



2009, Volume 12, Issue 3

Prescription for Success

Audio interview with Jon Figueroa, President, McKesson U.S. Pharmaceutical

Danielle L. Scott

About the GBR: Since 1998, the Graziadio Business Report has provided practical information on dealing with business situations and problems. GBR authors translate the latest academic research and analysis into practical applications for business. From accounting and finance to ethics and work/life balance, the Graziadio Business Report extends current business debates in new directions that you can use to advance your business and professional career. Read us online at gbr.pepperdine.edu.

About the GBR Blog: The GBR blog expands on ideas published in the *Graziadio Business Report* and provides timely updates and critical analysis of what is happening in the fast-paced world of business today. Read us online and watch video interviews with GBR authors on at gbr.pepperdine.edu/blog.

Start

Danielle L. Scott: Good day this is Danielle L. Scott managing editor of the Graziadio Business Report, the online business journal of the Graziadio School of Business and Management at Pepperdine University. Today is May 18, 2009, and we're speaking with John Figueroa, President of McKesson U.S. Pharmaceutical. John oversees the business units operations and distribution of pharmaceuticals and other healthcare related products to customers in four primary segments. National, regional, retail pharmacy chains, hospital providers, retail independent pharmacies and mail pharmacies. John began his career with McKesson in August 1997 as Vice President of Sales for California for McKesson Health Systems. Prior to his current role he was responsible for the company's relationships, retail chains and mail service customers, their largest and fastest growing segments. Before McKesson, John was Director of Sales and National account at Baxter Healthcare for seven years. He also served as a captain in the United States Army. He holds an MBA from Pepperdine University and Bachelor of Arts degrees in both English Literature and Political Science from UCLA. John is a member of several boards including the McKesson Shared Services Counsel, the HDMA Government Public Policy Counsel, the GS1 U.S. Board of Governors, the Boy Hope, Girls Hope Board of Directors and the Pepperdine



Graziadio Business Report

A Journal of Relevant Information and Analysis

University Business School Board of Visitors Executive Committee. John, thank you so much for talking with us today. You're obviously a very busy man so we appreciate your time.

John Figueroa: Well thank you very much for the opportunity. It's a pleasure to speak to you.

Danielle L. Scott: Thank you. Can you start with giving us a little bit of background on McKesson?

John Figueroa: Well McKesson is one of the largest healthcare companies in the world. In fact we are largest pharmaceutical distributor, not only in the United States but in North America as well, including McKesson Canada and we have an equity holding in Nadro, which is the leading distributor in Mexico. So all in we do over 50 percent of all the pharmaceuticals in North America or distribute all of the 50 percent of the pharmaceuticals in North America. We operate, here in the U.S., 31 pharmaceutical distribution centers that are strategically located throughout the country servicing all 50 of the states and also Puerto Rico. McKesson delivers pharmaceuticals as you had mentioned in the introduction to all retail pharmacies, hospitals and healthcare systems every single day out throughout the entire year. We also deliver a comprehensive offering; healthcare products, technology equipment and related services to physicians, surgery centers, long term care facilities, home care businesses, just about anybody that is in healthcare today and in need pharmaceuticals it can be distributed and acquired through McKesson.

Danielle L. Scott: According to your web site, McKesson is a \$106 billion Fortune 15 company in its 176th year of business. And so you have said that the company delivers over half the pharmaceuticals in North America and has a 360 degree view of the healthcare system. So in your opinion what key elements are required for a company to maintain this level of success?

John Figueroa: Well as you had mentioned we've been in business 176 years and I think throughout that history we have had an impressive growth rate and then certainly an awful lot of success. And this is due to the reliability of our supply chain which is focused on the safety, efficiency and consistency of getting medicines to our customers where ever they need them. We owe a lot of our success certainly to our customers. Throughout our tenure, McKesson has developed deep and outstanding customer relationships in the four key areas that effect pharmaceuticals hospitals, physician offices, retail pharmacies and most importantly here recently is payers. And today no matter what segment you look at McKesson is either the number one market share leader or number two market share leader in every market that we serve. And it's important that we have that footprint because it gives us a 360 degree view of all of healthcare, certainly focused on the patient, but no matter who touches healthcare from payers all the way to the retail pharmacy we have the ability to connect everybody with the healthcare with our information technology systems, our automation certainly with the delivery mechanisms that we have provided. So we have an opportunity to solve problems, to innovate and I think as I mentioned

before connecting all of the elements of healthcares is a unique position that McKesson's in. So our successful strategy and customer focus has led to steady revenue and earnings growth and these financial results give us the ability to sustain investment in our business, in our employee and continue to innovate solutions that ensure our continued success in the future. Today McKesson has over 30,000 employees in 11 countries and 8 major business locations across the globe including healthcare IT, healthcare management and businesses of Europe and Asia.

