AFTER THE DEAL THE DELICATE ART OF BRINGING TWO COMPANIES TOGETHER

BY GEMMA HART AND CINDY LEGGETT-FLYNN, BRUNSWICK, NEW YORK

To an outsider, the global employee webcast from Merck KGaA's headquarters on the close of the acquisition of Millipore Corporation would have looked like just another run-of-the-mill corporate announcement. To a Merck employee, however, two minor details signified a major cultural shift.

The Chairman of the German chemical and pharmaceutical company, Dr Karl-Ludwig Kley, appeared on stage at the July meeting in Darmstadt, Germany without a tie, and his fellow presenters called him Karl rather than Dr Kley. For Merck staff, this informality was surprising. For Millipore, the Billerica, Massachusetts-based life sciences company, it was welcoming and reassuring. As with many cross-border mergers, Millipore employees had been anxious about the culture at their new German parent, so the tie loosening was an important step in addressing their concerns. Dr Kley then spent the hour after the "town hall" meeting taking questions from German employees.

As Steffen Grimminger, head of the integration communications workstream for the merger, said: "From the moment we announced we were buying Millipore, we talked about our 'best-of-both-worlds' approach. This meant that

as we moved through the integration, we would weigh the merits of each company's approach equally, and choose the best. It was important that our Chairman embraced this concept so visibly and really walked the walk."

Merck and Millipore realized that no detail goes unnoticed when integrating two companies. Indeed, the process of bringing together two organizations inherently creates enormous uncertainty across key stakeholder groups. Employees, customers, shareholders, partners, public officials and regulators all want answers, at every stage of the process, to the same question: "*What does this mean for me?*"

Smart leaders leave this question unanswered at their peril. Customers concerned about disruptions in service may turn to a rival; employees anxious about their role in the new business may accept a job with a competitor. It is therefore vital to find the balance between being open to new ideas and providing the reassurance of "business as usual." Thoughtful communications are critical to this balance.

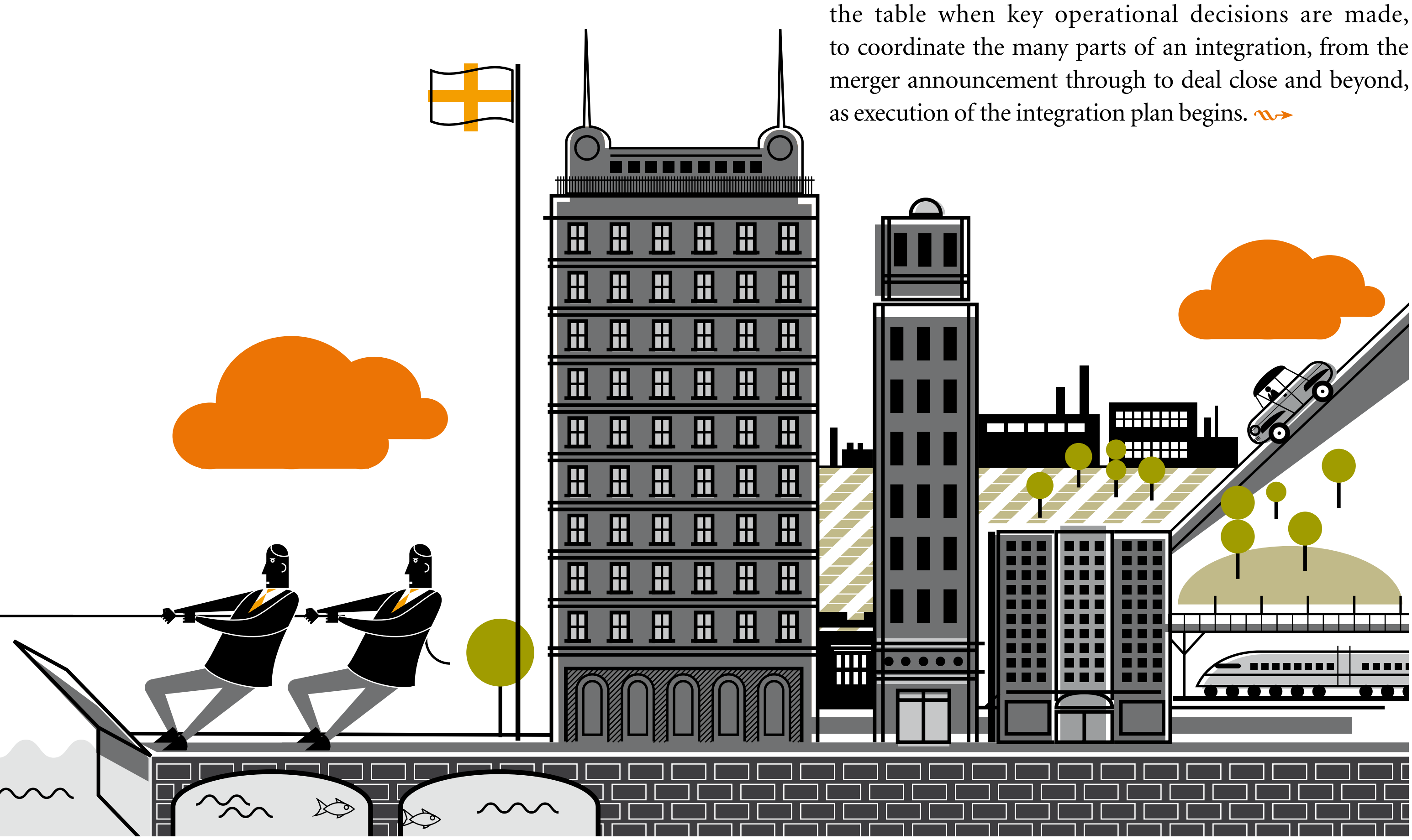
The following principles will ensure that communications can support your business goals during integration.

