.6 billion from 2002. The combined company expects to save $200 million by year-end 2000, $1 billion by year-end 2001 and $1.6 billion by the end of 2002. The cost saving is projected to accelerate annual net income growth by 20 per cent. This was the chief reason for Pfizer taking active interest in the Warner-Lambert when American Home Products announced their intention to merge in October 1999. The plan was scuttled by Pfizer, which made a counter-offer to acquire Warner-Lambert. American Home Products will now receive a 'break-up fee' of $1.8 billion.

Strong portfolio and areas

The new company will comprise of seven billion-dollar products. They are:

1. Norvazsc
2. Lipitor
3. Soloft
4. Zithromax
5. Diflucan
6. Celebrex
7. Viagra
The broadest range of products in therapeutic areas such as cardiovascular, anti-cholesterol and diabetes are offered by combined entity. Acquired had few very good brands. For example, Benadryl, one of the top brands was growing over 60 per cent. Another called Abdec was recording 27 per cent growth another leading strong brand was Gelusil. Benadryl and Gelusil MPS - were on the verge of being categorized as over-the-counter products. On its own Pfizer had some of the strong brands of different segments like Corex, Becosules, Dolonex and Protinex etc. Comparatively Pfizer brands were progressing at much more moderate levels of growth. Becosules was in fact losing market share and volumes.

Leveraging the channel for cross selling

The field force of the merged entity will be able to cross sell each others products. This should especially benefit the quasi OTC products of Parke Davis, which have great potential and can now be marketed by Pfizer's efficient team.

Increased growth and R&D

Pfizer will be the fastest growing pharmaceutical company, with a research budget of $4.7 billion in 2000, nearly twice the R&D spending of its nearest American rival, Merck & Company. The R&D operations of the combined company, headed by Pfizer vice-chairman Dr John F Niblack, will have a worldwide scientific staff of over 1,2000. The research pipeline includes 138 compounds in development in areas that include the central nervous system, oncology, cardiovascular diseases and infectious diseases. Under the new structure, the company aimed to retain its basic initial drug research in about eight separate discovery sites. However, for the drug development, which involves testing the drug on human volunteers, the company proposes to create a new centralized site in New London, Connecticut, to reap the benefits of economy of scale.

Each of the merged entities has their own strengths and weaknesses. Though broadly there strength areas more or less different and hence can offer complementarily and build on this by cross selling the products of the other through either arm, there shall
be few overlapping product lines which have to be clarified and decided and pushed in future. This is natural and can be expected as rarely one can find mutually exclusive offerings from any two general pharma companies. For example in the cough syrups segments in many markets Pfizer's Corex is the leading brand followed by the Benedryl offered by the acquired. Some of the drugs are of OTC nature and this shall help in combined Pfizer position its products in the prescription drugs segment and those of the Warner Lambert in the OTC segment. Thus the combined entity shall be positioned better in any segment one considers due to the cost advantages, complementary offerings and complete offerings on the whole. Due to the combined benefits synergies to the tune of over one and half billion dollars are expected to be reaped in one year's combined sales of $ 28 billions. Of this amount nearly three fourths shall be in prescription drugs.

Gains from India

Pfizer's audited sales for the 12 months ending November 1999 were Rs 326 crores, and Parke Davis recorded a retail turnover of Rs 178 crores. Pfizer, ranked seventh, has grown 16 per cent during this period while the growth for Parke Davis is 7 per cent. Parke Davis is ranked 24th in terms of retail sales. The merged entity is to have an annual prescription base of 8.8 million or 2.37 per cent. Pfizer products generated 4.99 million prescriptions between December 1998 and November 1999 (IMS medical audit), while Parke Davis has an annual prescription base of 3.85 million. In addition Parke-Davis (India) Ltd. was planning to extend its popular cough syrup brand name Benadryl to formulations for treatment of the common cold. The company was also exploring the possibility of converting Benadryl, an Rs 40-crore product, as an over-the-counter (OTC) item. The Rs 185-crore company was in the process of developing anti-cold products besides evaluating the need for changes in the cough products segment. National sales of cough and cold products were around Rs 570 crores, of which cough preparations accounted for Rs 400 crores. Annual growth in the anti-cold segment had been 15 per cent. Benadryl was the second largest cough preparation in India, with a market share of 7 per cent. Pfizer's Corex is the brand leader. In fact Benadryl was one of the first brands to be converted from prescription to OTC category in the United States.
7.4.5 Conclusion

Indian pharmaceutical industry is highly fragmented with a four firm concentration of just over 2 per cent. Thus in terms of concentration, it may not matter much. But Pfizer was a player is now positioned at 4th in sales terms. Though it had few important brands in certain segments it was like an also ran player in the entire market. Some of the brands were really growing at impressive rates but sustaining and taking on much more strong players locally required certain additional strengths. This came in the form of possible merger with Parke-Davis and with this merger Pfizer got positioned as complete line product supplier. Ranging from cardio to CNS the combined entity's products shall be visible in all the segments. Suddenly being the fourth largest player and with wide portfolio made Pfizer's presence significant. By acquisition of Parke-Davis, not only Pfizer gained some of the fastest growing brands but also complemented its weak areas and also gained competent and trained sales force in the previously weak areas. Thus combined Pfizer became a much stronger player in central nervous system disorders, oncology, cardiovascular disease, metabolic disease and infectious diseases in addition to the other areas like supplements, cough products etc. Thus in many of the segments which are important for the Rs. 23,000 crores industry the Pfizer become stronger and tougher player to reckon with for competitors.
Reference:

3. Hindu Business Line
5. CMIE news
6. Reuters news stories