Danielle L. Scott: So is McKesson involved in created or influencing new drug therapies or is it mainly distribution?

John Figueroa: Yeah, McKesson is a distributor of medication, health related products. We have strong relationships with our suppliers, the manufacturers of medications and work with them to get their products to the patient wherever they need them. Healthcare is certainly in need of innovation and I am very optimistic about the future of the pharma industry and the breakthroughs on the horizon. But we don't manufacture new drug therapies. I know that a big area focus for my colleagues in the manufacturing area and research is around oncology and biogenetics. These are exciting areas of growth and opportunity and I think you're going to see over the next few years some great breakthroughs in both of these areas.

Danielle L. Scott: What about in terms of technology? What kinds of advances in technology are you seeing within the healthcare industry?

John Figueroa: Gosh over the last few years technology breakthrough in healthcare has been significant. Specifically at McKesson, we have been committed to delivering greater efficiencies to our customers through the use of technology. And one of the examples in retail pharmacy, we continue to look for ways to streamline work flow and carve out more time for the delivery of patient care. So instead of a pharmacist being behind the counter and counting pills, they're utilizing automation as well as information technology to speed the process and efficiencies to create some more time where they can spend with patients who actually come into their stores and we work with them one-on-one as opposed to doing some of the traditional things that they've done in the past, which has been in the back of the room. Another specific example that McKesson has done is we have created central fill operations where we actually build a facility that will aggregate the man in certain pharmacies and we will do the prescription for sometimes up to 30 percent of their daily prescriptions that are coming into their store. We will actually put those pills in bottles. We'll label them. We'll put the patient's information on it and ship it directly to the pharmacy. And when the customer comes into the pharmacy it will already be prefilled prior to them getting there. So it basically eliminates some time and some labor costs for the retail pharmacy and again allows them to spend more time with patients.

Danielle L. Scott: One of the things that we've seen lately is a breakdown in managerial responsibility throughout most of the financial industry. But it doesn't seem to have touched healthcare at all even though there is that ongoing debate about the cost effectiveness of the nation's health insurance and health delivery systems. So in your opinion what is wrong with the current healthcare system and what's right?

John Figueroa: I think what's needed in the U.S. healthcare system today is leadership. I think we have all of the components to change healthcare and change it for the better. But I think the first realization that we have to make here in the country and certainly within the industry is we have to understand that healthcare is in fact a business. And when you look at any kind of business you have to make sure that the customer comes first. And in this case the patients are the customers and we have to make sure that their needs come first. So physicians and other care providers need to make decisions based on an economic system of healthcare that is best for the patient. And as we look at healthcare and the important part of the U.S. GDP, I think it's important that we focus on the patient and make that they are getting the best care that they possibly can from the best economic standpoint possible. And I think what's working in the system is the technology around our capability to serve that patient. We also can use technology to engage the patient more so that they can control their own health. They can communicate with their doctor on a regular basis. They can get information on their own health records anytime they would like them. I think if you use technology in this way and we have been doing that quite effectively over the last few years it will increase accessibility to patients and increase quality of care.

Danielle L. Scott: So you're saying that more control over our patients personal healthcare is something that you would like to see happen and you have already, I suppose, seen happen within the industry.

