Two become one: communicating a merger at Nycomed

Ensuring accurate messages reach the correct audience during a major acquisition and integration

BY JOSEF GOETZ AND MARK WATKINS

When Danish pharmaceutical company Nycomed took over Altana Pharma in 2006, it was the beginning of an intense communication campaign to unite the workforces and form a single identity. Facing cultural, geographical and leadership challenges, the newly merged communication team worked with London-based consultancy Synopsis to make the transition as smooth and successful as possible.

The Nycomed Group is a European-based healthcare provider with over 12,000 employees. Offering services to markets around the world, the company covers the full spectrum of a product's life from research through to lifecycle management.

Almost every industry has been through a period of consolidation and the pharmaceutical industry is no exception. Over 20 years, the shape of the industry has changed tremendously, with the industry's major businesses combining to form several industry giants. We're now facing a new wave of mergers and acquisitions: one that, this time, will include the small- and medium-sized companies. This will present new challenges for communicators. This case study looks at the communication issues faced in bringing together two companies of different size, culture and expectations and the lessons we learned doing this.

Reacting to a changing industry

The research-based pharmaceutical industry operates to a relatively simple business model. It discovers new drugs, establishes a patent, and then maximizes the commercial return on those drugs before the patent life expires and other companies can sell cheaper copies. Recent years have seen increased pressure on this "growth equation" and many of the large pharmaceutical companies are facing major patent expiries in the near future.

These imminent patent expiries coincide with a period of poor Research and Development (R&D) productivity from the industry, meaning that they're finding it ever tougher to replace lost revenues with sales from new products. As a direct result, a number of big pharmaceutical companies have decided to cut jobs, some by as much as 10 percent or more.

Background to the merger

It was against this background that Nycomed, a small Denmark-based pharmaceutical company, purchased Altana Pharma AG, a mid-sized German pharmaceutical company. Altana had been very successful with Pantoprazole, a drug for the treatment of gastrointestinal disorders with sales of more than US$2 billion annually. However, in many of the world's largest pharmaceutical markets, Pantoprazole will lose its patent exclusivity within the next two to three years.

Altana Pharma had previously been part of a chemicals and pharmaceuticals conglomerate, Altana AG, but the latter had been searching for a "partner" to safeguard the future of the pharmaceutical business.

Throughout 2005 and 2006 a number of names were mentioned as potential partners and there was speculation in the media. This media discussion was not matched by internal communication within Altana, and the lack of any definitive message from senior management began to affect employee morale, especially at Altana Pharma's global headquarters in Konstanz, Germany.

In mid-2006, Nycomed's name was linked with Altana Pharma for the first time by the media. By now, the talk was less of partnership and more about an outright sale of Altana's pharmaceuticals business. This caused both surprise and concern among employees. Surprise because Nycomed was much smaller than Altana Pharma – almost 25-30 percent the size of the German company. Concern because Nycomed is owned by private equity and the German media had been conducting a long campaign criticizing the practices of private equity owners in Germany.

Developing an integration plan in 12 weeks

At the end of September 2006, after months of media speculation, it was officially announced that Nycomed would buy Altana Pharma from Altana AG for EUR4.2 billion. Immediately after the announcement an integration team was created with representatives from key functions from both companies.

The formal completion of the deal was set for the end of 2006, which gave the integration team just 12 weeks to develop an integration plan. For the communication function, it was clear that the biggest challenges would be time and resources. A 12-week window to launch a new company meant that speed was of the essence. We had to get on and do the best we could, which meant that we had to adapt best practice – for example, we knew that we should be making no compromises in planning and carrying out the implementation stage.[1]

We also knew that when Deutsche Bank acquired Bankers Trust in 1999,[1] they'd conducted a study into employee perceptions of the acquisition in order to develop a targeted communication strategy. As a direct result of the survey, the new company strategy and organizational charts were shared with employees soon after the deal. Such a survey would have given us a useful baseline from which to shape a communication strategy, but the earliest opportunity for us to survey the organization was in February 2007, with repeats in June 2007 and January 2008.

To compensate for our lack of time and resource, we decided to hire support from a communication consultancy with a strong record in change management – London-based Synopsis Communication Consulting.

