Merger Integration

PHARMA'S TRUE BELLWETHER OF SUCCESS?

CLARKSTON CONSULTING

ACQUISITION IN THE LIFE SCIENCE INDUSTRY

Recent years have seen a relentless furry of acquisition activity among life sciences organizations. In this torrent of acquisitions, billions of dollars are being exchanged. Perhaps even more wealth is being created, but could also be destroyed if the acquisition is poorly executed. Companies have a strategy and priority for each acquisition, yet they all share one thing in common: successfully integrating two completely separate companies into a new entity

There are many factors involved in the success of acquisition integrations. Two cultures must meld into one. Two businesses must determine how to operate as one. Will their sales forces combine? How will the management organization be structured? In a given location, is there a need for two offices where there was previously one? How will the new entity operate efficiently, and how long will it take to become one seamless organization?

SOLVING THE TECHNOLOGY CHALLENGE

Equally as important are the challenges associated with information technology. How will we successfully integrate two disparate technology landscapes into one cohesive environment–and how fast can it be done? The task is daunting. Even if the same technology is used by both the acquiring and the acquired companies, varying requirements and decisions have led to the implementation of that same technology in substantially different ways. In a worst case situation, radically different technologies have been used, which introduces a challenging task: architecting it into one cohesive solution.

On a micro scale, we all understand the challenge somewhat instinctively. Imagine combining the technology of two households. One uses Apple and one uses Microsoft. One uses traditional Microsoft Office tools and one uses Google Docs. In cases where the same software is used, one household uses an old version and one uses a new version Multiply these micro differences across the hundreds or thousands of employees that are typically involved in acquisitions, factor in large scale global business solutions such as ERP systems, address the demands of 30 or 40 global offices in far-reaching corners of the globe; then, we begin to appreciate the challenge of developing a unified technology landscape from two separate companies.

As with most challenges, however, there are strategies that will pave the way for success.

