

Some obvious opportunities for the companies not involved in M&A initiatives. Who is capturing that value today?

The last ten years have seen a large uptake on the rate of M&A activities in the pharma sector, in a natural move to consolidate the industry. M&A activity can be considered as the ritual passage of a sector towards the mature state; a situation where entrepreneurship and creativity do not foster additional value creation, and economies of scale, together with safeguard of markets are the main long term strategy sought by the players to sustainably obtain return on investment.

The final aim of the acquisition strategy is the creation of a structured marketplace, where few, capital intensive, ring-fenced players focused on a geography, a niche market or a boutique speciality, behave rationally to each other in the long term.

Where is the value on M&A?

There have been various in-depth studies by the biggest strategy houses in which the long term value of historical acquisition has been scrutinized, where the researchers show meagre benefits to the merge.

How and when the value of the acquisition is calculated is subject of very deep discussions among economists and financial directors, but as well among strategists and sociologists.

We are not interested in this article on the value of a company post-acquisition, but on the pre-acquisition value. We are neither focused on the value for the integrating (or integrated) companies, but on the value for the other companies, the ones that are not taking part on the merging activity.

Why so? Because for every company that merges, there are one hundred that do not pass by the exercise – but there are a lot of them to win spontaneously, if the opportunity is properly managed.



The first symptoms of M&A activity within a company are only noticeable to the trained eye – to the people who have lived through a similar experience before. Only the discerning eye will be able to recognize the subtle changes on top management behaviour or attitude – as usually all of these negotiations are kept within highly confidential and closed circles.

Usually it is the financial markets the one that pick up the news – in the form of rumours, or simply enough, quantification of odd trading that can be ascribed to pre-positioning for a better merge or integration post-acquisition.

When the financial analysts break the news, the impact on the financial markets is immediate: big amplitude stock and PE value changes that happen, within record timings, with none of the companies issuing any declaration or statement, followed by periods (days, weeks or even months) of absolute normality.

But, during these periods of apparent financial markets' normality, the calm is only on the surface. The seal has been broken, and it concerns not just the shareholders or the speculators, but also the people working within the involved companies.

And here is where the value to the third parties kicks in.

When companies merge – and pharmaceuticals is not different, there are three major subjects of discussion: operations, pipeline and culture. Within operations, the focus is on current top & bottomline, and cost optimization. On the pipeline subject, the conversation is based around future portfolio management and synergies; within culture, the discussion turns around people, processes and best fitting.

All three dimensions (operations, pipeline and culture) are, deep down, about management of resources, and resources can be of three types; projects, price and people. The most valuable resource of all three is people, but it is also the most expensive, and the most difficult to control. And it is the one that actually is the most miss-managed the most during the M&A process, from the very start of it.

One of the problems with M&As is that everything, from a financial point of view, needs to be tied up before is publically announced – even inside the company acquiring or being acquired. This time period (from the moment the rumour starts, to the point at which the M&A is publicly announced) might extend from several weeks to several months. This is a time of unrest, and of informal and non elicited communication.

When the first rumours of the acquisition break, the first factor that the lower ranks pick upon is the historical evidence of structure change and laid-offs of the acquiring company. Fame precedes and overwhelms other evidence, and companies with strong background on massive restructuring start creating a sensation of discomfort and uneasiness characteristic of walking on thin ice among employees of both companies.

As time passes, and plans for synergies, cost optimization and project management are more and more detailed, the mid-management and on-the-field operational teams become even more agitated, with one objective in mind: understanding if they will be touched by any of the hundreds of initiatives that seem to pop-up on a daily basis for integration speed up.

Both mid-management and the operations teams start having one goal in mind – to save their position, or their career. And not necessarily in this order.

This effect is well known –not just in corporate life, but also in war gaming theory. When there is a change of leadership, the desertions are common, as well as the “self-dispensation” of duties.

So what is on it for you?

There is a double win for other companies when two of them are merging (or one is acquiring the other). The first and most obvious opportunity is the availability of human resources. The second –less obvious, and less prominent also, is the effect that the sales reps are not doing their job- they are more busy finding out career evolution options. They are not alone; the district managers (and product managers, and sales directors) are jockeying for position in the newly shaped company.

The first opportunity – availability of human resources- is usually dealt through the headhunter networks available on the countries. These available resources present a couple of advantages from a negotiation perspective – they have clear deadlines associated to the merge date – give or take three more month, and they are usually well trained bringing additionally a current portfolio of doctors with them, always an advantage to improve the sales force effectiveness of the team.

The largest acquisitions in the market have been very representative of this situation; both on the acquisition of Pfizer over Wyeth and on the reverse merge of Merck and Shering Plough, the numbers of people 'open' to opportunities in the different countries have been really staggering. Both companies (SP and Pfizer) are well known for being fast reacting, American project-management style, very aggressive and with sharp financial objectives to achieve. Integrations of these companies have usually short terms of 3 to 6 months, during which all the restructuring takes place. It is not strange, hence, to see the agitation among mid management on the months preceding the official merge date.

Even in acquisitions among not so aggressive companies, like the Abbott/Solvay or the Procter & Gamble/Warner Chilcott, management might decide that their new company does not offer them the position, the advantages or the corporate culture that they want for their professional future.

Yet, it is from the second opportunity, from the one that the third parties should extract maximum value. The 'deflection' of responsibilities in the field, with the medical representatives being more busy talking to their colleagues about potential openings, than to the doctors about the products, has a fatal, sharp and fast impact on the products.

Consider the carryover of the products – it is true, there are products, caring for chronic diseases, that have carryovers of above 85% - these would take more time to knock off. But, what about all these products for acute diseases, or those that have not been so long on the market? The impact of well deployed razzias¹ could turn tables on a highly competitive market, or even in one in which the

products of the company suffering the acquisition have lion share.

So, why not profiting from the opportunity? A lack of focus on the competitor's product detailing for two or three months, together with an aggressive campaign during the same period with your own product, can give a company a real advantage on the Share of Voice yielding quickly to noticeable increases on market share and absolute value. And all this, in record timings.

Which is the reason behind the lack of reactivity on these situations? Why companies do not profit from the opportunity? Mainly, because of the 'laissez faire, coupled with the yearly strategic planning, The yearly operational activity is usually planned during the annual budget period, and, whereas contingency plans can be considered and included, the merger of two companies usually does not qualify as 'contingency', so the plans are not activated.

From the times of the grand acquisition of Pfizer – Pharmacia, the merge of Sanofi-Aventis, and a myriad of other less high-profile, yet factual M&A activity, we have been observing the passivity of the companies not involved in the acquisition activity.

The next time that you read on the FT, or you hear from your colleagues (or your supervisors), about M&A activity of a competitor....will you still look at the merger from outside, passively? We hope not.

To know more about opportunities, effective strategies and profiting from the temporary weak position of the competitors during M&A activities, contact us at office@zarzia.com

¹ Razzia -raiding party often not with the size or strength to seize military or territorial objectives, but that would lead sudden, unexpected attacks on weakly defended targets, with the intent of demoralizing and destroying material support