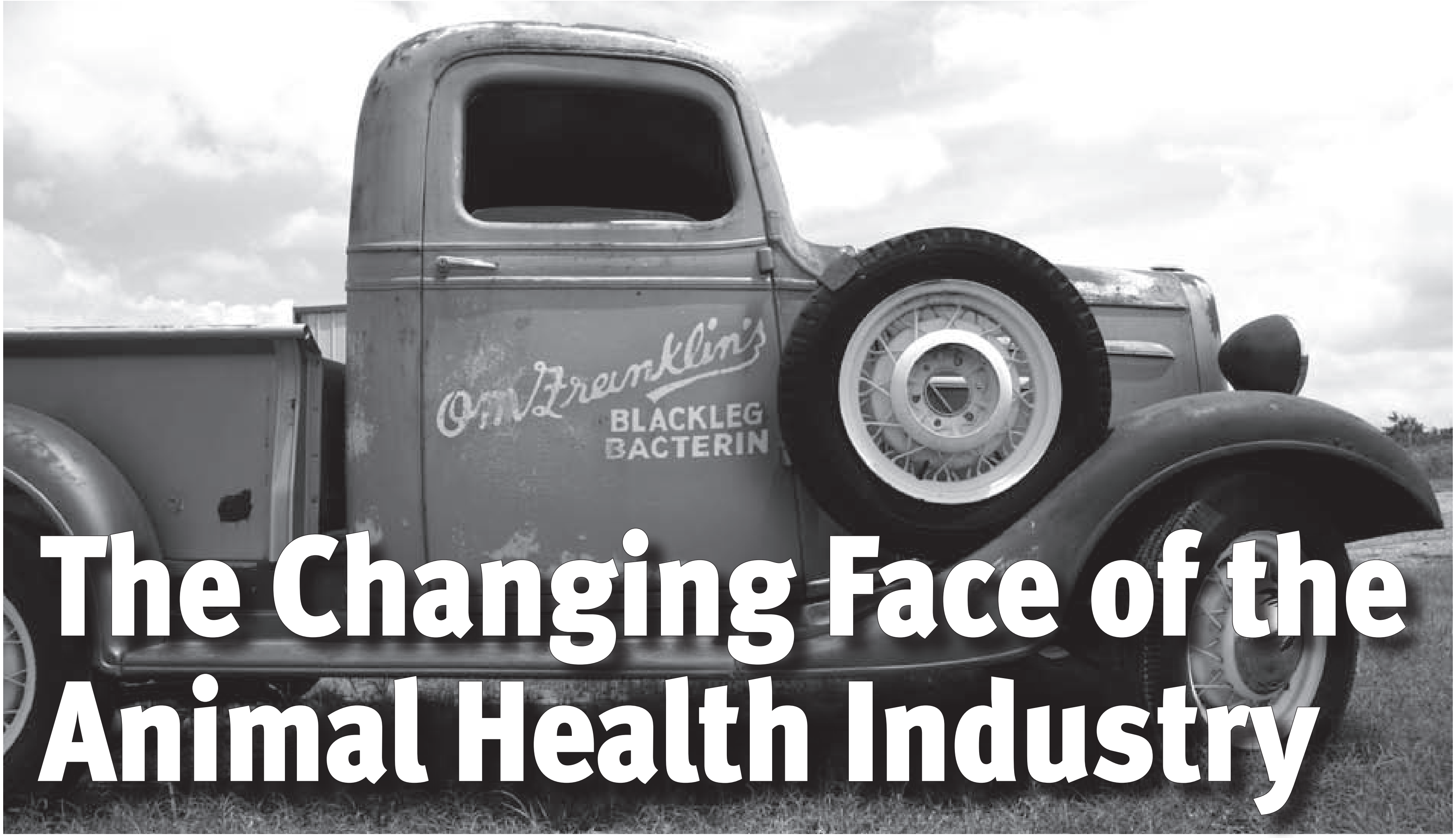

The Changing Face of the Animal Health Industry

Story by
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What is it with the animal health industry? Just about the time livestock producers think they have a handle on product names and their suppliers, things change. A manufacturer combines with another to expand its product line, or one company buys out a competitor. Mergers and acquisitions seem to occur at an increasing rate. It gets confusing.

Old-timers might remember when O.M. Franklin was a leading name among animal health suppliers. Founded by the veterinarian credited with developing the first effective blackleg vaccine, the company's products once dominated the "vet supply" shelves of many rural drug stores. Other long-gone yet recognizable names of animal health product manufacturers include Anchor, Cutter or Norden. What happened to those and other product labels?

Well, Franklin Serum Co. sold to American Home Products, which changed its name to Wyeth. That company had also acquired Fort Dodge, another notable animal health firm. Anchor Laboratories merged with Phillips Roxane and became Boehringer Ingelheim. Cutter Laboratories was purchased by the Bayer pharmaceutical company. Norden Laboratories became part of SmithKline-Beckman, which also acquired Beecham Laboratories and became SmithKline-Beecham. And the SmithKline-Beecham conglomerate later sold its animal health division to Pfizer Inc. Whew!

