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Bringing an animal health business into the fold

Two senior Boehringer Ingelheim executives, Joachim Hasenmaier and Felix Gutsche, discuss the global pharmaceutical company's deal with Sanofi to acquire its animal health business.

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In June 2016, Boehringer Ingelheim and Sanofi, two of the world's leading pharmaceutical companies, signed an asset-swap deal valued at more than $20 billion. Boehringer Ingelheim acquired Sanofi's animal health business, Merial, while Sanofi acquired Boehringer Ingelheim's consumer healthcare business. The deal turned Boehringer Ingelheim, a family-owned company based in Ingelheim am Rhein and founded more than 130 years ago, into the second-largest animal health company in the world, after Zoetis.

Doing a complex asset swap rather than a straight purchase presented challenges, both internally and with regulatory authorities. Yet in early January 2017, the companies announced that the transaction had successfully closed in most markets.

Dr. Joachim Hasenmaier, Head of the Animal Health Business Unit and Member of the Boehringer Ingelheim Board of Managing Directors, and Felix Gutsche, the integration leader, sat down with McKinsey to discuss their approach to integration and lessons learned. The interview was conducted in December 2017, to look back at the first year of the integration.

Dr. Joachim Hasenmaier, Head of the Animal Health Business Unit and Member of the Boehringer Ingelheim Board of Managing Directors

McKinsey: *Of all the deals you could do in the world, why did you want to do this one?*

Joachim Hasenmaier: As a family-owned business, we must keep innovating to thrive. Strategically, we decided we were going to commit to animal health and really grow the business. And I would say of all possible animal health companies out there, it was very clear there was only one company that would make the difference for us, that would help us achieve that ambition to build an industry leader, and that was Merial.

We believe in the compatibility of the two portfolios. Both companies are highly complementary, and it was always about what we could do together that we couldn't on our own.

McKinsey: *What were your goals and objectives in starting the integration between Boehringer Ingelheim and Merial?*

Joachim Hasenmaier: Simply put, we wanted to become a leading global player in the animal health industry. To achieve this, we had three central goals. One, to be recognized by veterinarians and animal owners as the leading provider of advanced preventive animal healthcare. Two, to meet our financial targets. We will be a major part of Boehringer Ingelheim's overall business, contributing approximately one-quarter of its earnings. Three, to become the premier organization for top talent. Because of our global scale and broad portfolio, we can provide exciting opportunities so that great people want to join us and stay with us.

To make this journey a reality, we focused on several elements: creating one aligned organization with a common purpose and strategy, focusing on business continuity and performance, and fostering a leadership mind-set and common values.

That meant a wide range of actions—from building accountability across teams to focusing on creating the right culture. Our focus on prevention of disease whenever possible and use of antibiotics as a drug of last resort sets us apart from some of our competitors. This has particular meaning to me, as I grew up on a cattle farm in Southern Germany and became a veterinarian before starting my career in the industry. But I see this passion about animal well-being everywhere in the business unit; it connects us and gives us a common purpose.

McKinsey: *How did the setup of the deal influence your integration approach?*

Joachim Hasenmaier: Our consumer healthcare business wasn't freestanding, so the swap was primarily a share [equity] deal on the Merial side but an asset deal on the consumer healthcare side. That meant we had to carve out our consumer healthcare business, which was fully integrated into our Boehringer Ingelheim business and legal entities, and calculate the carved-out financials. We also had to satisfy the competition authorities for both consumer healthcare and animal health, which was another complicated exercise and a separate stream of work. And then finally, of course, we needed to prepare for the integration of the two animal health businesses.

McKinsey: *Can you name a few of the challenges?*

Joachim Hasenmaier: A key challenge was ensuring all our people from both organizations were engaged and brought together into one team. We did a culture survey, and in many respects the two organizations looked similar. For example, we had similar overall strengths and weaknesses, and our scores were in a similar range. But when we started working together, we realized the difference in cultures below the surfaces, and we experienced that even small differences could matter a lot when bringing two organizations together. For example, Merial management was traditionally more focused on what was done and the outcomes achieved, whereas Boehringer Ingelheim's management focused also on how things got done. Bringing the two large organizations together was a huge challenge.

