

# American home products: a pharmaceutical empire 1589

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## History of American Home Products

American Home Products Corporation (AHP) was founded in 1926 and has a history of continuous acquisitions of smaller companies that made proprietary medicines. In 1931, AHP purchased John Wyeth & Brother, Inc. from Harvard University. Another important acquisition was that of Canada's Ayerst Laboratories in 1943. Ayerst was a large pharmaceutical company that had introduced Premarin, the world's first conjugated estrogen product, and now the most widely prescribed product in the United States (ahp. com). In March of 1982, Sherwood Medical was acquired, enabling AHP to capture a share of the developing medical devices market. In 1984, Whitehall, an original member of AHP, started to market ibuprofen in the United States that was sold under the trademark Advil.

Lawyer John Stafford became CEO in 1986 and soon after he supervised the acquisition of Bristol-Meyer's animal health division and assimilated the new business into Fort Dodge, now Fort Dodge Animal Health. In 1989, AHP bought A. H. Robins along with its popular consumer products, including Chap Stick, Dimetapp, and Robitussin. AHP and American Cyanamid merged in 1994 in a deal valued at \$9.6 billion. AHP introduced many new products in 1996, including Redux and Pondimin (Phen-Phen), two weight-reduction drugs. These drugs were later pulled from the market because of links to serious health problems and lawsuits soon followed. When 1998 mega-merger plans with SmithKline Beecham and Monsanto collapsed, AHP settled for the acquisition of New Jersey based Solgar Vitamin and Herb Company for

\$425 million. It's clear to see that AHP's history is comprised of acquisitions in the desire to be the ultimate leader of the pharmaceutical industry.

## Marketing

American Home Products has a surprisingly vast array of products. From women's health care products to agricultural goods to animal health care products, AHP covers a variety of pharmaceutical needs.

Wyeth-Ayerst's research, products, and educational initiatives benefit millions of women. Premarin, the most widely prescribed medication in the United States, is a post-menopausal product that gained AHP notoriety when it was introduced in 1996. Wyeth-Ayerst also introduced Alesse in 1997, a low-dose oral contraceptive formulation that has become very popular in the birth control field.

Wyeth-Ayerst also focused its research on cardiovascular therapies and mental health products. Its cardiovascular research concentrates on medication for diseases such as arrhythmia and hypertension. Their anti-arrhythmia franchise leads the U. S. market, reflecting Wyeth-Ayerst's and AHP's recognition of life-threatening ventricular arrhythmia (Tardiff 114). Mental health products offered by Wyeth-Ayerst include anti-anxiety medications and the fast growing anti-depressant, Effexor, introduced in 1997.

AHP's family of companies also produces vaccines, cancer treatments, and pain and inflammation medications. Their vaccines prevent childhood and

adult diseases such as whooping cough, diphtheria, poliomyelitis, meningitis, pneumonia, and influenza. Orimune, the only oral polio vaccine sold in the United States, is a familiar product of Wyeth-Ayerst. AHP is also known for their anti-cancer agents used by oncologists throughout the world. AHP's oncology and hematology franchises were strengthened in 1997 by the introduction of two new products; Neumega, the first approved platelet growth factor, and BeneFix, the only recombinant clotting factor treatment for Hemophilia B. Wyeth-Ayerst also holds a solid position in the pain and inflammatory category. With the introduction of Duract and Synvisc in 1997, AHP gained notable recognition in the pain reduction medication area.

AHP's range of products doesn't stop there. They also produce items in areas such as anti-infectives, nutritionals, consumer health care, agricultural products, and animal health care. Their antibiotic products are used globally to treat infectious diseases. The Wyeth-Ayerst nutritional product line is among the leaders in the international marketplace. Probably the most well known AHP products come from their consumer health care line. This line markets leading brands such as Advil, Centrum, Dimetapp, and Robitussin. Cyanamid, another member of the AHP family, is a leader in the global agricultural products marketplace with products like herbicides, insecticides, and fungicides. An additional member of the AHP family, Fort Dodge, has become the world's third largest provider of animal health care products.