FOUR STRATEGIES FOR TECHNOLOGY INTEGRATION SUCCESS

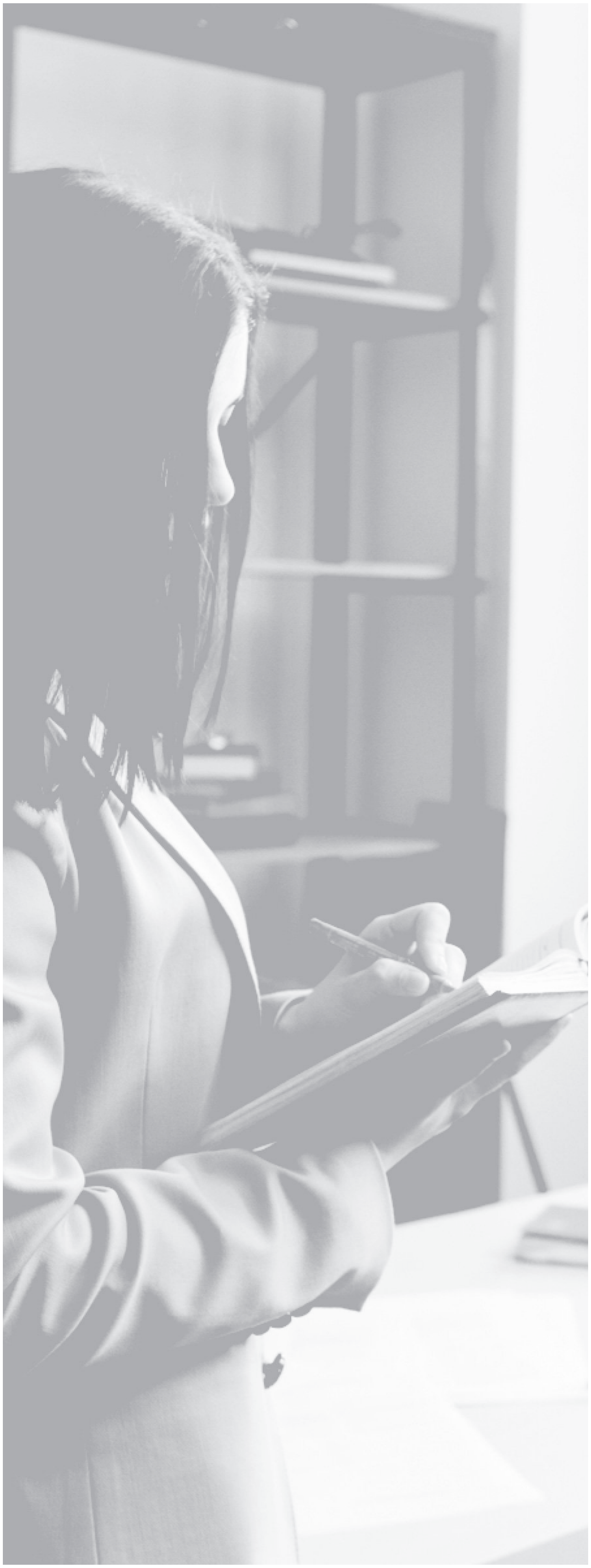
1. Prioritize Infrastructure

Infrastructure isn't very glamorous. It's the routers, servers, hubs, single-sign on solutions, and all of the underlying technology that mostly becomes invisible (except when it doesn't work). It is quite literally the plumbing that connects everything together.

But there are also software solutions that essentially serve as infrastructure in our organizations. Think about things like email, calendars, and the ability to see free time on your colleagues' calendars and send meeting invitations. Think about virtual meeting software and SharePoint sites, and other collaboration tools. Take these away, or make it difficult to use these basic solutions, and the organization will have a difficult time working efficiently.

The first strategy is simple: in all cases, without exception, prioritize the foundational infrastructure solutions and get these aspects of the new organization tightly integrated quickly. Connect the networks. Tie email together seamlessly. Make free time search and calendar invitations work perfectly. Connect collaboration solutions so that teams can immediately begin to work and build their new organizations.

All such acquisitions are governed by extensive legal agreements between the various organizations involved. These agreements spell out what the acquiring organization will do, what the selling organization will do, and likewise, what they will not do. This is a key best practice: ensure that the legal agreements permit the acquiring and selling organizations to cooperate closely enough to begin the infrastructure connectivity efforts well before the legal close of the transaction, which is often referred to as "day one". By connecting the infrastructure promptly and as a first priority, we begin to eliminate some of the foundational friction within the organization. While the new organization begins to collaborate, the integration team can start working



on higher-level integrations (e.g. LIMS solutions, ERP solutions, HR systems) in the background.

2. Develop an Accurate and Comprehensive Inventory of Applications

It is critical to define the scope for any project, but particularly so for integration projects. Therefore, it's necessary to fully understand the list of applications that are in use by the acquired company and to identify which ones need to be incorporated into the acquiring company. A comprehensive list of applications should be created to assure that nothing is missed. This will allow proper scoping for the entire program, which will help in establishing proper timelines and resource needs–both from an IT perspective and from a business and departmental (e.g., quality organizations) support perspective. Many companies already maintain an application inventory; but, companies need to ensure that it is comprehensive, accurate, and shows key components.

The questions below will help companies obtain some of this crucial information:

- **What key business capabilities/ processes does the application support?**
- **How critical is the application to the business?**
- **Is the application GxP relevant?**
- **Which inbound and outbound interfaces does the application use to support other applications?**
- **What other dependencies may exist for applications?**
- **Which ones have to be migrated together?**
- **How many users rely on this application?**

Once a full list exists, and these key questions are answered for all applications, the integration team can evaluate which applications can be migrated on their own and which ones may need to be tackled simultaneously. This application inventory will then be used to determine the appropriate strategy for each application, considering the goals of the business, and the mid- to long-term term solution definition of the acquiring company

3. Develop a Standard Vocabulary of Application Strategies

As noted above, a very accurate and comprehensive inventory of applications within the acquired organization must be developed and maintained. With that information, application disposition decisions can and must be made for each application. Each application must somehow be integrated into the new combined organization in an effective manner.

To effectively determine application disposition strategies, it is important to develop a general strategy from two common options.

