

SAFETY THE COST OF “BEING AVERAGE”

Increasing returns on investment and reductions in spending are often the most visible means of demonstrating cost savings and prudent fiscal performance. However, “cost avoidance” is an often unseen but important strategy for positively impacting an organization’s fiscal performance. A prime example of the impact of “cost avoidance” on improving fiscal performance is the affect of occupational injury prevention on Allergan’s “bottom line”.

The costs associated with occupational injuries and illnesses have been studied intensively over the past 20 years. Direct medical costs and Workers Compensation pay-out associated with work-related injuries are the most visible cost elements. However, indirect costs associated with employee absence due to injury, time spent in investigation and employee re-training, lost productivity, and decreased employee morale can far surpass the actual direct medical costs of the injury to the company. Furthermore every accident results in pain and suffering to employees and to their families and through effective accident prevention strategies Allergan is striving to improve employee wellbeing and moral. In its analysis, the U.S. Occupational Safety and Health Administration has estimated that, on average, each injury involving lost workdays costs the employer \$28,000 in direct and indirect costs, and that each injury not involving lost workdays costs the company \$7000. We can use these figures to calculate how injury prevention programs which result in “injury avoidance” can significantly impact the organization’s profitability - - demonstrating the “high cost of being average”.

In 2008, Allergan experienced an injury frequency rate of 0.88 injuries per 100 employees per year, representing just 63 recordable injuries in over 13.8 million hours worked. 41 of these injuries resulted in lost time (days from work or days of restricted work activity). According to the Bureau of Labor Statistics, the national average injury frequency rate for similar companies (pharmaceutical manufacturing) during this same time period was 2.4 injuries per 100 employees. If the Allergan had “only an average” injury rate, we would have anticipated 165 recordable injuries during that same period. Assuming the same ratio of lost workday cases to non-lost workday cases, this would mean an additional 107 lost workday cases and 58 cases without lost workdays. With such an “average” injury rate, these extra injuries would have cost the company an additional \$2.1 million. Assuming an after-tax profit of 13.1% for Allergan (estimated for 2008 per GAAP), the additional Allergan sales required to cover this cost over this period would have been approximately **\$16 million**. This is the “cost of being average”, and represents the avoided cost to Allergan because of the proactive safety programs and the resulting prevention of injuries. Through the effective safety programs implemented there are cost savings, compliance benefits and more importantly employees come to work and go home each day to their families knowing that the company is working to keep them healthy and safe. Safety is a win-win for all.

It is clear that SAFETY PAYs, and that Allergan’s “better than average” safety performance over the past three years has led to significant savings for Allergan in terms of reduced costs, increased productivity, improved employee morale and significantly less pain and suffering experienced by Allergan employees.