Beyond the Deal Newsletter

Mergers and Acquisitions that Achieve Breakthrough Gains

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Quote of the Month

"Most deals in 2012 were done out of fear. I expect 2013 to be a better year. We'll get a resolution one way or another. The world will be a much better and more hospitable place for deals."

Jim Cramer's stock market predictions for 2013

In the December 2012 Newsletter:
A Clinic on Carrying Out a Transformational M&A Integration, Part 1

You can count on the fingers of your hands the number of acquisitions that are transformational and produce extraordinary gains. INC Research's acquisition and integration of the UK based Kendle International is one of those exceptional achievements. INC's perspective and process are explored in the exciting and insightful webinar: How one company acquired a competitor twice its size and won big!"

The webinar became a clinic on how to frame and carry out a transformational integration. There is a lot of meat on this bone for readers to chew on for a long, long time. The session was hosted by eknow, the creator of the eknow Integrator full cycle M&A management solution.

Jamie Macdonald, COO and soon to be CEO of INC Research and Jeffrey Kueffer, Senior Vice President of Operations Management at INC and lead for the successful Kendle transformational integration effort were the panel. Jay Chatzkel, co-author of the Beyond the Deal book on leveraging all phases of integration and Principal at Progressive Practices, was the moderator.

Macdonald added a unique perspective to the panel since he was the CEO of Kendle at the time of its acquisition and then transitioned into the role of the COO at INC Research shortly after the newly combined INC Research came into being. It is very uncommon to have a senior leader who has been on both sides of an acquisition and transformational integration openly that transition. Macdonald's comments on strategic and leadership during and after the acquisition, along with Jeff Kueffer sharing his experience of the integration's implementation, took the webinar from the concept stage through all of the phases of the integration and post integration.

The conversation was remarkably rich in value and at the same time succinct. Since simply providing highlight would not do justice to the panel's conversation, the entire transcript of the session is being made available in two Newsletter editions. The December Newsletter features the first half of the webinar. covering the main drivers of the acquisition, the vision for the newly combined enterprise, how INC charted out its integration process, and what tools and approaches were used to facilitate the integration.

The January 2013 Newsletter continues with the second half of the session: exploring the biggest challenges that INC Research's leadership faced as in the acquisition and integration processes, how it met those challenges, how INC Research's customer satisfaction levels actually improved over the normally disruptive time from when the integration began through its completion, and the most important lessons learned from the Kendle integration.

We appreciate eknow's permission to present the transcribed panel's remarks. You are invited to listen to the full recording of the Webinar at the eknow.com website: http://eknow.com/news/webinars.

A Clinic on Carrying Out a Transformational M&A Integration, Part 1

How often do we have the opportunity to hear a company's senior leadership openly and candidly share how a major transformational acquisition and integration has taken place? Not very often at all. The INC Research leaders on the Webinar panel told the remarkable story of how the organizations and people

accomplished just that. Join with them as they take you through what became a clinic on just what to do and how to turn what could have been an ordinary acquisition into an extraordinary transformation.

Why Acquire?

Jay Chatzkel: What led INC Research to acquire Kendle International, a company almost twice its size?

Jamie Macdonald: The main driver was expanding INC's scale and providing a platform for growth. INC was a fairly large contract organization with about 2000 people. The market is requiring us to have an expanded geographical presence, a broader therapeutic reach. INC was in a position that in order to compete for the largest opportunities and address the largest market, there was a realization scale was important. It wasn't just scale in terms of adding bodies but rather what would add to the organization in terms of the right geographic coverage and expanding our therapeutic offerings. INC had been traditionally stronger in the central nervous system therapeutic area and also oncology. Kendall brought in experience in general medicine, including surgery, women's health, infectious disease - all of which are growing therapeutic areas. There was also a platform to gain synergy, an obvious part of any acquisition. In addition to that each company had a slightly different customer base. We did a side-by-side analysis of the top 20 customers of both organizations and there was only one common customer in INC's top twenty list. That was clearly going to present an opportunity to expand and broaden the customer base across multiple services.

INC Research's Transformational Vision

Jay Chatzkel: What was INC's transformational vision for the new company that was going to come out of the INC Research/Kendle International combination?

Jamie Macdonald: This was an interesting one, and particularly in service organizations where headcount is a major factor in our delivery. We are staff intensive so we have to think very closely about the culture of the two organizations. We had a window between May of 2011, when the transaction was announced, to the middle of July when the transaction closed. This is really where the leadership of both organizations, particularly INC as the acquiring organization sat down and looked through the needs of the new organization. At the top of the list is serving were already existing projects. That was a major part of understanding how the organization would function and operate going forward. We had to make some early calls around the tougher decisions that in any acquisition that have to be made early. That is what is the senior leadership going to look like, what is the leadership team that is going to take the organization forward in its new size and scale, and what structure are we going to adopt that would best serve our customers needs - and hopefully be the structure that we can stay with and support for coming years and will drive growth and customer adoption - and acceptance of the acquisition?

Our customer base is the pharmaceutical industry - that extends from large pharma to some of the smaller biotechs. We were very cognizant of the need to have a structure that was recognizable by the customer base. We made some very early decisions regarding what the management team would look like. We adopted the INC structure in terms of our business operations, which was different to Kendle. Our business operations at INC were therapeutically focused. That aligns very nicely with our customer base. On the Kendle side they had more of a geographic, functional structure - and therefore there was going to be a need to make way to a new looking organization. We tried to understand how that would impact people's relationships with their managers and the reporting lines. Building an active communications plan at a staff level was a big part of the integration.