OPTION 1: LIFT & SHIFT, THEN INTEGRATE

Imagine the acquired organization has 300 applications, which need to be integrated into the new combined organization. In this strategy, the integration team moves these applications into the new organization as-is. That is, they simply lift and shift these into the appropriate infrastructure of the new organization. This frst part of the process does not truly integrate these applications with the acquiring organization's applications. For example, perhaps the acquired organization uses Workday for human resource purposes, but the acquiring organization uses SuccessFactors. Or the two This first part of the process does not truly integrate these applications with the acquiring organization's applications. For example, perhaps the acquired organization uses Workday for human resource purposes, but the acquiring organizations use different quality management systems, or document management systems. After this first lift and shift effort, this inconsistency remains.

However, the lift and shift approach allows the acquiring organization to move very quickly and complete the terms of the Transitional Services Agreement (TSA) in the shortest possible time period. This may substantially reduce the cost of the TSA services.

Then, with all applications moved into the new infrastructure and the TSA terms completely met, the organization embarks on the next phase of the effort to properly integrate these applications. Without the pressure of a rigid TSA, the organization can carefully evaluate processes, technology and people, and properly harmonize the new solutions.

OPTION 2: INTEGRATE APPLICATIONS DURING THE TSA

The second option attempts to integrate the divergent applications during the term of the TSA. The goal is to complete all work of integration by the term limit to avoid any legal penalties, fees or additional costs.

Regardless of the general approach, it is vital that the teams adopt the same language to describe the application disposition decisions.

Simply put, if the acquired organization uses Workday and the acquiring organization uses SuccessFactors, what will they do? Will they move to one solution? In many cases the answer is a very strong yes. If so, what is that one solution? The natural answer in this example may seem to be SuccessFactors, since it is the standard of the acquiring organization. However, perhaps it becomes clear that the Workday solution used by the acquired company is far more mature and delivers far more functionality. In some cases, the acquiring company determines to move to the standard application used by the acquired company.

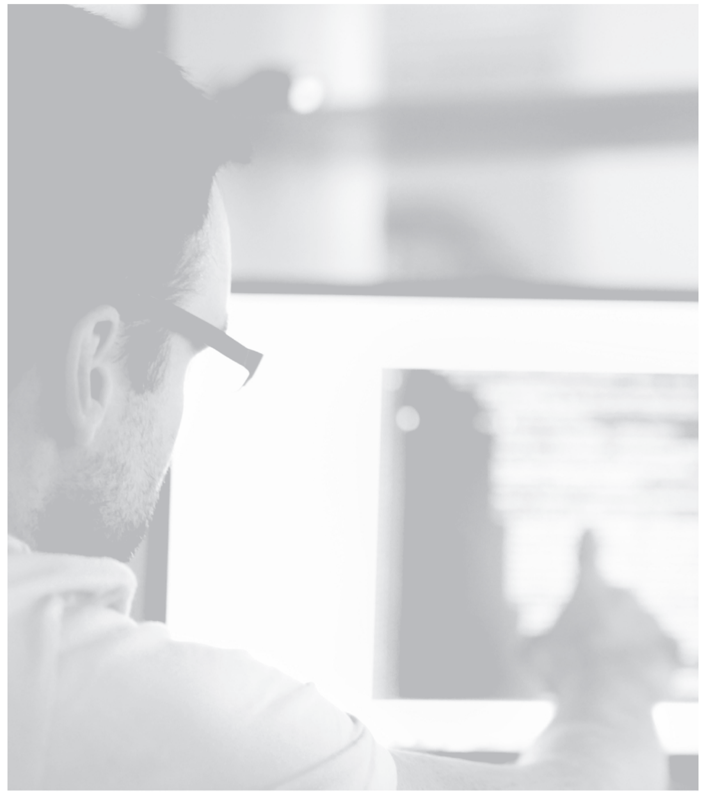
Once the overall strategy is determined, the language to describe each application's disposition must be consistent and uniform.

Anytime companies bring together two or more applications and integrate on one standard, we suggest the use of the word harmonization to describe the effort. Harmonization is not merely combining data. It is the process of harmonizing data, processes and technology. And it must be done in a way that ensures that the harmonized solution will meet the requirements of the newly combined organization.