John Figueroa: Absolutely. I mean I think if you listen to what the government is asking for when they're talking about changing health care, they want accessibility. You've heard a number of statistics on the uninsured and people who don't have access to healthcare and I think the reality is the current system today does in fact allow anybody to come into our system and get excellent healthcare. However when you do look at the uninsured problem, the biggest issue is around accessibility and making sure that everybody has the ability to have insurance and enjoy the luxury of healthcare. And when that becomes available to everybody I think the big question that we have to ask ourselves is, who is going to pay for that. And I believe in my opinion you're going to have private insurers as well as potentially some public or more public insurers and price delivery methods and other economic factors are going to be critical to the success of the entire healthcare spectrum. So with that I think the patients are going to have to understand what's available to them, what they get for their particular dollar and they're going to have to, I think, take more ownership over their own health by ensuring that they stay healthy and do the things that they need to do in order to limit their expense exposure in the system. So yes, I think more

personal accountability to their own health as well as personal accountability to the insurance plan that they'll sign up for I think is going to be critical to the success of the healthcare network moving forward.

Danielle L. Scott: Now you spoke a little bit about possible changes to the healthcare system. How might a revamping of the health care system affect McKesson?

John Figueroa: I think we are in a wonderful position that we have been focused on the quality of care for a number of years. I think it's been 12 to 15 years where we've been investing in businesses that make care as safe and error free as possible. And we have set some very high standards of quality. We have instituted bar codes throughout the supply chain process within a hospital. There are certain hospitals that use McKesson technology that everything is bar coded including the patient and the nurse. And the example that I give is this medications they were ready to be administered to a patient, we have technology where they scan the actual medication which is bar coded. They scan the patient's wrist, who has a bar code, and then the nurse actually scans her own name tag to track everything that is happening with that particular patient. If in fact there is any type of error, such as the wrong medication or the wrong dose or it's being administered at the wrong time, the system actually tracks and stops any type of error from occurring. This is the type of technology, as I mentioned, we've been investing in for quite some time to ensure that the right medication is administered at the right time to the right patient. And these type of rights, as we call, them ensure that the quality of the process is right for the patient and that historically and statistically we have seen that when patients are monitored this way then there's a lack of errors, reduction of errors that is extremely cost effective for the entire industry. When you're eliminating errors and getting to Six Sigma type of perfection in healthcare that's when you start to save a number of costs that we're paying today that eventually could go back into the system.

Danielle L. Scott: Are there any overall changes to the healthcare industry that you would not like to see happen? In other words what is your biggest fear that anything that could be happening within the future?

John Figueroa: I think one of my biggest fears is certainly the landscape of public policy. There are a number of issues that state governments as well as the federal government are looking at to change within the healthcare industry. Some of them very good and we should have some debate around and others that, you know, certainly could be challenging for the supply chain. And one particular example I think is importation. And this has been a topic for the last two administrations and I believe the current administration is looking at it as well. And this is the topic of importing cheaper medications into the United States as historically there's always been a price difference or cost difference between the two. And this is certainly concerning simply because of the counterfeit issue. Today the United States has the safest supply chain and distribution channel of medications and pharmaceuticals then any country in the world. And I think the minute you begin to introduce importation it certainly puts that safe supply chain at

risk for potential counterfeit issues. And that's something that concerns McKesson and certainly me as I look at that supply chain. One of the reasons that I don't think it is as important as it may have been in the past is that gap between U.S. price points and other parts of the world has shrunk considerably. And it's shrunk considerably for a couple of reasons. I think the first one is the introduction of Medicare Part D a couple of years ago that insured a number of Americans, which brought down certainly the availability for lower price meds for our seniors. We also had an amazing phenomenon over the last few years with the introduction, a very rapid introduction of generic pharmaceuticals. And today the generic pharmaceuticals represent over 70 percent of the prescriptions that being filled today in the U.S. And these are generic that can range anywhere from \$4 to \$7 or so for a 30 day supply of pharmaceuticals that used to cost \$100 to \$150 when they were brand. So the introduction of generics and the fast adoption of generics in the country has led the overall cost of pharmaceuticals to be relatively calm compared to other areas of healthcare, other areas or other industries for that matter. So because of that I don't think importation is as critical as it was in the past, but certainly anytime there's conversation about that it does concern us a bit.

Danielle L. Scott: Given your 360 degree view of the healthcare industry, it's really refreshing to see you so optimistic about what's going on. I was just wondering from your view what are the healthcare industry challenges you think that businesses should be paying more attention to?

