

Supplier Environmental Management at Pfizer

NAEM Creating Business Value Workshop
December 1, 2004

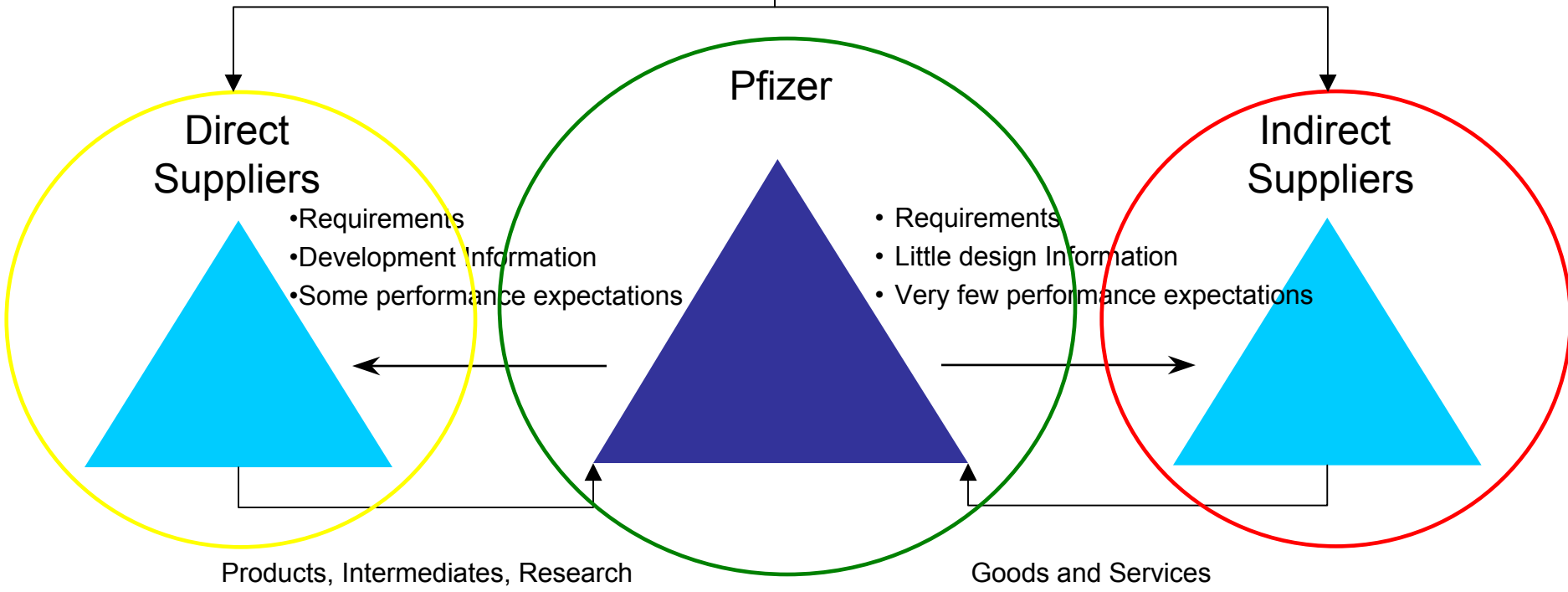
Ronald Di Cola
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Improved Operations, Product and Service

- Leaner and greener operations & reduced footprint
- Shared performance philosophy
- Partnerships for innovation
- Improved product & service specifications
- Compliance and conformance

Supplier Model



- Contracts/Contract Management
- Management of Contract Manufacturing & Research Guideline
- Quality Audits

