

Dean's Executive Leadership Series - 2009-2010

**Transcript of Presentation with John Figueroa,
President of U.S. Pharmaceuticals for McKesson Corporation**

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Start

Dean Linda Livingstone: Well, it's really a privilege to have John Figueroa with us. He's certainly an exceptional business leader and has done wonderful things at McKesson, but he's an alumnus of Pepperdine University and of the Graziadio School and I believe he is our first DELS speaker who is an alumni. So, we're really thrilled to have him here. But, John is the President of McKesson Corporation's U.S. Pharmaceutical Group. It has more than—well, about \$90 billion I understand now in revenue and operates in 31 states and Puerto Rico, a very significant operation and I believe, and John, correct me if I'm wrong, McKesson is the second largest company based in California behind Chevron?

John Figueroa: I think we're the third after HP.

Dean Linda Livingstone: Okay, HP, but he's based in Southern California and I'm not sure everybody really knows that. They fly under the radar screen sometimes, but he's been at McKesson for 13 years, has really helped grow that company, do some exceptional things there. He is a former captain in the United States Army. He did his undergraduate work at UCLA, but we've forgiven him for that since he came to Pepperdine to get his MBA. His wife Becky is with him, so we're glad to have you with us, Becky. He has two children, a daughter who is a freshman in high school and a son who has probably completed his sophomore year in college, or about, and we also had the privilege of honoring John about a year—let's see, in December I believe as a distinguished alumnus of the University. So, it is really a privilege to have John with us and we look forward to hearing what you have to say.

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John Figueroa: Well, thank you, Dean Livingstone. It certainly is an honor and a privilege to be here today. In fact, I think it's actually kind of neat that you asked me to do a presentation on the business of innovation, especially being here at the heart of Silicon Valley where innovation is known certainly throughout the world. Before I get into the meat of the presentation and what I want to talk about today and some of the basics of my speech around innovation in health care, the Dean wanted to make sure that I at least said a little bit more about myself and how I got to the point of where I'm at today. As Dean Livingstone mentioned, I am a Pepperdine alum, extremely excited about the past that I had with Pepperdine and certainly the currently relationship that I have, you know, being on the board. Before I came to Pepperdine, as she indicated, I served in the military as an officer and my first job out of the military was with Baxter Healthcare. I did that job for seven years I believe in sales and in operations, and she also mentioned that I was an undergraduate at UCLA. There, I was a liberal arts undergraduate. I studied political science and English literature, and I have to say "literature" because my wife who is a school teacher always says, "You better say 'literature' because you can't spell worth a darn. So, don't give anybody the impression that you can." But because I had a liberal arts undergraduate degree, when I was in business, I thought it was necessary to go back to school and get the fundamentals of business straight, and it was the best decision certainly that I ever made in my career. Why did I choose Pepperdine? I think the reputation that Pepperdine has around ethics and values and business was something that attracted me to the school in a very big way. I will also tell you that if I look back on that education, I think the time and the classes that I enjoyed more than any were the strategy classes; strategy and the theory and the practice around innovation. And as I, you know, look back, you know, there's really no coincidence that I choose McKesson for my love on strategy and innovation. I was also told in giving a history of who I am and where I've come from that I should show you a picture of when I graduated way back when and, you know, when I looked at my Pepperdine graduation picture I still didn't have hair. When I look at my UCLA graduation picture, I still didn't have hair. So, I went all the way back to high school to show all my colleagues here from McKesson that yes, I did have hair at one point. So, let me now talk a little bit about our business at McKesson. We run the U.S. pharmaceutical business and it is the largest pharmaceutical distribution not only in America, but in North America. We have the largest distribution network here in Mexico and in Canada. We supply about 45 percent of all of North America's medications. We do that in every state and we do that in every province and every part of North America. We do it on a regular basis every day. What we get real excited about is, you know, what we contribution to the corporation. The U.S. pharmaceutical business represents about 90 percent of the top line for the McKesson Corporation and about 86 percent of the gross profit. So, the four primary segments that I am responsible for are the national and retail drug chains, the independent pharmacies, the hospitals and institutional providers and the mail orders for those large PBMs that send medications through mail. Most people know McKesson as a distribution and we have done that for 177 years. We are, I believe, the third oldest company in the New York Stock Exchange and the oldest company in health care and I always like to talk about my very first day at McKesson. I was so excited when I came to McKesson. I could not wait to start and I remember getting up early and going to work and so fired up and went to work that day and I