We prepared well for Day One. It was a good decision to work in parallel structures (for example, planning teams in each organization) initially. Don't go for deep integration straightaway because it might not fly.

We were operational from the start and could serve customers. But the technical integration turned out to be much more complicated than we thought. During the process, we learned that parts of the Merial business were much more integrated into the systems of Sanofi than we had expected.

McKinsey: *How did you build a new leadership team, and how much time did it spend on integration?*

Joachim Hasenmaier: We invested a lot of time, starting with myself. I began working with a coach that gave me clear feedback. And I can tell you, that coach was very decisive in creating self-awareness for the individuals in the leadership team as well as where we stand in our team-building process. After the transaction had closed and we were one management team, we had various off-site meetings where we put a lot of effort into team building, getting to know each other, and understanding what we needed to improve on as a team.

And we are still not where we want to be. Team building and maintenance is an ongoing process and should not be underestimated.

McKinsey: *If you take a step back, you're now 11 months down the road from the transaction close. What has the impact been so far, qualitatively and quantitatively?*

Joachim Hasenmaier: I think we're executing our integration plan well. Clearly, where we're challenged the most is on culture and people. We prepared well to welcome our Merial colleagues into Boehringer Ingelheim, so I think we started well. But it takes time for people from different organizations to act as a united team. It starts with the leadership teams of each of the functions—each functional leadership team has worked on team building, getting to know each other, and building trust. Those leaders should then adopt a similar approach with their teams. We are slowly changing, but we still have work to do to act as one business, as one team.

Also, value capture is a big topic. We have to pay back our shareholders. People have lost their jobs, and others saw colleagues and friends leave, which is tough. We had hoped by the end of the first year we would be able to be transparent about roles throughout the organization. But many of our global roles are located in France and Germany. In both those countries, there is always a more complicated work council process you need to go through, so we're clearly delayed, and there are still people in the organization who are not sure whether they have a role. Uncertainty is a huge stress on the entire organization.

Finally, with all the pressure on executing our daily business and integration, people are working long days and nights to manage just the most important tasks.

McKinsey: *What advice would you give to other CEOs contemplating such a big, complex deal?*

Joachim Hasenmaier: I would say, first of all, know why you're doing this deal. And with all the challenges throughout the integration, don't forget why you're doing it.

Then, plan carefully. There will be unforeseen complexity and risks with any deal, and you have to plan for this. Even though we as a company hadn't done this before, I think we're executing well. We worked very closely with Sanofi, a company that has done many deals before, and I'm proud to say our team lived up to the challenge.

And then, take care of your people. It's so easy to lose them. We have very committed people in our new organization—people who love this business and who will go the extra mile with us if we are transparent with them, if we're fair with them. Never lose sight of this and do everything you can to make that happen.

Felix Gutsche, Integration Leader for the Boehringer Ingelheim–Merial integration

McKinsey: *What were the phases of the integration journey?*

Felix Gutsche: The very first phase was meeting and saying, "How do we get started?" We held a four-day boot camp that was attended by the people who had responsibility for executing the transaction on our side. This included the executive team, the leaders of the business units and global functions, and the integration leads. During that first meeting, we mapped out the principles of our approach and a lot of our first steps.

Before getting into contact with Merial we had to understand ourselves a little better and set our priorities for the integration. We planned carefully, and that took our full attention until signing.

The second phase was between signing and closing. We had two organizations, each running in their own way, and we had to build connections to plan for integration. We had to do it all in a short time frame between June and December. During this time, we realized how entangled Merial was in Sanofi. There was a lot of delineating and process work. The key questions were, "What are the processes being performed by Merial, which can continue to be performed by Merial, and where does Boehringer Ingelheim need to take over? What are the processes that Sanofi needs to step out of? Where does Boehringer Ingelheim need to step in?"