Management/Human Resources

American Home Products Corporation has a relatively large team of managers. AHP employs more than 52, 000 citizens, a substantial decrease from 1994" s statistic of 74, 000. AHP" s principal corporate officers consist of twenty-two vice-principals, one treasurer, and one secretary. AHP" s management team also consists of 12 subsidiary officers from AHP" s principal divisions; Cyanamid, Wyeth-Ayerst, Whitehall-Robins, Immunex, Specialty Pharmaceuticals, and Quinton Instrument Company. Another segment of AHP" s management team is composed of an executive committee, an audit committee, a compensation and benefits committee, a corporate issues committee, and a nominating committee. AHP" s management structure is hierarchical in style, using the " top-down" approach to management. Though, AHP may seem domineering in management style, they are more than generous when it comes to benefits.

American Home Products sponsors various retirement plans for most full-time employees. Total pension expense for 1998, 1997, and 1996 was \$112, 209, 000, \$146, 403, 000, and \$120, 621, 000, respectively. AHP also supports defined benefit and defined contribution plans for most domestic and certain foreign locations. Benefits under the defined benefit plan are based primarily on participants" compensation and years of credited service. On the other hand, defined contribution plans are based on a percentage of employees" compensation. Expenses for defined contribution plans totaled \$64, 006, 000 in 1998, \$65, 645, 000 in 1997, and \$66, 674, 000 in 1996. AHP" s benefits don" t stop there. They also sponsor postretirement healthcare and life insurance benefits for retired employees of most

domestic locations and Canada. Most full-time employees become eligible for these benefits after attaining specified age and service requirements.

American Home Products has not gone unnoticed in their loyalty to employees. AHP was recently selected as one of Working Mother magazine's "100 Best Companies for Working Mothers." The October, 1999 issue states that AHP excels at all six of the criteria used to grade the 100 companies: leave for new parents, flexible work arrangements, child care, work/life balance such as counseling and support groups for employees, opportunities for women to advance, and pay. John R. Stafford, President, Chairman, and CEO states,

"We are pleased to be named as one of the best companies for working mothers for the second year. Our work/life programs and policies help ensure that the Company is acting as a partner in assisting employees with balancing work and family responsibilities. One initiative we are particularly proud of is AHP's dependent care subsidy as a matching contribution to an employee's Dependent Care Spending Account. This benefit provides financial support to meet the dependent care needs of our employees and their families."

In addition to offering employees dependent financial assistance, AHP offers adoption assistance benefits and an Employee Assistance Program (EAP) designed to help people resolve a wide variety of personal and dependent care issues, including elder care. AHP also provides on-site child care facilities in two locations and they offer an annual opportunity to choose

their daily work schedules to give them greater flexibility in meeting both work and personal responsibilities. Nearly half of AHP's workforce are women and increasing numbers of women are fulfilling leadership roles in the company.

## Finance

AHP's fiscal standing speaks through their financial ratios. For instance, their gross profit margin ratio is 78.20% compared to an industry average of 71.26% and a market average of 46.00%. The gross profit margin is a key decision making tool and one of the most carefully watched measures of profitability. AHP's ratio of 78.20% means that each dollar of sales generates 78.20 cents of gross profit. Another ratio commonly used in measuring a company's performance is the current ratio. This ratio measures a company's ability to pay current liabilities with current assets. A high current ratio means that the company has plenty of current assets to pay current liabilities. AHP's current ratio is 1.59 compared to an industry average of 1.49 and a market average of 1.37. Inventory turnover, though different for each industry, is a valuable measure of how rapidly inventory is sold. AHP has an inventory turnover of 3.0 compared to an industry average of 1.3. One last ratio to recognize is AHP's P/E ratio of 29.89 compared to and industry average of 34.55 and a market average of 35.17. Investors use this ratio frequently because the higher a stock's P/E ratio, the higher its downside risk, or the risk that the stock's market price will fall.