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came back and my wife who knew I was so excited about working for McKesson, I came home and she said, "Well? Well? How was your first day at work?" I said, "You know, sweetie, McKesson is 166 years old and I think I met some of the original employees there." And I said that because it was a distribution company and what we did, 99 percent of everything we did day-in and day-out was to deliver pharmaceuticals to a retail store. We weren't in the hospital sector yet. We weren't in mail order. We weren't in technology. We weren't in information systems. We weren't doing anything but moving product from point A to point B. But what was exciting about the company at that point was, even though there was a sense that we've been doing the same thing and we've been doing it well for a long time, there was a sense of newness to the company because we were acquiring new businesses and we began a focus of health care. We started to sell off companies that had nothing to do with health care and acquire companies that would connect us at some point to every aspect of health care and not just in distribution, but in anything that we can touch when it comes to health care. And, we have grown that company substantially over the last 14 years to the point where we are the 14th largest company in America. Now, just to give you a snapshot of some of the things that we have evolved in, we certainly deliver our pharmaceutical supplies, but we also deliver all medical-surgical supplies throughout the entire spectrum of care. We are in health IT. We are in health IT for hospitals and physicians, just about any space where there is a computer system to run health care. About 50 percent of all the systems in this country are run by McKesson Pharmacy Automation, so any time you walk into a hospital and you see a robot or anything that touches medication, bar code technology, anything whatsoever— McKesson. And, services to manufacturers to make sure that we get that product from point A to point B from the manufacturing facility all the way down to the patient at the right time, the right place every single time, as well as payers, which is a big industry now because we used to have a bunch of payers that we dealt with, but the government is quickly becoming one of the largest payers and potentially even larger as things have changed in the political arena lately. We have a number of programs that touch that segment as well. So, we touch every spot that you could possibly imagine when it comes to health care, as well as deliver programs to benefit the delivery of care whether you're a doctor, you're a nurse, you're a pharmacist or anybody in the system. So, what is our goal? Our ultimate goal is to improve the quality, the safety, and the efficiency of the entire health-care system for everybody who touches it— small goal. Our focus continues to be changing dramatically day-to-day. You can't pick up a paper or watch the news without hearing some change in health care or prospective change in health care. And so, you know, we don't know what health care's going to look like by the end of 2010 let alone what it's going to look like in 2011 or 2012, but we certainly have to be ready to make that impact and to innovate to make sure that we are doing the right things for our consumers. For someone who has worked in health care for two decades, I feel strongly that we are at a critical juncture for new innovation in health care and I'll tell you why and here's the number one reason why you have to look at this industry and understand that innovation is going to be critical. There are mistakes made in health care constantly, and we have, believe it or not, you hear a lot of stuff in the news, we have the best health-care system in the world— period. But, we make a tremendous amount of mistakes. In fact, according to the Institute of Medicine, medical errors are

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responsible for over 98,000 deaths every year, more than AIDS, breast cancer, or car accidents. It is a very large issue in our country, and let me put it in perspective for you. This normally brings it home. It's like a 747 crashing every day. So, imagine going home from work on a Monday and turning on the television set and there's a 747 that crashed at SFO. I mean that would be unbelievably sad and it would certainly capture the attention of everybody in this country. Then you come home from work on Tuesday and there's a 747 that crashed again at SFO. Wednesday, a 747 crashed at SFO. How many of you would jump on a plane on Thursday? Nobody, but yet we continue to walk into the health-care system. We continue to expect the best of quality that we deserve and yet, these errors are happening on a regular basis and a 747 is crashing every day. It's astounding, even more so when you realize that they're all preventable; that we have the technology, we have the ability, we have the things in place today that can simply erase a number of these errors on a regular basis. So, the industry of health care is certainly the industry of innovation and when you look at the debate around health care and the debate around quality of health care, cost, efficiencies, etc., it started, I think, to really gain steam in the Clinton administration. We have debated this and we've talked about it for a number of years in a number of ways, but let me try to lay out the core things that we as an industry and as individuals can do to help advance the health-care system. Now, I can't take all the credit for this. I think the industry has been going back and forth, talking about what are the key elements to get this done. I was actually at a Bain consulting conference about two months ago in New York and I have to tell you that they talked about some of these points, so I want to give them some credit for actually setting the table on how to describe the three key elements that can help us change health care. The first is the delivery of care and how we can make it safer and more efficient within the system. The second is consumer behavior and how we can influence healthy decisions made by individuals, which I think is going to be key to the change within health care, and the third is connectivity and how advanced technologies and systems can propel our industry forward in a way that the industry has never been able to do so before. So, let's start with the delivery of care. As you know, we have a long way to go in improving the delivery of care and it's something that the government is trying to address. With all of the billions of dollars that they have laid out in stimulus plans and a variety of other programs over the last year, year and a half, one program that they actually put into place that isn't well known is the Health Information Technology Stimulus. And what the government did was they put aside \$19 billion worth of funds for anybody in the health-care system who touches Medicare or Medicaid from an information technology perspective. They want this to be spent over the next five years. Why? Because even the government understands that with technology you can increase safety and decrease costs pretty quickly and if can implement the technologies and the right technologies quickly, you begin to get that platform of increasing quality and decreasing costs. So, what McKesson is doing is innovating around this call to action and making sure that we have the right types of programs that our customers can use and adapt to move this system forward. Now, let me describe it for you. We have bar code scanning, automation that I talked about, unit dose packaging. We basically take that drug that we used to move boxes from point A to point B back when I met the 166-year-old employee and now we can deliver it anyway you want. We can deliver it in consumer packaging,

