

## Eli Lilly & Company

Founded: 10 May 1876

Location: 15 West Pearl Street (1876–78); 36 South Meridian Street (1878–81); McCarty & Alabama Streets (1881–)

The Lilly name is one of the most recognized appellations in the Hoosier State: both in philanthropy and in business. Company founder, Col. Eli Lilly, whose signature is retained in the company's logo, was a failed cotton farmer, a Civil War hero, and a pharmacist. After 1873 he became a partner in a short-lived drug manufacturing company in Paris, Illinois, pulling out of the venture after it proved unsatisfactory.

On 10 May 1876 Colonel Lilly opened a drug manufacturing company in a small, two-story, red brick building near Washington Street. He and three other employees, including his fourteen-year-old son, worked seventy-two hours a week. Business grew so quickly that Lilly had to move his business twice in four years, eventually settling in the city's southern industrial district.

What Colonel Lilly, his son Josiah K., Sr. (J.K. Sr.), and his grandsons, Eli and Josiah K., Jr. (J. K. Jr.), created was a company that was, and continues to be, devoted to creating quality medicines, treating employees as family, helping the needy, and concentrating on research of the highest order. After 1953, when J. K. Jr. stepped down, successive nonfamily presidents have kept the Lilly spirit alive within the company.

Colonel Lilly wanted his products to be known for quality and effectiveness, and Lilly was one of the first manufacturers to put medications into gelatin capsules to control dosage. Lilly continually checked products for strength and purity and disclosed product ingredients on labels. At a time when it was customary to produce patent medications that supposedly solved every ailment, Lilly focused on the "ethical" drug market, wanting to produce medications that

were of high quality and that could be purchased only through medical professionals. Hard work, an eye for detail, and a demand for quality paid off for Colonel Lilly. Sales for the first eight months were \$3,477, but by the end of 1877 sales had almost tripled to \$11,318.73. Sales almost tripled again the next year. The company advanced to a corporation in 1880, electing a board of directors and issuing stock to family and close friends.

Drugs of the 1880s were not much advanced over ancient remedies. Colonel Lilly wanted the most scientifically advanced medicines and surmised that future advances in pharmaceuticals would come from the application of science. In 1883 Colonel Lilly found the company's first widely successful product, Succus Alterans, after reading a paper by a University of Alabama professor concerning the treatment of venereal disease. Sales from Succus Alterans provided the company with funds for research and future growth. He sent his son, J. K. Sr., to pharmacy school and in 1882 appointed him head of the lab component of the business. In addition, Colonel Lilly hired well-trained research personnel. In 1886 Lilly hired the company's first full-time chemist, Ernest G. Eberhardt, and also a botanist, Walter H. Evans, both graduates of Purdue University. Six years later Lilly hired a second botanist, John S. Wright, who collected more than 6,000 plants and who later became the company's first advertising chief.

Around 1890 Colonel Lilly handed over the management of the company to his son and embarked on a civic career, helping to found several organizations including the forerunners to the Chamber of Commerce and the Family Services Association. J. K. Sr. introduced uniform standards of manufacture, increased the sales staff by more than 500 percent, increased the number of research staff, and opened branch houses in New York and New Orleans, increasing sales and recognition in several states.

Upon the death of his father in 1898, J. K. Sr. became president of the company. By 1905 sales reached the \$1 million mark. Eli and J. K. Jr. joined the company before World War I. Eli attended the Philadelphia School of Pharmacy, as had his father, and joined the company in 1909. J. K. Jr. came to work for the family firm in 1914. Two years later he was put in charge of the efficiency division.

J. K. Sr. established the Lilly tradition of aiding disaster victims that endures to the present day, sending medicine to victims of the San Francisco earthquake and fire and informing local suppliers that all damaged merchandise would be replaced free of charge. In 1936 the company followed his pattern by aiding the victims after the Johnstown flood. Giving has increased with company profits, and in 1988 the company gave more than \$8 million in products and cash to various medical emergencies and needs throughout the world. In 1995, \$3.6 million of Lilly insulin was shipped to the Ukraine for free distribution.

After America's entry in the Great War, J. K. Jr. volunteered and was made director of medical supplies for the army. The company equipped a base hospital and fitted it with more than \$52,500 in supplies. Field hospital 32, designated the Lilly Field Hospital, was set up in Contrezeville, France, in 1917 and demobilized two years later. In 1919 a short depression hit the nation. It was customary for companies to lay off workers in order to cut expenses. Instead, J. K. Sr. set a precedent that would be followed during the Great Depression a decade later, cutting the number of hours employees worked at the plant and increasing wages to compensate for the loss in income.