While sales in early 1999 started out slowly, they are projected to accelerate as the year progresses, driven by the new products AHP had introduced in 1998 and by new product launches expected in late 1999. Sales in 2000 are expected to grow at a faster rate as the benefits of these new products are realized. Considering AHP's steady increase in profits and revenues, there is no sign of slowing down for this pharmaceutical empire.

" Their growth strategies are directed in large part at achieving several principal objectives: Accelerated earnings-per-share growth and increased market share in our categories; the development of innovative products that become market leaders by contributing to the well-being of people worldwide; and the strengthening of our company in ways that continue to be reflected in shareholder value" (Haschak 28).

AHP is estimated to grow at an average of 13% over the next 5 years. The expansion of AHP's agricultural sector will boost future EPS growth and broaden their P/E ratio. All in all, AHP's profit outlook is favorable, as are most of the pharmaceutical industry's outlooks. As analyst David Saks states, " they've (pharmaceutical stocks) passed the bottom and their back on their way to new highs." Also, Dan Ascani, President of Global Market Strategists, states, " we have got certain sectors, namely health care and retail, that are leading the market."

## Distribution

American Home Products has a number of distributors under the AHP name and reputation. One of those is Wyeth-Ayerst Laboratories. Wyeth-Ayerst



concentrates its efforts on the distribution and sale of pharmaceutical and vaccine products and the distribution of Whitehall-Robins consumer products in the United States. Wyeth-Ayerst provides more prescription products to Americans than any other pharmaceutical company and offers one of the broadest and most diverse product lines in the industry (Tardiff 112). Wyeth-Ayerst is also among the largest manufacturers of generic oral and injectable products in the United States and is a leading supplier of injectables to hospitals (ahp. com). Headquartered in Philadelphia, Pennsylvania, Wyeth-Ayerst employs more than 40, 000 people worldwide, who bring to the company a full range of talent in research, marketing, sales, and manufacturing.

Another of AHP" s leading distributors is Whitehall-Robins, a dominator in the research and development, manufacturing, and marketing of a broad range of consumer health care products. They are one of the largest over-the-counter health care companies in the United States and are headquartered in the hometown of AHP; Madison, New Jersey. Whitehall-Robins manufacturers top selling products such as Advil, Robitussin, and Centrum. Twelve of the their products are number one or number two in their respective categories, showing that they are a huge benefit to the AHP family.

Fort Dodge is another distributor and member of the AHP family. They are a leading manufacturer and distributor of prescription and over-the-counter animal health care products for the livestock, companion animal, and swine and poultry industries in North America and international markets (ahp.

com). The partnership of Fort Dodge with AHP creates a more diverse company and, therefore, a broader product range.

One last AHP distributor is Cyanamid Agricultural Products Group, the eighth-largest crop protection chemical company in the world and the third-largest crop protection company in the U. S. Cyanamid's Crop Protection Department manufactures and markets herbicides, insecticides, and fungicides to help protect the world's crop and food supply. Cyanamid also adds an edge of diversity to the AHP family by introducing agricultural products to their production line.

### Information Systems

American Home Products has the ability to respond quickly to shifting market conditions and changes in the pharmaceutical industry. AHP's large family of companies allows for the quick development and marketing of new products. They are positioned to deliver new, advanced therapies quickly through its research and development skills. AHP's productivity efforts have allowed them to double the number of Investigational New Drug applications filed compared with five years ago.

### Attractiveness of the Industry

From potential for great growth to ample benefits to high pay, the pharmaceutical industry is an industry with a promising standpoint. Because people will always need medicine for some sort of ailment, the pharmaceutical industry will always be in business. Pharmaceuticals will be

the world" s answer to life-threatening diseases such as cancer, AIDS, and heart disease. As long as baby" s are being born and grandparents are aging, there will be a need for pharmaceuticals.

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