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unit dose. It is bar coded every step of the way and we can track it. If you're a patient in one of our hospitals, we can bar code you. We can bar code the nurse. Every time something happens it is tracked on the system so that no mistakes happen throughout the entire supply chain. So, those are some of the things that we are doing from a delivery-of-care perspective and getting the right technology in place to make sure that there are no errors that are taking place. I will also tell you that I get really excited when I look at what can be done in different settings. You know, we have a number of physicians today, but not enough and as health care continues to move forward, I think we are looking at a massive shortage of doctors moving forward. I don't think that's a big secret; I think it's a big problem. But, the delivery of care can change and it has been changing. The evolution of that has been changing pretty steadily over the last couple of years. Nurse practitioners have a lot more responsibility today than they did five years ago. In fact, delivery of care has changed from a doctor's office to supermarkets today or any other type of drug chain facility where you can actually put a small clinic in the corner of a facility. You could take care of sports physicals. You can take care of somebody who has a cough or a cold. Pharmacists are evolving to the point where they're actually tracking a patient, tracking a diabetic patient, working with a diabetic patient, doing medication therapy management every time the patient walks in to the store. The beautiful thing about this and why it's changing so rapidly is the pharmacist is now getting paid for doing this. They've always been that health-care professional who's been in your neighborhood, but they've always been behind the counter counting as many pills as they possibly could because the only way they got paid was every time they gave you your prescription, they got paid a reimbursement. Today, there's a room where they can talk to you about your medication and help you stay on your medication. We call that medication adherence. So, if you are prescribed, you know, medication that you stay on the medication. And why is that important? When you talk about the cost of a patient, costs go through the roof when you're in the hospital. As soon as you walk into the emergency room and as soon as you walk into that hospital, costs as a payer go through the roof. If I keep you on your medication, you will stay out of the ER, you will stay out of the hospital, and it's a tremendous savings. What's unique is statistics today tell us that 25 percent of all Americans actually take their prescription from beginning to end. So, 75 percent of us actually grab it from the doctor's office and say, "Great, doc. I'm going to the pharmacy, no problem." Some of them never make it to the pharmacy. Those who do, get it once, they have about three pills and they say, "I'm not going to do this anymore." So, the bottom line is, they stop. If we can move that number from 25 percent to 35 percent, it makes a tremendous difference in what we're trying to do and in keeping people healthy. So, I'm going to talk a little bit about medication adherence a little bit later. So, why are we failing on the medication adherence piece? Or why is it difficult for folks to stay on it? And there's where I think we need to talk about that individual accountability. Let's face it, nobody likes taking their medication every day. Nobody likes going to the doctor. I mean how many of you have heard friends say, "I got a physical 10 years ago. What do I need to go to the doctor for?" We don't like doing those types of things and in human nature, two things: Denial—"I really don't need my Lipitor. I feel the same when I don't take my Lipitor as when I do take my Lipitor. It doesn't make me feel any different;" Procrastination—"You know, I'll get to it in a year. I'll really change my lifestyle." It is extremely difficult for

