



ALAN PETERSIME / The Star

## Pain – and gain

Lilly's job and budget cuts will mean short-term pain, but a strong biotech industry could absorb the losses

Indianapolis-based Eli Lilly and Co., the region's largest private employer, has announced it will cut 5,500 jobs worldwide and cut costs by \$1 billion by the end of 2011. The moves came in response to an expected drop in revenues as six Lilly drugs lose patent protection by 2016 and as health in-

surers and government programs squeeze costs. The ripple effect could mean the loss of an additional 3,600 jobs in the wider economy.

What will this mean for Central Indiana, especially during a period of high unemployment and economic downturn? John Ketzenberger, the new president of the Indiana Fiscal Policy Institute, explains.

### Cuts will hurt, independence will help

By John Ketzenberger

**E**li Lilly and Co.'s plan to slash \$1 billion in expenses, including 5,500 jobs worldwide, is a tough blow to the local economy.

Lilly accounts for 3.3 percent of the Hoosier economy, according to a recent study by Indiana University's Kelley School of Business. That's more than \$8 billion – still a big number these days. More than 14,000 people work for Lilly in Indiana, making it the state's sixth-largest employer. And the jobs pay well: Much of the \$4.1 billion Lilly spends in Indiana is accounted for in payroll.

Lilly's outsized role in the state's economy, then, was magnified when Chairman, President and Chief Executive Officer John Lechleiter announced plans to cut spending 13 percent over the next few years. Will the cuts have an outsized effect on the state and local economies, too?

In a state already beset with a billion-dollar shortfall in its unemployment insurance compensation fund, any job cuts will hurt. It's unclear how many jobs will be trimmed from Lilly's local operations or how many vacant positions will remain unfilled, but the lost tax revenue and spending power represented by those well-paying jobs is considerable. Both of these factors hit just as the state's unemployment rate declined 0.7 percent in August.

This is deflating news for both Lilly employees and those who depend on Lilly's business. The IU study showed that for every dollar Lilly spent in Indiana, it generated another 58 cents in sales somewhere else. Every Lilly job creates nearly two others in Indiana, according to the study, and it's not a stretch to believe that every job cut within Lilly could have the same negative effect in Indiana's economy.



Ketzenberger is president of the Indiana Fiscal Policy Institute

While it is impossible to quantify at this point how the cuts will affect the economy, Lilly's history suggests Central Indiana likely will fare better than other big-pharma headquarter towns such as Kalamazoo, Mich. Here's why:

Independence is part of Lilly's genetic makeup. Consider that even as Lilly lost patent protection on Prozac nearly a decade ago, which reduced the company's annual revenue by nearly a third, it managed to remain independent. This occurred even as a wave of consolidation swept much larger competitors into corporate oblivion. Lechleiter reasserted Lilly's intention to remain independent this month even as he announced the cuts.

Lilly keeps the local economy in mind even when it exits a business. Two examples include Dow AgroSciences and Covance. Lilly combined its Elanco agriculture business with Dow and helped drive creation of what now is a \$4.5 billion business headquartered on the city's Northwestside. And as part of Lilly's sale of its Greenfield laboratories to Covance,

it contracted with the new owner for future drug testing. That gave Covance, a New Jersey company with deep ties to Lilly, confidence to build a new headquarters complex in Greenfield that will become a worldwide center for independent drug analysis.

Indiana's biotech industry has matured enough to help absorb the jobs Lilly will cut. Lilly research has already spawned other companies here. Many talented Lilly researchers and executives eager to tap their entrepreneurial abilities have started companies and they will start more. What these companies lack in Lilly's scale they make up for in product diversity, which helps the state's economic mix.

Lilly's much-larger competitors have already embarked on similar cutbacks as the pharmaceutical industry struggles to bring new drugs to market and tries to respond to uncertainty over the effect of health-care reform. But The Star's Sept. 20 report about Kalamazoo's experience after Pfizer acquired Upjohn is telling. More than 4,000 headquarters jobs vanished after the 2004 acquisition. The ripple effect was harsh: Kalamazoo County has 10,000 fewer jobs than it did before the deal.

Lilly's cutbacks will be painful in the near future, but the region's economic diversity and growing life sciences industry will help mitigate the losses. Given Kalamazoo's experience, however, Hoosiers should root for Lilly's success and independence.

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