Compliance, Risk and Quality

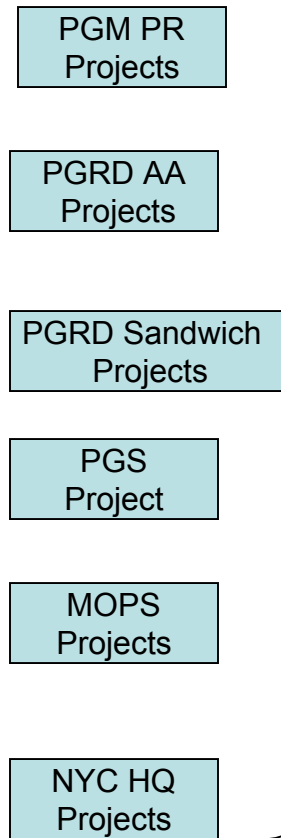
- Contracts/Contract Management

Contract Terms, Compliance

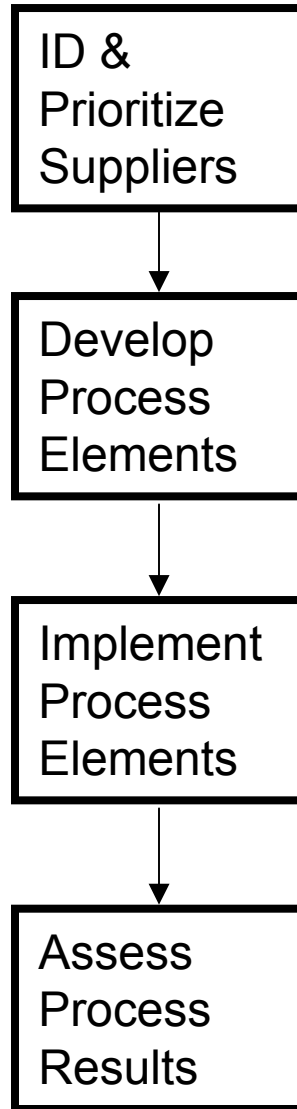


Pfizer Implementation of a Supplier Environmental Management Program

Current Situation



Work Group & Sponsor



Adhoc → Management Structure → Process → Results



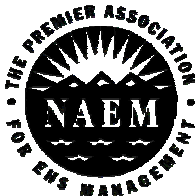
Step 1: Proposed Internal Support for Management Structure

- Workgroup

1. Corp. EHS – Team Leader
2. EHS Legal
3. Global Sourcing
4. Corporate Citizenship
5. Capsugel Sourcing
6. Capsugel EHS
7. Mfg. Procurement
8. Mfg. EHS
9. R&D Procurement
10. R&D EHS
11. HQ Facility Operations
12. Global Engineering

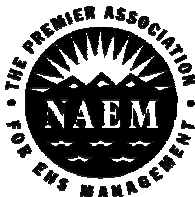
- Executive Sponsor

- VP Corporate Affairs or Purchasing



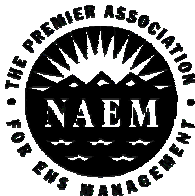
Step 2: Diagnosis

- Supply Chain Map – Who is involved in Pfizer?
- Supplier Analysis:
 - What do we buy,
 - from whom do we buy it
 - and how much do we spend
- Existing supplier expectations (CMR Guideline, Contract Language, Questionnaires etc.)
- Evaluate current situation
- Identify and prioritize opportunities



Step 3: Program Design

- Standard contract language?
- Supplier questionnaires?
 - Selection preference based on EHS performance?
 - Do we verify performance?
- Supplier performance standards? (e.g. Management Systems, Pfizer Goals, P2 Programs etc.)
- Supplier lean and green reviews?
- Annual supplier goals and performance metrics?
- Partnerships with key suppliers established?
- Supplier Management Guideline?



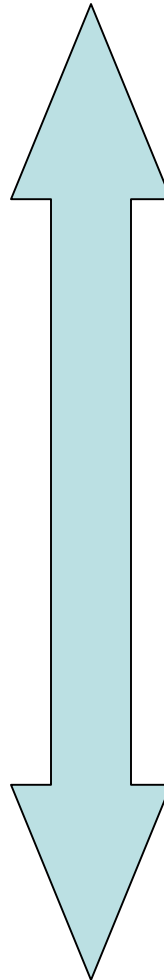
Program Design

Importance of Supplier

[May also be impacted by level of risk of materials being procured]

- Contract manufacturer or other strategic partner who shares business opportunity and risk
- Spot purchasing or other infrequent supplier
- Short-term contract relationship (e.g., building equipment provider)
- Competitively-bid incumbent relationship (e.g., office supplies, business travel)
- Preferred supplier (e.g., chemicals or other raw materials)

HIGH



LOW

Depth of Supplier Initiative

- Collaborate to achieve environmental benefit (e.g., redesign of packaging to reduce waste)
- Require substantive achievement (e.g., no ODCs, adopt Pfizer supplier code of conduct)
- Require procedural achievement (e.g., auditing and verification, 14001-compliant EMS)
- Require completion of survey gathering information on supplier's EH&S activities & products
- Request participation and interaction in supplier electronic network
- Communicate EH&S priorities and performance
- None (avoid obvious illegal activity)



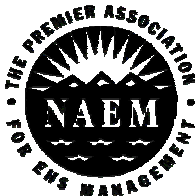
Step 4: Implementation

- Implement priority opportunities and program elements
 - Pilot projects
 - Full implementation
- Establish strategic partnerships
- Create incentives for suppliers to innovate
 - Recognize successes - Supplier awards program
 - Provide technical assistance
 - Create electronic network for suppliers



Step 5: Program Assessment

- Results
 - Total number and % of suppliers participating in the Program
 - Total number and % of suppliers achieving a pre determined level of performance
 - Aggregate environmental benefits of participation in the supplier program (e.g. energy conserved, waste reduced, materials recycled, GHG avoided, HAPS avoided etc.)
 - Dollars saved or costs avoided
 - Liability avoided or risks reduced
- Communicate results to external stakeholders, colleagues and suppliers



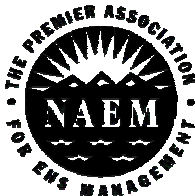
Key Learnings

- Turf issues
 - Information overload, time and resources
- Storming
- Dialogue
 - Common ground (Common goals)
- Forming
- Collaboration
- Norming