That kind of thing started early in the animal health industry's history. The company Oliver Franklin started in 1916 changed its name three times during its first 11 years of operation as Franklin gained new partners or investors. Each time, it was a step to expand the operation, which, at its height, offered the largest variety of animal vaccines, pharmaceutical remedies and instruments.

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— John Lofflin

Research roots

As a writer for veterinary professional journals and contributor to *The U.S. Animal Health Industry: Its Pioneers and Their Legacy of Innovation*, John Lofflin has dug into the history behind Franklin and his contemporaries. According to Lofflin, several of the early U.S. veterinary college graduates started their careers in research, but ventured into private industry.

"Early research focused on hog cholera, which had been a huge problem since before the Civil War. On the cattle side, it was "Texas Fever" and, later, blackleg," Lofflin says.

"That early research led to more and more discoveries, some by accident. Salmonella bacteria was discovered while seeking the cause of hog cholera. They eventually found the cause was a virus — the third virus ever discovered as a cause of disease for animals or humans. And the kind of work that identified the tick as a transmitter of Texas Fever also led to discovering the mosquito as a vector for malaria," Lofflin adds.

"The early part of the 20th century was a time of major discovery and development of preventative vaccines. And some researchers eventually went into the business of producing and selling the products they had helped develop," he notes.

For a time, Lofflin says, there were a number of companies that specialized in products for animals. Some, like Fort Dodge Laboratories, sold their products only through veterinarians. The products of other manufacturers were sold at a variety of retail outlets. Some companies offered two separate lines of vaccines and medicines. An "ethical" line was available to veterinarians only, while a "lay" line was sold through drug stores and other retailers. There was no difference between a particular ethical product and a lay counterpart produced by the same manufacturer, except for the package label.

The number of manufacturers producing animal-only products declined as companies producing products for humans also ventured into animal health products. It was a natural progression, from a business point of view, says North Dakota State University Extension Veterinarian Charles Stoltenow. Certain intellectual property, or research expertise, and manufacturing technologies could be applied to both human and animal products. The same was true for some chemical compounds used in producing various products.

"Both the human and animal health industries are research-driven, and that's very expensive. As government oversight increased, the cost of developing and proving the

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efficacy of products increased. The costs for research, production and marketing could be spread out by combining and consolidating companies. Companies that couldn't keep up were squeezed out. Perhaps more often, they were bought out by a larger company," Stoltenow states.

Mergers and acquisitions

Some mergers and acquisitions allowed one financially strong company to diversify by acquiring another company that produced different and innovative products but might not be doing as well financially.

"The combinations could be quite complementary, as when a company with a good line of pharmaceuticals (medicinal treatments) combines with another that produces biologicals (vaccines). The combination represents a broader line of products and a stronger presence in the marketplace," Stoltenow adds. "All along, I think, the changes in the industry have been mainly about economics."

Kansas State University Extension Veterinarian Larry Hollis agrees, adding that few stand-alone animal health companies remain. The major players exist as divisions of very large parent companies that also produce human health products. "Having an animal health division is a way for the parent company to get more miles out of its molecules. Most of them have products for humans and for animals that are similar. They may even be based on an identical substance that has been tweaked a little for its application to the target species," Hollis says.

"A larger company may acquire a smaller one because it knows the smaller company has a promising product in the research pipeline. These days, however, it's usually something applying to human medicine. The animal health division may account for only five, 10 or maybe 15% of the parent company's total sales, so it's the human side of the business that drives the purchase. The animal health division just goes along for the ride," states Hollis.

A practical example involves Pfizer Inc., a name well-known for its animal vaccines and pharmaceuticals as well as human health products. As this was written, Pfizer was in the process of purchasing Wyeth, the parent company of Fort Dodge Animal Health. The deal wasn't necessarily prompted by Pfizer's desire to acquire Fort Dodge. Rather, Pfizer wanted to diversify its portfolio by adding Wyeth's human medications and other consumer products.

According to Hollis, when a company acquires another having competing lines of products, antitrust laws may require the purchasing company to divest itself of duplicate product lines. Pfizer sold a significant portion of Fort Dodge Animal Health to Boehringer Ingelheim.

Wall Street analysts say increased merger and acquisition activity among drug companies is being influenced by the fact that patents on many name-brand medications will expire within the next couple of years. Some companies are trying to broaden their product offerings in the face of expected competition from generic products. And some drug makers, like Boehringer Ingelheim, are diversifying through addition of animal products. It's just big business at work, but what does it mean to the cattle producer?

"It creates an interesting dynamic that sometimes sparks new innovations. Today's cattle producers seem to be more interested in that," Stoltenow says. "Thirty years ago we didn't talk about beef quality assurance (BQA), we didn't have effective preconditioning programs, and we didn't have metaphylaxis (mass treatment for disease prevention). Now, more producers are interested in considering new methods and products. Now they commonly ask, 'Doc, what have you got for me that's new?' "