John Figueroa: Well I think internally our biggest focus is strategic planning for the future to prepare our customers for what's going to happen in healthcare over the next couple of years. We need to understand what their needs are. We need to understand what the best model of service is for them and of course we need to always recognize what type of opportunity will be present in healthcare as we look forward. One of the great things about McKesson has always been that we are trying to look forward as opposed to our past and I think internally we will continue to be challenged to make sure that we're achieving excellence with all of our customers in everything that we do day in and day out. I think externally one of the biggest challenges we have is the recession. And we're starting to see that customers are struggling to identify new ways to service the end user, the patient or the consumer who walks into a pharmacy with their prescription. We're starting to see that a number of folks who walk into a pharmacy every month to pick up their prescription have decided that because of economic woes that they won't take their medications anymore. So we need to focus on how we continue to keep patients on their medications and keep them healthy. And those will be some of the challenges that we certainly think about and that we look forward to solving in years to come.

Danielle L. Scott: Being green and social responsibility seem to be two of the new corporate buzz words that everyone's been throwing around lately. How does McKesson deal with these issues?

John Figueroa: That's actually a great question. Being a California company and certainly headquartered in San Francisco I think we have been ahead of the ballgame in making sure that we are a good corporate citizen and taking this responsibility very seriously. In fact we have a number of examples of us and great awards and some great things that we have done. One of the examples is recently our headquarter though I think we received an energy star rating of an 84, which means that we're in the top 25 percent in the nation in terms of energy efficiency. And we have done that by using energy efficient, lighting, nontoxic cleaning products, recycled carpeting, we've got a number of examples of what we're doing where we have been recognized not only by the state but nationally with some great awards. In fact we just recently completed building a new distribution center in Chicago and I just heard the other day this was pretty exciting to learn of this that we are only one of four buildings in the state of Illinois that is being considered an all green facility, which meant that when we built it we followed all of the guidance that the state of Illinois provided on being green in building a facility from scratch. So that's just one example of having a number of examples where McKesson has demonstrated some leadership in this area. And I'll tell you that anytime people want to talk about the responsibilities of being green I have found in my experience as you look at this, 90 percent of the time there's actually a good business reason to do it and a good economic reason to do it. So the fact of the matter is most of the time it's just darn good business to do and we're very focused on that moving forward.

Danielle L. Scott: I was just going to ask you what kind of cost benefit analysis you went through to get these initiatives started but I guess you already answered my question.

John Figueroa: Yeah I will tell you we had a very acceptable return on investment in 90 percent of the activities that we have done when it comes to social responsibility and being green. Anytime you can do that from a business perspective it makes the decision that much easier.

Danielle L. Scott: I wanted to move on a little bit so we can talk a little bit more about you and your career path. I noticed that you have an English Literature degree so that was very interesting to me personally since I also have one and it's good to see that English Literature graduates can become presidents of companies.

John Figueroa: Well I was always told when I was young that a good liberal arts education could do anything in the world. And so I concentrated in business, I thought that was true but it really wasn't until I went back and got my MBA from Pepperdine that I really felt comfortable in my career in business. So it was exciting. It was certainly to learn the things that I did with my liberal arts education but it was certainly the business degree that I received from Pepperdine that honed in my skills and has led me to the career that I'm on today.

Danielle L. Scott: Can you talk a little bit more about that? Can you point to any direct situations or circumstances where having an MBA influenced your career direction?

John Figueroa: I was in business as a lower level manager and a midlevel manager for about seven years. I started in sales and I mean it's certainly understood the basics of the business and profit motive more than anything from a sales perspective. I very early moved from sales to operations and it was at that point that there were a number of other business skills that I felt would benefit not only me, but the company that I was at, at the time. And that's from a financial standpoint, from an economic standpoint in running the business whether it's from an operational standpoint or peer P&L standpoint. I think it's important to have that business background and honing of those skills to make sure that you're doing absolutely the best you possibly can do for the business that you're working for. But I will tell you of all of the business disciplines that I studied at Pepperdine, I think the biggest difference in my career has been around strategy. And it's always interesting when I speak to current MBA students at Pepperdine. They always tell me that the strategy piece is really the area that they put it all together, it all begins to make sense and you start to get the ah-ha. This is the point of understanding of everything that has been done. And I strongly agree with that. As I look at my career with McKesson there have been a number of strategic opportunities and bets that we have made throughout the years that have turned to be such a competitive edge or advantage that we have had. The discipline around studying strategy and executing on strategy and the decision making process as to whether or not you embark on a certain strategy is absolutely the funnest part of the business and the most rewarding part of the business. And to be honest with you I really had no idea until I spent those long hours at Pepperdine studying the basics around strategy in the business element to strategic success.