Dialogue

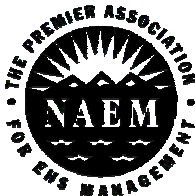
- Business Group Procurement
 - Supplier Management (Cost & Quality)
 - Labor
 - Margin
 - Materials
- Global Procurement
 - Supplier Management (Cost & Quality)
 - ISM Principles (<http://www.ism.ws/SR/Principles.cfm>)
 - Environment, Safety, Diversity, Ethics, Human Rights, Community and Financial Responsibility
- Corporate Citizenship
 - Supplier Management (Sustainable Development, CSR)
 - UN Global Compact
 - External Stakeholders (DJSAM, FTSE4Good, GRI etc.)



Program Elements

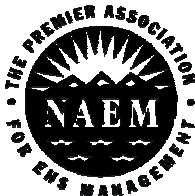
Direct Suppliers

- Contract Manufacturing and Research Guideline
 - Quality
 - Compliance, Risk & Liability
- USEPA Green Suppliers Network
 - Lean and Green
- World Environment Center Supplier Program
 - Lean and Green



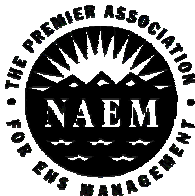
Contract Manufacturing Guideline

- Initial reviews (inspections, questionnaire or telephone)
 - Permits
 - Site sensitivity
 - Pollution prevention and control devices
 - Health and safety
 - Financial resources
 - EHS Legal liability and compliance
- Site inspections mandatory for
 - Organic synthesis or bulk biological processes
 - Involve potent, environmentally difficult or highly hazardous materials
 - Sites that were conditionally acceptable based on questionnaire or telephone survey



Contract Manufacturing Guideline

- Active Pharmaceutical Ingredient (API)
 - ≈ 90 API contract manufacturers globally
- Drug Product
 - ≈ 900 identified contract manufacturers globally
 - ≈ 450 of these are active
- Reviews Pfizer staffed and funded
- Results largely intangible



Contract Manufacturing Results

- Possible Outcomes

- Acceptable
- Acceptable with qualifications
- Unacceptable

- API Status

- 100% of these are audited
- 1 in 15 unsatisfactory - Regional issue (Asia)
- Follow-up in one year for poor performers

- Drug Product Status

- Have reviewed about 100 of the 450
- Program status: Still need process for identifying which ones to audit



Lean and Green Reviews USEPA and WEC Programs

- Performed by a third party, funded by supplier & USEPA & WEC
- Conduct awareness sessions
- Create Core Team
- Educate – Core Team
- Prepare value stream map of current operations
- Conduct brainstorming sessions
- Developed future value stream map
- Identify goals; for example:
 - Reduce material waste
 - Reduce manufacturing process time
 - Improve material planning process to reduce inventory level
- Developed future value stream action plan

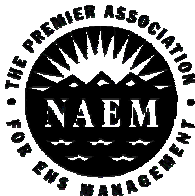


EPA Green Suppliers Network Results

- Reduction of Obvious Raw & Miscellaneous Material usage cost.
- Reduction of material disposition expenses
 - ✓ Waste management cost
 - ✓ Hazardous material disposition service
 - **Incineration**
 - **Disposition Service Companies**
 - **Shredding cost**

Annual Savings = \$400K

- Reduction of Non desirable by products
- Reduction of utilities consumption cost
- Reduction of storage and transportation cost



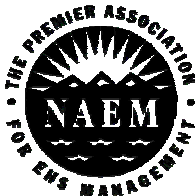
EPA Green Suppliers Network Results

- Annual reduction in waste 450 K pounds of waste
- Annual reduction of 936 K Kwh & 30 K Pounds of Propane **Annual Savings = \$600K**
- Annual increased machine capacity 35% (10 K MOH)
- Annual increased machine uptime from 83% to 95%
- Annual machine scrap reduced 31% - 5%
- Decreased annual external warehouse cost (reduced inventory)



Case Study: Indirect Suppliers

- Project based activities
 - Office paper
 - Toner cartridges
 - Custodial cleaners
 - Refrigerants
 - Building Design
 - Demolition contractors
 - Wall coverings and adhesives



Indirect Supplier Results

- Office Supplies
 - Save over 14,500 trees from being harvested each year
 - Prevent the emission of 615 tons of CO2 and other greenhouse gases and 1 ton of hazardous air pollutants each year
 - Save 2,900 kilowatts of electricity and 9,000 gallons of petroleum each year
 - Save \$100,000 annually relative to current spending
- Low hazard custodial cleaners
 - Save 20-44% on cleaning product costs while eliminating 12 hazardous chemicals from inventory
- Green building design
 - Recycled over 1 million square feet of ceiling tiles and carpet in existing building renovations
 - Annual Energy Costs reduced 52% by implementing LEED recommendations in new building construction (\$318,733 vs. \$182,674)