Very early on we insured that the customer projects were collated in a complete census where we had a full understanding of every piece of work that was active in both INC and Kendle. That was mapped into the new therapeutic structure, including ownership of those projects between parent project management teams, the sales organization and executive oversight for either those projects or customer relations. We had a window between May and July in which to complete all of that mapping. Literally on Day One of the close of the transaction we started the project review process to look at the status of every project we were working on, particularly the ones were coming across from Kendle, understanding how they were performing from a time line standpoint, a quality standpoint, resource management and budget financial performance. We created the templates to review those projects and then created after that a corrective action list. We used a simplistic "red/amber/green" view of projects. The green projects were going well, proceeding on time, customers were happy, and the budget was in line with expectations. We rated risks. Where there were projects that had potential quality concerns or concerns around customer retention, they got additional focus very early on in the acquisition.

Charting Out the Integration

Jay Chatzkel: That is a good portrayal of the heavy lifting but also something that requires both imagination and a sensible way of dealing with it.

How did INC chart out the integration from the integration planning phase through Day One of ownership, into the full scale integration which follows and ultimately into the post-integration phase?

Jeff Kueffer: We started and actually moved into Day One operations we met with the senior leadership team. Jim Ogle, the Chief Executive Officer, gave very specific guidance with respect to his expectations for how the integration was to run. He gave us three essential tasks: The first was to maintain existing levels of service in both of the companies. We could not put any projects at risk.

Then we were to enhance the trusted process by merging best practices where found.

The Trusted Process was going to change. We were going to reach across. We were going to set out different ways of doing business. We wanted to adopt and merge, not just simply stay stagnant. And then assimilate both of these organizations into becoming this new top tier, top five CRO and make sure that the marketplace was aware of what we were doing.

Jim's guidance to the integration team was to move quickly, integrate rapidly, and realize the synergies quickly, be sensitive to people, reach out to them, embrace best practices, guard against the not invented here mentality, and most importantly - focus on customer satisfaction/retention. As he told us, if customers were not at the top of our priority list, we needed to reprioritize our list.

We identified an integration management structure out of the integration management team and created a subset out of the Executive team called the Executive Steering Group. This group was responsible for establishing the integration objectives and also making the major decisions. Under that I lead a group called the Integration Management Office. My job was to prioritize and coordinate the activities, to track progress and to frame the major decisions that the executive steering committee would have to make. But underneath me were a number of groups, upwards of thirty different integration teams that were identifying issues, doing the analysis, sensing the options, and completing the implementation. Jim Ogle does not like large groups or committees. These were small teams of two to three people usually. The objective was not to find the best solution. It was to get us to a workable solution.

We looked at the integration in a series of activities. We broke it down into Day One activities. We had a "calm" period after the announcement of the transaction but before the Day One where little coordination between the two organizations was allowed. We could do unilateral planning. We did focus on Day One and we called that the "Red Zone" - around fifteen days before and after Day One. The focus there was communications to employees, vendors, everybody - making sure it meant what it meant to them.

From there we moved into the first thirty days and then the first one hundred days to stabilize and build trust to begin to do the planning. That brought us into the December holiday period where we took time for a tactical pause assessing where we were. Then we moved forward in the follow on year for about another six months of conducting the integration and conducting the synergies. We broke it down into small blocks rather than a large simple integration.

Tools and Approaches That Made a Difference

Jay Chatzkel: The customer focus emphasis is just outstanding. A lot of companies unfortunately focus inwards to the circumstances inside the organization and don't get their focus sufficiently out there into the world of their customers and changing conditions. You maintained a balanced focus of emphasis on both external and internal considerations.

Were any tools or approaches that significantly facilitated the integration?

Jeff Kueffer: INC Research had done integrations in the past but this was an integration of a scale that none of us had ever done. This is a full on integration that involved two complete companies coming together. That being the case, there was a lot of work to be done. We had previous checklist and such that we used, but this caused us to do our homework. Luckily there are a lot of resources out there for us to use. I personally have an extensive bookshelf of books on mergers and acquisitions. I find these books have a lot of different ideas, concepts and analysis, and tips as far as checklists and guides. What I try to do is triangulate amongst those books and come up with strategies that are meaningful to INC. Along with that there are a lot of articles and online resources as well. But the main thing is that you can't rely on one or two approaches, which is the way we used to do it before. This is an area that is growing in knowledge and people are writing about it and we should avail ourselves of that range of experiences.

Second, we had used consultants to do our due diligence and negotiations phases, but our CEO challenged us to take on the integration activities ourselves, citing that it would ultimately be us that would have to drive it. He challenged us to manage the integration using our organic project management skills and experience. We went out to see what could help us. What we found was a tool, the eknow Integrator management software. We were able to manage the team work activities, tracking milestones, synergies, manage risk, identify cross dependencies and a way to provide online collection status and report up to management all within one system.

At one point I had nearly 300 people working in the system across five continents. I was controlling hundreds of different work streams and twenty-seven different major work teams. I was able to do that with one single weekly hourly meeting which took place at 11 AM on Thursdays. The deal that I had with my team members was that if you keep eknow current I won't hold a lot of meetings. They kept the eknow integrator up to date. With that I was able to get the information I needed to report up to the leadership as to what was going on. The result was that we were able to reduce the length of meeting times which was a huge time saver for us.

Jay Chatzkel: In my own practice I stress building up capabilities. That is certainly what you adopted at INC Research, and it has paid off handsomely.

An acquiring company has to make its choices. It is your integration ultimately. The more the organizational leadership and integration teams take to heart that they are the owners of the integration the better the integration will turn out to be.

Part 2 of the Webinar conversation will be available in the January 2013 Beyond the Deal Newsletter.