Danielle L. Scott: So now we know about the skills that have helped you reach your current position. What about the personal attributes? What is it in your character or personality that you think has helped you attain such heights?

John Figueroa: My philosophy around hard work is probably one of the key characteristics that I bring everyday to the job. To be leaders in today's world I think you have to be true to a number of things. I think you have to be true to the principles that you believe in. Here at McKesson we actually have a saying and it's called I CARE. And I CARE, the I stands for integrity. The C stands for customer centered. The A is for accountability. The R is for respect and the E is for Excellence. And I think at the end of the day if you put your core principles together and you treat everybody the way you want to be treated I think that is a recipe for success. And I think if you have the key business skills that you need to run a business but you treat people the way you want to be treated and you bring that to work every single day and you stay true to yourself ultimately you're going to be successful.

Danielle L. Scott: Well I think hard work is actually something that you mentioned in your recent speech where you received the Pepperdine Extinguished Alumni Award. And another thing that you mentioned is mandatory for success is the ability to embrace change. So how do you adapt to change?

John Figueroa: Well adapting to change is something that I think we all have to do every day. And as a Fortune 15 company, we often think of McKesson as a very large ship and sometimes it takes a lot of effort to change directions. But when we look back at some of the success that we have had as a corporation it was usually where we adapted change quickly and before our competitors had actually amounted to the greatest success that we have had as a corporation. So no matter how good the company is, how small the company is, I think an adaption to change and the welcoming of change is extremely important. We had a huge industry event that happened back in 2004. The pharmacy distribution industry used to work on a model of buying inventory and holding inventory and as prices would increase we would then sell the inventory. So it was buy and hold model for pharmaceutical distribution. Well that was changed in 2004 and the manufacturers would not allow pharmaceutical wholesalers to work in a buy and hold model. So we had to adapt to a fee for service model where we actually get paid for unique services that we supply manufacturers throughout the supply chain. And it was recognizing that that change was coming and adapting to a model and actually setting the rules for that model that the rest of the industry followed. So I mean that was an amazing example, certainly in my career watching, it unfold in front of us that if we didn't recognize that something was coming we would have been reactive to a change in the industry instead of being proactive and identifying how the rules of a fee for service model would benefit McKesson. So yeah, I mean I think that's an important message to anybody who's in business because nothing ever stays the same. And if you think it is that's a recipe for disaster.

Danielle L. Scott: What do you think you learned as President that has surprised you or changed the way that you do business?

John Figueroa: I feel like I'm learning everyday and after assuming the role of President of U.S. Pharma, I learned a couple of key lessons that have served me well over the past three years and have helped me lead a team that has surpassed our goals each and every year. The lessons like focus, there are so many things that you can do day in and day out and there are so many things that a business like McKesson could be involved in that I find that the team and the teams that I'm responsible for have to be focused on three or four key elements for success. And they have to be focused on those day in and day out and they have to make sure that they're executing on those things in order to be successful. The keys to focus are listening to our customers and certainly listening to the experts that you surround yourself with and making the best decisions based on that information. Then ultimately as the President of a very large business, it's my responsibility to make the call. And after listening to what's needed and listening to peoples recommendations and advice ultimately it's my responsibility to make the call and the

right call for the business. So what I have learned in all of these years leading up to this position is to listen to those experts, make the most educated call and execute flawlessly and certainly success will follow.

Danielle L. Scott: Who is it that you rely on right now for advice?