In other cases the acquired organization may have an application that is vital, and no suitable integration target exists within the acquiring organization. In this case, we often refer to the strategy as migration. Simply put, it is picking up the application and moving it into the new infrastructure

OTHER RELEVANT STRATEGIES

There can also be a variation of this migration strategy, something that we refer to as a carve-out strategy. In some cases the acquiring organization does not buy all of a company, but rather buys



a division or even a subsidiary. In this case the application to be migrated or harmonized may contain some data which is not part of the acquisition. For example, Tres Pharma is a division of XYZ Pharma. Tres Pharma is acquired by Top Pharma. Tres Pharma and its parent, XYZ Pharma, have been using the one corporate standard for document management. That document management solution contains data from Tres Pharma and XYZ Pharma. It is not plausible or appropriate for Top Pharma to migrate the document management application into the new environment, as Top Pharma would then acquire data which does not properly belong to them (it belongs to XYZ Pharma).

In this circumstance, that application and its data must be carved out. That is, they must first initiate a project to separate out the Tres Pharma data from the XYZ Pharma data within the document management application. This is most often managed by the selling organization. When that data is properly carved out, then the application with only the Tres Pharma data can be migrated into the environment of Top Pharma.

In other cases, an application used by the acquired organization is no longer required. We suggest the application disposition of retired.

Additionally, there are other cases where the strategy is just to extract data from an application and move it into a similar application within the new environment. A disposition of data extract and move is suitable here. This can be common in applications that function mostly as a data repository. This is also common with SharePoint sites. It is often easiest to simply extract the data and move it to a new, similar, SharePoint site in the new environment.

Regardless of the terminology, it is critical that the entire project team has a common understanding of the application disposition strategies in effect during the transition. This will greatly eliminate confusion and improve the success of the integration.

4. IT Needs a Seat at the Table

In our experience, one of the biggest challenges is when IT is not involved in the initial acquisition due diligence or the integration program office, and they rely on updates and information from the core nucleus of decision makers (usually the business and external consultancies) who were involved with putting the deal together.

This kind of "integration blindness" leads to IT teams with the best intentions, making poor decisions with limited information. While information is always limited in an integration situation, all those involved must ensure that they are sharing and working with the most accurate and up-to-date information.

The absence of vital information can be lethal when integrating the IT component of an acquisition. The IT teams will not make the right decisions about priorities, the approach to integration (e.g., carve out, harmonization), and the timing of application moves—all of which will ultimately affect whether the companies meet the objectives outlined in the acquisition business case.

Companies should involve senior IT representatives from the acquiring company and the company being acquired, who are dedicating their full time to the integration program office. They should be responsible for listening, translating the business requirements into IT team actions, and also relaying the impact of constraints to the integration program office. Having involvement and continuity of IT leadership in due diligence, integration planning, and integration execution is one of the most critical factors for success.

IT'S BIGGER THAN INTEGRATION

Oftentimes, life sciences organizations attempt to execute an acquisition integration as if merely combining two chemicals in a beaker – in which the reaction and outcome is as certain as the basic laws of physics and chemistry. Unfortunately, that's not how acquisitions work; they include real people, offices, lives and livelihoods.

Understanding that the success of the acquisition and the effectiveness of the new organization is not merely the result of acquired patents, properties, factories and ware- houses, pays huge dividends.

Future success is all about the ability of thousands of people to work effectively together. It is vital that the project team that is involved in the acquisition work spend considerable time in the field, among the organization to be acquired, listening, learning, and understanding the human element of the acquisition.

Meet the Expert

GERALD EHRENSTEIN, SENIOR MANAGER

Gerald Ehrenstein is a Senior Manager with Clarkston Consulting who has led many clients through global system implementations. He has over 20 years of IT Project Management experience and has been focused on helping life sciences clients plan and execute the integration of IT systems due to M&A.

CLARKSTON CONSULTING

2655 Meridian Parkway
Durham, NC 27713
800-652-4274
www.clarkstonconsulting.com