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adults to stay on their regimen. What's even more scary is what has been happening to the health of our children. My wife who is a mother and also a teacher, you know, one of her pet peeves is the fact that public schools have taken physical education out of the school system. If you remember, when we were all kids, it was a mandatory hour every single day whether you liked it or not. Today, we don't have any of that stuff, so it's even more difficult for kids to continue to stay healthy. The CDC came out with some statistics that are pretty alarming. Thirty-three percent of our children in America are overweight, 67 percent of Americans in total are overweight, 21 million Americans have diabetes and another 785,000 Americans had heart attacks last year. The demographics are continuing to go up, they're continuing to look uglier year after year, and there's no doubt that the correlation between that and health-care costs is one of the drivers that we have to deal with in the industry. So, we have to begin to take that personal responsibility and utilize the tools that are necessary to stay healthy. So, going back to my earlier discussion on retail pharmacy, retail pharmacists can begin to help here and one of the innovations at McKesson that we have been leading the charge with is making sure that that trusted health-care profession in every year they're either number one or number two, one of the most trusted professions in America today is a pharmacist. Let's utilize that and get them more involved in health care on a regular basis to help with the initiative. We have a variety of programs. I talked about having the computer systems just about everywhere in the health-care system. Well, those computer systems connect to the payer, to the doctor, to the patient, real-time information. So, what we can do now in this industry, and there are a number of companies that do this, not just McKesson—you have the ability to walk into a pharmacist and when you give them your name and you give them your prescription, they already know what payer you're connected to. When they see that medication and disease state, they can actually put you on a program where they can keep you on that medication or walk you through any of the issues with the medication on a regular basis and keep that communication. Now, what does that do? Well, we've been doing this for about three years now and the statistics tell us that we have increased the penetration of prescription use by 44 percent of those patients who walked in. So, that patient who walked in took three pills and said, "Forget it. I'm not going to do it anymore," 40 percent of those folks who were not being compliant on their medication are now compliant on their medication, utilizing the services of the pharmacist. So, there is an awful lot of momentum here and it's a win-win-win situation. The patient wins because they're healthier; the pharmacist wins now because they're getting reimbursed by the payer, and certainly, you know, the manufacturer and the supply chain wins because there's more product going through the supply chain. You know, this all started back in 1996, a project called the Ashville Project where the community actually tied people, city employees to pharmacists and tracked disease states like diabetes and showed a tremendous amount of savings. So, we've known this for 14 years. So, you know, I talk about innovation and I get excited about what we're doing here, but we've known about it for 14 years. If the innovation is going to take 14 years to get to market, we're going to be in a little bit of trouble. So, what we have to do is utilize the systems in place. The biggest thing that kept this from happening was payers were reluctant to pay pharmacists for the service and so the service wasn't happening, but the payers have seen the return on keeping people healthy and keeping them out of the hospital, which

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has made a tremendous difference. As an employer at McKesson, we feel it's a huge responsibility and a responsibility that we have embraced and accepted to take care of our employees. It's in our best interest and it's the best interest of the employees to continue to do this. For example, this last fall, we introduced a consumer-driven health-care plan for the first time. Without going into any detail, this plan allows employees to look and have control about the dollars that are given to them by McKesson and how they spend them in the health-care system on a regular basis. We also provide employees a variety of health and wellness services, including gym reimbursement, online health tools, medication adherence services that I talked about, and we sponsor a number of corporate events such as health walks, like we did last month for a diabetes walk with the ADA. So, my third area of innovation is really that connectivity piece and I think that's really where it comes down to the wire and what has to be done. This is the key. This is really the future of where we're at or where we're going to be with health care. Here's another example I love to give that I think really brings home what we're dealing with. Those of you who've been in a hospital before or, you know, the example I used is when my son broke his arm, you know, 10 years ago. I mean, what do you do? I mean, he broke his arm, so the first thing you do is you run him to the emergency room. So, you go to the emergency room and there's somebody there with a clipboard and they say, "Okay, what's your son's name? what's your name? What insurance do you have? Do I know if he's allergic to anything?" They ask you about 10-12 normal questions when you walk into the ER. You finally get past that person. You walk in and the doctor walks in and says, "So, what's your name again, what's your insurance, are you allergic to anything?" Another clipboard, another piece of paper. Well then, they move you to the radiology department and you do the same thing. You go through about four or five departments within the hospital. You see four or five nurses. Then the next day you go see your own doctor and everybody had a clipboard with a piece of paper asking you the exact same question. Then the worst part about it is, 30 days later you get about seven bills from all the seven different departments that you saw. Nobody knows what the heck is going on because there's a clipboard with a piece of paper that is tracking you through the entire system. When we talk about connectivity, what we're talking about is having the information at the fingertips for any health-care professional who is in the system at any time. So, the minute you walk in anywhere in the country or in any doctor's office or any nurse sees you, all you have to do is give them your name, your insurance number, and everything pops up the way it's supposed to so that they can take care of you immediately for the individual needs and individual issues that are addressed at that time. So, you know, the future of the industry certainly needs to be moving forward and moving forward quickly. Innovation for McKesson, we have all the systems that do that connectivity. Innovation for me that gets me excited, remember, I run that pharmacy distribution piece. So, what's my big innovation? My big innovation is electronic prescribing. So, any time there is a doctor who says you need Lipitor, I want that doctor to say, "Where are you picking it up?" "I'm picking it up at the local Health Mart, drug store." "Hey, that's wonderful." They press a little button and that immediately goes to that local pharmacy. You walk into the pharmacy and you get your prescription. No more chicken scratch. You know, those 98,000 errors? There's a chunk of those errors—have you ever read one of those prescriptions? Tell me you could read one of those prescriptions. You cannot read any of those