Dealing with cultural differences

The acquisition of Altana Pharma by Nycomed brought together two companies which had similarities and were complementary in many areas, but there were also obvious differences. Both companies were based in Europe, were small- to medium-sized pharmaceutical companies, and they'd both experienced a period of sustained growth. These similarities allowed us to talk about the acquisition as a "perfect fit", and when you compared the companies' product portfolios and the geographical strengths, it was difficult to argue anything else.

However, there were also some differences. Altana Pharma had had big ambitions and had created a large and complex organization to deliver them. They'd begun to build up a large US organization, they'd made a commitment to a specific long-term strategy and had created a framework of policies to deliver it. The core of the company was its R&D operations – it prided itself on discovering new drugs "in house".

By contrast, Nycomed was entrepreneurial and optimistic. The company had built a strong track record of in-licensing new products and had focused its sales efforts on niche markets – the hospital specialist market in particular – and high growth markets such as Russia and the CIS.

Finally, the company cultures were very different and we had to be aware that communication would be perceived quite differently by the two audiences. Some, but not all of this was based on the fact that Nycomed was a Scandinavian company and Altana a German one. But most importantly, the ways of working were different and the different ways of working had bred very different working environments and cultural climates.

The five keys to success

We identified five areas that were critical to the success of forging a combined Nycomed and Altana Pharma:

1. Developing a close relationship with the integration team

Closeness to the core integration team was essential. First, to ensure understanding and support of the communication approach, second, to ensure that the approach was tailored to deal with the business plan for integration. Some of

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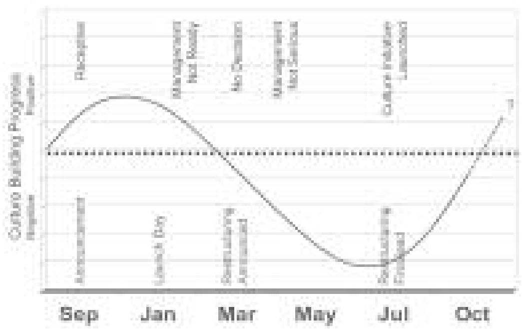
KEY POINTS

- **In 2006, pharmaceutical group Altana Pharma was purchased by Nycomed and the communication department played a major role in bringing the two companies together.**
- **An integration team was established consisting of members from key functions from both companies and London-based communication consultancy, Synopsis was hired to provide experience and support.**
- **Five main areas have been identified as essential in the success of the integration. These included developing a close relationship with the senior leadership team and engaging well with employees.**
- **Elements of the integration process are ongoing, in particular with regard to cultural understanding.**

Figure One: How the culture-building process has progressed



the challenges of working with the integration team were the speed of the process, the requirement for every communication to be double-checked by the legal and HR representatives, and the subjective input of other team members to the communication strategy.

However, the greatest challenge of all was the management of enforced "periods of silence" in various pockets of the business. This followed the announcement of restructuring plans and the start of "behind closed doors" negotiations with factories and employee councils, according to local laws. We overcame this using a map of the various activities to ensure not all the communication areas fell silent at the same time.

2. Developing a close rapport with the senior team

The company's leadership team was new, drawing membership from both legacy companies. As a consequence, at the very time they were under pressure to be visible and vocal within the organization, they were also engaged in establishing themselves as a team behind closed doors and defining how they would work together in the future.

Another challenge here was that the combined leadership team had differing experiences of integration projects in their backgrounds. The legacy Nycomed team had strong multi-company experiences of mergers and acquisitions, although not all of it was necessarily positive. But the Altana Pharma leaders had almost no experiences of mergers and acquisitions. As a consequence, some leaders were operating from memory, while some were learning as they went. Both required different levels of support.

Finally, while the leadership team needed time to discuss the future strategy of the combined company, this was at odds with the needs of employees to hear something "right now". As a result we found ourselves "filling the gap" with leadership profiles and statements about the positive future for the company without having tangible plans of action to support our messages.

3. Engaging effectively with employees

To ensure our recommendations were based on facts and data rather than instinct, we instigated a companywide survey, which was repeated twice during the year of integration. It revealed that line managers were very willing to fulfill their roles as communicators but unsure of what to say, that there were a lot of rumors and that in the absence of line manager briefings, employees were turning to the external media for information.

All of this input shaped and reshaped our communication approach and, among other things, led to us retiring the legacy company communication channels and replacing them with new ones. We also placed much greater emphasis on supplying line managers with something to say, via cascade slide packs with scripts and manager briefings ahead of major announcements.