There were thousands of little questions throughout the process. All the different legal issues in various countries had to be addressed and integrated from the beginning.

The third phase was executing the integration—I would call it going from Day One (the day of close of the transaction) into the target operating model. That's the phase we've been in since January 1, 2017. I would say we probably need another 12 to 15 months or so to complete the full global integration. We may still need a little bit longer in terms of optimizing our site footprint regarding research and development, as well as manufacturing.

McKinsey: *How did you set up the integration architecture?*

Felix Gutsche: We tried to keep the integration program separate from the regular business to avoid disruption. "Business continuity" was the mantra we used.

We created integration work streams for most businesses and functions, which immediately created 25 project leads around the integration table. But we felt it was necessary to have all the functions represented in the integration.

In those functional lead roles, we really tried to pick the best people, while ensuring we also had excellent people maintaining the continuity of our day-to-day business. It was great to be able to reach out to one of the other business units in our company, for example, Human Pharma, and find strong talent that we could engage for a period of time on the integration. We made a big effort to ensure our teams worked cross-functionally the whole time.

McKinsey: *Can you give an example of the cross-functional work?*

Felix Gutsche: We established a weekly meeting, and I was a bit worried at first about having 25 people in the room for a three-hour meeting every week. But the philosophy we applied was, don't make huge reports all the time, but focus on what matters. Try to get decisions. Make sure integration leads are actually empowered by their executives to make decisions, so that you get at a truly agile 80/20 environment. And you push through very, very fast. So high frequency, quick decision making.

We also implemented what we call the triple-C work stream, uniting communication, change, and culture.

McKinsey: *Can you elaborate on the triple-C work stream?*

Felix Gutsche: It's tempting to believe that you win the race on the technical side. We tend to go to our areas of expertise. But it's true what they say—it's culture, it's change, it's communication where you go off track and that defines whether you're successful or not.

Managing change rigorously was a big part of making the integration successful. And that didn't happen by sitting in the office and sending each other emails. It's about talking to each other. You need to activate all your leaders, board members, executives to be with the folks and be transparent. I believe you always have to communicate. If you don't have news, well, you talk about progress. Just imagine you sit in Argentina or Australia; you're remote from what we're doing here. You can't know everything. Having that constant stream of communication is fundamental to success.

McKinsey: *How did you build your own team, and how did that change after Merial joined the organization?*

Felix Gutsche: I engaged a number of people I knew and trusted. It's always good to have a core team so you can go 100 miles an hour from the start. And then we felt we could build a structure and an ecosystem to attract other people. With respect to Merial, our philosophy of already having mixed teams working on the integration planning together allowed the cultures to integrate fast.

McKinsey: *What were the most important challenges that you faced?*

Felix Gutsche: The period between signing and closing was probably the toughest part of the program. We had access to Sanofi overall, but we had restricted access to the management of Merial, the animal health business unit. That, combined with the fact that it was a deal swap so we had to abide by reciprocity principles, meant things took longer, and data was harder to get than I would have liked. This was also the first time we had done such a large transaction, and we had only six months from signing to completion, so it was a real stretch for many of our people. They were at or close to their limit at times. Closing the deal on January 1 meant we had a very busy holiday season end of 2016, I must say. But it was a deal worth doing.

McKinsey: *What advice would you give to peer integration leaders?*

Felix Gutsche: Start early if you can. Many organizations announce, and then they need to run. We had the opportunity to use those six months to decide how we wanted to run the integration, which was very helpful.

Try to get the best people on board and make clear you need strong central governance.

Apply an agile way of decision making. Fast turnaround times. No emailing. Talking. Getting people together and trying to be really focused. Manage priorities. Be clear about what you need to do and what isn't as important. Apply a clear 80/20 model—if you strive for perfection, you'll never make it. 80/20 is good enough. ■

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