The 1920s were a boom time for America and the Eli Lilly Company. The company produced its first nationally recognized product and made efficiency one of the highest goals of the institution. In 1921, in cooperation with the University of Toronto, the company received the

right to produce insulin once it was perfected. The company spent more than \$100 thousand on research to perfect a cost-effective method of production. Within two years it had succeeded. The company, in a practice that it continues in the present day, began doing clinical studies at City Hospital (Wishard Memorial Hospital today), in order to test medicines before introduction on the market. Profits rose with the increased efficiencies and the introduction of Iletin, Insulin Lilly, various barbiturates, and an asthma drug.

Eli Lilly contributed the straight-line production system in the 1920s. In 1923 Building 22 was constructed for the purpose of straight-line production, allowing for the mass production of drugs, lower production costs, and greater efficiency. Part of the greater efficiency was used to hire a regular workforce similar to many other production industries during the time. Lilly company recalled workers during peak times and laid them off after demand fell. Eli began a program of hiring a permanent force that would continually manufacture drug materials. During off-peak months the company would produce less-costly medicines.

By 1926 Lilly had 1,500 employees in 22 major buildings, a sales list of more than 2,800 different items, and more than \$9 million in sales. Following the success of insulin, the firm concluded agreements with twelve major universities for product development. Growth continued after 1926 as the company purchased a former brewery near its existing plants at McCarty and Alabama Streets. Before the stock market crash the company bought the Oliver Plow Company lot, adjacent to existing Lilly property.

Although the stock market crash affected Lilly's bottom line, the company continued to see profits. While many companies laid off employees or went out of business, Lilly managed to maintain full employment at its facilities. In 1930 hours were cut to only forty hours a week, but wages were increased to compensate for lost hours. Even with the reduction of hours, the

company did not need as many workers as it had on its payroll, so employees painted walls and cleaned floors. Unlike many Indianapolis businesses, which faced losses rather than gains, Lilly's sales increased to \$13 million by 1932. Two years later the company expanded across the Atlantic, setting up shop in England as Eli Lilly, Limited, Lilly's first overseas subsidiary.

One major procedure did change during the 1930s. The Lillys were known for their philanthropy and civil spirit, but after the arrival of the second New Deal inheritance taxes increased dramatically. The family feared that it would have to sell large amounts of company stock to pay inheritance taxes upon J. K. Sr.'s death and lose control of the company. The family founded the Lilly Endowment, created with family-owned company stock, and therefore was able to continue philanthropic giving and to avoid a possible loss of family control. In 1998 the Endowment, which owned close to 20 percent of all Lilly stock, was the wealthiest philanthropic foundation in the world.

Eli Lilly took control of the family business in the early 1930s, handing it to his younger brother in the late 1940s. The 1940s witnessed a decade of growth for the company with penicillin consuming much of its energy during the first half of the decade. University scientists could not find an effective way of producing penicillin in quantities large enough to produce large-scale inventories. The Lilly Company found a way in early 1944 to increase production and keep a stable product using 3,000-gallon vats rather than the milk bottles used previously. The company filled hundreds of government orders during World War II. More than two hundred products went to soldiers. Aviators had survival kits filled with Lilly material, and during D-Day Lilly medication eased the seasickness of troops crossing the English Channel.

After the war 5,500 people worked at Lilly. To aid in continuing a family atmosphere the company introduced a pension plan and created personnel representatives to communicate the

needs and wishes of employees to management. The firm was reorganized. Divisions were created and vice presidents were put in charge of the various divisions. Annual sales by the end of the decade reached \$100 million.

The 1950s ushered in an era of great growth for the company, a major product introduction, and the passing of the Lilly family from the presidency. Total sales reached \$159 million in 1950. Lilly labs were busy, major construction projects continued unabated, and Lilly's cooperation with universities continued to bring impressive results. Since 1930 the company had given fellowships at several major universities. Lilly was chosen to produce the Salk vaccine in 1954, in part because of its close work with university personnel. In 1957 Lilly labs began producing Darvon, a nonaddictive answer to codeine. By 1975 Darvon, and its offshoots, were the best "home grown" product Lilly created. Its success helped fund 1960s research into antibiotics that gained world renown for the company. Perhaps the greatest change to the company was the loss of a Lilly at its head. When J. K. Jr. stepped down in 1953, Eugene N. Beesley became the first nonfamily member to be president. Lillys continued to serve as chairman of the board until 1969, but Beesley's presidency heralded the beginning of the end of family control.