4. Addressing differing information needs

Employees across both legacy companies found themselves in very different situations. For Nycomed, this was a great story – "little Nycomed takes over a company three to four times its own size". In Altana, there was confusion, – "if we're so successful and this makes so much sense, why didn't we buy them?" Additionally, the situation was different depending on where employees were based. Of the 50 countries where the combined company was present, only 14 had overlapping operations – all in Europe.

This meant that, for many, the integration process was a simple change of company name and logo and they could then move on. For those at the heart of the restructuring plans, it meant much more, as witnessed when we announced that around 10 percent of jobs would be lost from the new company – mostly from the former Altana Pharma headquarters in Konstanz, Germany.

Aside from the obvious reaction to this news – disappointment, anger – something else happened. We started to see feedback from the unaffected markets that they were growing bored by the integration story and eager to move on. By contrast, the affected markets would complain when any "good news" was communicated from unaffected markets. They saw it as inappropriate and insensitive, given what they were going through.

Our response to this was to create a communication project team that focused on the specific and unique situation in Germany and in Konstanz in particular. Comprising internal and external communicators, they focused on local media attention and employee communication, instigating weekly face-to-face forums for employees and large all-employee briefings whenever there were significant developments.

The organizational survey we conducted showed us that our messages were getting through. In the first wave alone (February 2007, one month after completion of the deal) 69 percent of employees said they understood the reasons for the deal (81 percent in legacy Nycomed, 67 percent in legacy Altana). In the ex-Altana organization, this level of understanding went down in the second wave of the survey (June 2007) largely as a negative reaction to the scale of restructuring announced in May 2007.

5. Addressing the issue of limited resources

The challenge of delivering all that was expected of us, with what was a relatively small internal communication team (initially one person in Nycomed and two in Altana) was compounded by departures from the broader corporate communication team and the inability to second resources from say, media relations or other areas. In addition, the team was based partly at Nycomed's HQ near Copenhagen, Denmark and Altana Pharma's in Konstanz, Germany.

The creation of a temporary integration office in Zurich, Switzerland, created a solution to coordination within the team, as well as ensuring close alignment with other integration functions. However, the two most important decisions were to draw in more junior members of the communication function, some were brought in from other areas, and to hire an external communication consultancy to support thinking, provide senior manager counsel and to manage the alignment of internal and external communication messaging.

Briefly, at the top tier, a senior consultant worked with us on strategy and with senior leadership for communication counsel and a project manager worked with us to ensure we delivered according to the integration communication strategy and also "owned" the planning calendar, taking inputs from both the internal and external communication team.

Finally a project support resource coordinated the delivery of the communication channels, working with the rest of corporate communication and making use of our existing roster of freelance resources. The advantage of the latter was that we continued to use freelancers who already knew the companies and with whom rates of pay had already been agreed.

Conclusions and lessons learned

One year on from the formation of the combined company, the conclusion is that, while the mechanics of putting the two companies together have been completed, the cultural integration is still ongoing. This view was confirmed during a series of employee focus groups held in September 2007 as a follow-up to the second wave of the employee survey.

As shown in Figure 1 (left,), the organizational mood and climate followed the classic pattern of response to change, first identified by Kubler-Ross in 1969.[2] In the top half of the table, you can see the state of readiness of the leadership team to discuss and support the culture of the new organization and in the lower half, the key events in the first year of the combined organization. The curve reflects the positivity or negativity of the dominant mood in the organization.

It's this chart that raises the final and most important learning of the whole integration exercise – the greatest challenges of the project were created when the communication function fell out of step with the thinking on the leadership team. There were occasions when policy was being devised by the communication team and sent to the leadership team for comment and approval.

The lesson from this is, let the leadership team have the thinking time they need, but maintain closeness in order to press them to make decisions and to make them known.

Finally, the greatest benefit to come from the project was the amount of personal growth experienced and demonstrated by the communication team – particularly among the more junior team members. Their exposure to such a high profile and urgent project, coupled with their ability to work with some of the leading thinkers in the profession (in our case Synopsis Communication Consulting) accelerated their development and left them far better placed to move to the next level of their careers when the combined communication department was formulated. scm

1. *Acquisitions: Implementation is critical for success*, Lawson Burns, Robert Gerber, Phaedra Powilanska-Burnell, Maurizio Romeo, Pascal Sucheix, London Business School, January 2006.
2. *On Death and Dying*, Elisabeth Kubler-Ross, Routledge, 1969.

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