IT'S A SMALL WORLD, SMALLER THAN YOU THINK

Effective integration communication requires in-depth stakeholder analysis and tailored messaging to explain the deal rationale and business strategy of the combined company in a way that addresses the specific concerns of each audience. At the same time, any communications, both external and internal, must also be consistent and mutually reinforcing, wherever they are received around the world.

Your employees will read any statements made to the media, your shareholders will "channel check" via suppliers, and your customers will question your sales representatives. One of the first steps in developing an integration communications plan is to craft a high-level messaging framework that can be adjusted for all key audiences.

Disclosing important decisions with an eye to all audiences sounds like common sense but can be hard to execute because integration teams are typically organized by function or workstream, and do not always have the time or opportunity to collaborate. We have witnessed more than one CEO disclosing synergy numbers for the first time to the media, creating instant panic among employees. It takes a strong communications team, with a seat at the table when key operational decisions are made, to coordinate the many parts of an integration, from the merger announcement through to deal close and beyond, as execution of the integration plan begins.



MIND THE GAP

Although many audiences interpret the announcement of an agreement to merge as the start of the combined entity, there is always a time lag between an announcement and the formal close. During this period, both companies continue to operate independently while they gain approvals for their combination. When Mars announced its planned acquisition of Wrigley in 2008, the regulatory and antitrust approvals took only five months, a relatively short time for a big deal. But when SIRIUS Satellite Radio merged with XM Satellite Radio, the deal was so complex it took 17 months.

Before the close, “no comment” is often the starting point of many in-house and external legal advisors who are rightly concerned about jeopardizing the merger by violating legal requirements or irritating regulators. But the flurry of communications around the announcement raises expectations that more information will be forthcoming. A lack of follow-up communications creates a vacuum that will be filled by misinformation and mistrust.

When brewing group InBev announced its planned acquisition of Anheuser-Busch (A-B) in July 2008, it moved quickly to address anticipated concerns over cost-cutting and job losses, foreign ownership, and brand and cultural differences. From announcement day onwards, InBev communicated its commitment to A-B employees and the core A-B heritage, the company’s name and its US headquarters. InBev also emphasized its strong integration record and its experience working with various cultures.

Yet the company also recognized that changes were inevitable and that employees needed to understand what, why and how they would be made. Although there was initial opposition to the deal, the company was able to demonstrate its ability to realize the benefits. Sharing the information you have with stakeholders, and listening to their concerns, will also allow your legal and deal team to focus on their priority – getting the deal done.

EMPLOYEES ARE YOUR BEST AMBASSADORS

Your staff play a critical role in the success of a merger, yet can often be an afterthought. Worse, some companies consider generic letters or e-mails from the C-suite as sufficient. According to a 2007 study in the *Journal of Change Management*, 40 per cent of employees want to hear change communications from their manager, compared with only 6 per cent who want to hear from the very top.

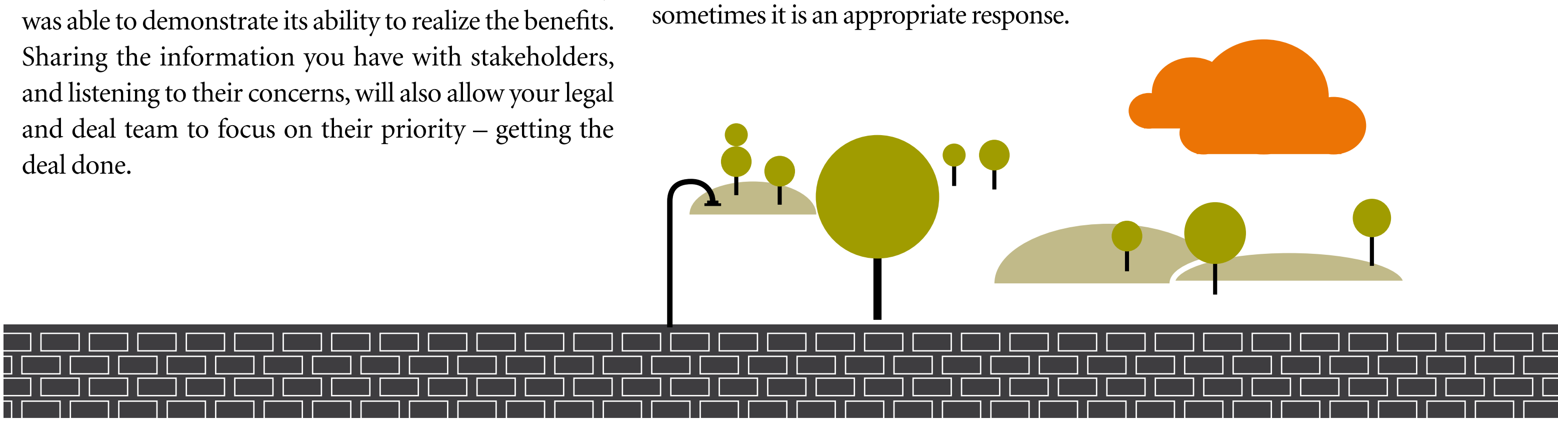
Companies that fall back on an arm’s length approach may see a high level of disengagement and disruption that allows competitors to poach top staff.