Expansion and innovation marked the Eli Lilly Company of the 1960s. In order to expand beyond human drugs Lilly created Elanco in 1960, an agribusiness company. By 1963 sales for Eli Lilly & Company reached more than \$200 million, and net earnings soared to more than \$25 million. Thirteen affiliate companies outside the United States added to the bottom line. By the end of the decade sales reached \$500 million, with 75 percent of all sales coming from within the United States. A tradition of research continued during the decade, as the company spent more than \$325 million on research alone. In 1965 the board of directors committed the company to

retain 10 percent of its sales for research. Research dollars committed in the past led to several products. Lilly continued to lead in the antibiotics market with the introduction of its first cephalosporin antibiotic, Keflin, in 1964.

In the 1970s Lilly became one of the largest pharmaceutical companies in the United States. By mid-decade the company reached \$1 billion in sales and had more than 23,000 employees in thirty-nine affiliate companies stretched across the world. Twenty-three percent of net sales came from nonpharmaceutical sources. Research money from 1960s profits led to products for new antibiotics, a synthesized human insulin, and a multiple sclerosis deterrent. Interestingly, the company almost scrapped research on a drug that later became known as Prozac, the most profitable product in company history. In 1977 Eli Lilly, the honorary chairman of the board, died and the last vestiges of family direction ceased.

After the stagflation of the late 1970s the company grew handsomely in the 1980s; however, it was beset by a number of legal blunders and leadership changes. Richard D. Wood ascended to the presidency in 1972 after Burton E. Beck left to become a cattle rancher and Beesley rose to chairman of the board. During the 1980s Wood moved to the position of chairman, and Vaughn D. Bryson assumed the presidency. Sales remained strong for the company. Several popular antibiotics, including Keflex, and pain medications were supplemented in 1982 with the introduction of Humilin, a synthesized human insulin, and Prozac, a central nervous system drug. By 1989 sales reached \$4.2 billion. The firm continued its commitment to science, and research dollars swallowed \$427 million of Lilly profits in 1986. In the mid-1980s the company decided to concentrate on pharmaceuticals and sold Elizabeth Arden Cosmetics to Faberge in 1987. Lilly had purchased the cosmetics empire in 1970 in an attempt to diversify its product offerings.

The 1980s may have been the darkest decade for the pharmaceutical giant. In 1982 Orflex, an anti-inflammatory medication used for arthritis, was released in the United States with much fanfare. Prior to the drug's release in the United States, it had been available in Europe, and in the same month of its release a British medical journal linked the medicine to several deaths. Within months several groups pressured Lilly to pull Orflex from store shelves. Lawsuits followed as the European deaths became linked to the drug in America. Although Lilly officials admitted prior knowledge of fatalities before the drug's American introduction, they attributed the deaths to other agents. A federal court fined the company \$25,000 but concluded that the company did not willfully withhold information or purposefully endanger patients. In the late 1980s a Federal Drug Administration report added to company woes, charging Lilly for dishonest reporting and manufacturing irregularities. The company was found innocent of any violations but was fined \$75,000 for the costs of the investigation.

The 1990s showed strong sales, innovation, and a commitment to research, and Prozac became the most successful product in company history. Annual sales amounted to \$6.452 billion in 1994, with Prozac accounting for more than \$2 billion. In the early 1990s Lilly decided to concentrate on five disease categories and either spin off or end research into other areas. In 1997 the company sold its 40 percent share of a partnership with Dow Chemicals, DowElanco, for \$1.2 billion. With the retirement of Bryson and Wood in 1993, Randall L. Tobias became president. Tobias assigned Lilly the task of helping families with a total health system. In 1994 he guided the company to buy PCS Systems, a drug delivery concern for Health Maintenance Organizations, a move considered risky and controversial. Later the company added two other similar organizations to its fold. Under Tobias the company cut costs and narrowed its mission, and profits continued to rise throughout the decade. Total sales amounted

to \$7.35 billion in 1996, with net income rising to \$1.52 billion. Cost-saving measures netted the company as much as \$115 million in savings for 1997.

In addition to other changes the methods used to obtain new drugs for the market has been altered by the new management team. By 1995 Lilly had between forty and fifty collaborations with various companies for particular products. The new management team combines Lilly resources with outside companies' technology, allowing Lilly to take advantage of the new technological breakthroughs without committing the necessary capital to make the company self-sufficient in each process. Internal research still remains important, however, and in 1996 more than \$1 billion was spent on research alone. In 1998 Sidney A. Taurel was president, and the company employed 6,000 people in Indiana. Tobias retired as chairman of the board in 1998.