John Figueroa: I have an executive team to run all the different parts of my business, whether it's my chief financial officer, my chief operating officer all the way to my HR staff and legal team and all of the great folks that you need to be successful in business. And I say this all the time. I believe that the team that I have surrounded myself with is absolutely the best team in the industry. And I think that's important. I don't think any business leader should settle for a normal standard. I think every person who you are relying on needs to not only be the best in their respective field, but they need to be inline with your values as well. When you surround yourself with a team like that, I think the next phase is to trust their decisions and trust that they know what they're doing and listen to what they have to say. And I say it all the time that even though I trust every member of my team, I certainly want to inspect and make sure that we are following our goals and we're hitting our respective milestones to ensure success. So I mean, I think ultimately the advice I would give is to surround yourself with people who are better than you, trust their actions and continue to challenge them to step up their game and continue to improve the operations and whatever they're responsible for.

Danielle L. Scott: Challenging them is one thing, but especially during this economic downturn, how are you keeping your team and the organization as a whole motivated? How does that reflect on your position as leader of the company?

John Figueroa: Yeah, and this is another category that I'm extremely proud of what we have done with our business in anticipating change. Nobody could have expected the economic change that we've had over the last 18 months. However I will tell you that running a very low margin business we've always been very focused on cost and ensuring that we have the best cost position in the market place. So as the economy began to change health care was probably one of the last industries to actually see the affect of the current recession. But nonetheless we did see it coming and over the last I would say 12 months or so we have been focused on hiring only critical business positions. And so we have maintained the same headcount within my division for the last 12 months. So even though we had an increase in our budget for about 10 percent of labor costs and people, we did not move forward by increasing our staff at all. And so having that discipline of maintaining the same amount of people in our organization doing more with less early on during the economic turn, basically meant that we didn't have to do any draconian cutting within our organization. The other thing that I think we were in great position to weather the storm was, three years ago when I took this position, we took a hard look at all of the training programs that we have within McKesson in personal development opportunities that every

employee has. And we advocated that all of our employees take advantage of that. In fact my managers have been evaluated on how much personal and career development that they do for their people. So over the last three years there's been a number of folks who've taken a lot of classes. Some who've gone back to get their MBA's, for example, others who have done some internal training where they were prepared to do other things within our organization if in fact their business was cutting or lacking in opportunity. So a number of our people, a number of our employees have actually moved to other departments because of some of the training that they have done over the last three years. So all in all we're certainly looking at the recession and how it's affecting other companies but McKesson has been pretty lucky in the fact that we haven't had to do any type of draconian cutting at all. So we're pretty proud of that.

Danielle L. Scott: And certainly that helps to motivate your team members.

John Figueroa: Absolutely.

Danielle L. Scott: Well a lot of people say that turbulent times are the best time to implement changes. However a lot of times companies tend to become paralyzed when there's uncertainty. So what is your advice to maximize opportunities to implement changes during tough times?

John Figueroa: Now I think you are absolutely right. Difficult times are often the best times to change how you're doing business. I think that a number of leaders see change and they get extremely nervous and I think the natural tendency is to buckle down and sit tight and wait for the storm. I think as a leader you have the responsibility to lead. And whether times are good or times are bad, I think it's your responsibility to guide the team in whatever cards are dealt to you. And certainly as we look forward and look at the uncertainty in the market place there are things that McKesson does exceptionally well and we will continue to execute on those things especially where we have a competitive advantage. But there's also a time to maximize on opportunities and think of different ways to do business. Our customers, no matter what segment it's in, have some difficult times ahead. And each of them are looking at different ways to succeed and perform in the market place. And we have been developing a number of advisory committees in every segment to talk about what's changing in their world and how we can adapt our services to make sure that they continue to be successful. I mean my ultimate goal is that anybody who's doing business with McKesson is much more successful in their business because of our relationship. And as we look for what's happening in the horizon we are certainly concentrating on investing in businesses internally that will give us a unique advantage to make our customers even more successful. That's our primary concern and I think we're going to do things a little differently moving forward then we have in the past and hopefully that will allow us to stay ahead of our competitors.



Graziadio Business Report

A Journal of Relevant Information and Analysis

Danielle L. Scott: John, thank you again for spending some time with us today. You've answered all of my questions beautifully. And I know our readers will benefit from hearing about your wealth of experience and successes.

John Figueroa: Well again, I thank you for the opportunity. It's always nice to come home to Pepperdine and any time that I spend with you and the students and for anybody in that university for that matter it's always my pleasure.

Danielle L. Scott: Well thank you once again. This is Danielle for the Graziadio Business Report. Find us online at gbr.pepperdine.edu.

End