The prospect of communicating with tens of thousands of employees can be daunting, but the time and effort can be mitigated by equipping front line managers to communicate with their teams, and by using digital tools. Dedicated internal websites provide an information hub that can be used to educate staff on a company’s history, culture and brands, and introduce them to key personnel. You can also create a forum for employees to post comments and questions, generating valuable feedback.

“I DON’T KNOW” IS AN ACCEPTABLE ANSWER

While online tools are useful, they cannot replace face-to-face communications. Given employees’ overwhelming preference to hear about change from supervisors rather than the C-suite, front line managers must have up-to-date material to enable them to answer questions and hold useful discussions.

Bringing together two companies takes time, and there will be occasions where there is nothing new to report. Managers must still keep lines of communication open, listen to concerns and make their teams feel part of the process. While most of us hate saying “I don’t know” – especially managers, who are used to having answers – sometimes it is an appropriate response.



CONTEXT IS KEY

Legal accuracy is paramount in communications, but messages must be delivered in accessible language and in an appropriate context for the target audience. The communications team can play an important role in discerning how someone without in-depth knowledge of the transaction will react.

Some types of communication are required for legal and regulatory reasons during business integration, but simply adhering to the letter of the law can backfire. For example, when Pfizer bought Pharmacia in 2003, it was required by the federal Worker Adjustment Retraining and Notification (WARN) Act, to send a memo to government officials advising them of "mass layoffs" in the Kalamazoo, Michigan community – a term that is defined by the WARN Act as affecting at least 500 employees, although that context wasn't provided in the memo.

The memo caused a furor. Pfizer leaders had to travel to the area to give further information and context for the company's plans, which included keeping a key R&D center open. In remarks to local public officials and workers, Pfizer acknowledged that the memo created a lot of uncertainty, and called it an "unfortunate accident" for which it apologized and took full responsibility.

When Jeff Kindler became Pfizer Chairman and CEO in 2006, he used lessons learned from earlier mergers by taking a different approach to the company's acquisition of Wyeth, announced in January 2009. Pfizer quickly developed a comprehensive plan to announce and implement integration decisions, including those related to sites and jobs. Two weeks before the close of the deal, Pfizer gave employees context for its planned approach, including anticipated timing and key objectives for site decisions.

THINK ABOUT THE JOURNEY, NOT JUST THE DESTINATION

While companies can't implement most decisions until the deal closes, planning and coordination can begin beforehand, along with such operational decisions as naming senior leadership, the high-level structure of the combined organization and the location of its headquarters. Explaining key milestones gives you a roadmap to demonstrate your progress, and can help lay strong foundations for the combination of the two companies.

Pfizer announced the senior leadership team and organizational structure of the merged company six months before completing the Wyeth acquisition. This allowed the communications team to informally introduce the new heads of R&D and the business units to employees, and demonstrated the "best of the best" approach that brought together senior managers from both organizations.

The biggest integration milestone, for internal and external audiences, is the formal close of the transaction, often billed as "Day One." For the media and government officials, it is an opportunity to reiterate the benefits of the combination and the prospects of the combined business. For internal audiences you need to strike a balanced tone, as many staff will feel anxious until operational decisions are executed and they are confident they will still have a role.

When managed carefully, integrations can provide a valuable opportunity to reframe relationships with business partners, re-engage with employees, and continue to deliver on business objectives – despite the uncertainty and disruptions normally associated with the process. Frank D'Amelio, CFO of Pfizer, says: "If you look at communications purely as a function and how it's accounted for, it's an expense. However, good communications can undoubtedly have a positive financial impact on the company."

Gemma Hart is a Director in Brunswick's New York office, where she specializes in post-merger communications.

Cindy Leggett-Flynn is a Partner in Brunswick's New York office and leads its integration communications practice. She has advised on a number of internal change management projects, including integrations and restructurings.

Katharine Crallé also contributed to this article.