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prescriptions, but you think the pharmacist can— "Well, the pharmacist knows what this is. No problem." The pharmacist calls back the doctor 30 percent of the time because they can't read it. How ridiculous is that? Electronic prescribing is here. It's available. You know, the process can work now and in fact, it is being used on a regular basis. So, more connectivity and let me go back to that ER example. So, you know, you had all that broken arm issue. Well, there's a hospital in Ohio by the name of Dublin Methodist Hospital that is utilizing all of this technology today. It's the hospital of the future. We call it our paperless hospital. Now, imagine this. Instead of that broken arm scenario, you're walking into a hospital. There isn't a human greeting you. There's a kiosk that greets you. You walk up to the kiosk, you punch in your name, you punch in your health code and what it does at that point is it tracks you. It gives you a bar code number. The nurse comes down, greets you, takes you wherever you need to go to the hospital and that bar code that you just put on is scanned everywhere you go. The information immediately goes into the system. The doctors, the nurses have handhelds everywhere they go, in every room that they go, and they can track everything that's happening. So, if you're in a hospital for three days and you have to have a regimen of four or five medications a day, what the system does is tracks it and stops any mistakes from happening— wrong doses, wrong time. Anything that can cause one of those 98,000 deaths is tracked on the system. Now, it sounds awesome. It's actually unbelievable when you put the system in and you put a chair and you sit at the end of an aisle of a hospital and you just listen to the beeps. Every 30 seconds, beep-beep-beep-beep— "Don't do that," beep-beep-beep-beep and you sit there and you wonder all these mistakes that would have happened if it wasn't for the system that's tracking everything that's going on on a regular basis. It's kind of scary. Not one single pencil in this hospital. Everything is done electronically. So, that's what I'm talking about when it comes to connectivity. I'm also talking about connectivity between you the patient and your doctor, which I think is critical connectivity. How many of you actually e-mail your physician? That's actually a lot better than I thought, about a third of you, and I will tell you that 50 percent to 60 percent of you actually have the ability to do it and your doctor is already set up to do it. Next time you talk to them, ask them to get set up on the system. You can talk to them at any time. You can ask them questions. You can get lab results. You can track your electronic health care record if you're in a closed system. That is the first step for you as an individual to get a little closer to the health-care system and have that tracked. So, these are the types of things and the type of innovation in health care that I think will be critical to all of us moving forward. These are the three core strategies that I certainly wanted to talk about today. So, you know, what I want to end with is the fact that it's here. There's \$19 billion that is available for folks to use. The technology is there and quite frankly, if there's a call to action that I ask of you, it's that you should be angry whenever you walk into your doctor's office or you go to a hospital and they pull out that clipboard and that piece of paper and they're not tracking you with all the technology that's available today. You should be angry with that physician and ask them why. You should be angry with that pharmacist and ask them why they're not asking to counsel you if you have a disease state that you'd like some more information on. By gosh, you should really be angry if you have give 10 different people answers when you're in a hospital. So, I hope with this presentation that you walk away with a better understanding of innovation within health care and how it's driving some critical

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changes as we continue to move forward. But, like health care, every industry is demanding and I would tell you that whether you're in health care or any other industry, innovation would be the key to your success and certainly the key to moving forward and looking at things in an entirely new way. Just remember my call. Whether you're a professional in health care or you're in an individual, demand the professionalism and the best technology that we have to offer. Your safety, the safety of your children and your parents certainly depend on it. So, thank you for your time.

