

# Astra Pharmaceuticals and Zeneca Group: Post-Merger Integration for Procurement

Mergers are exciting, but once they are complete the real work begins. How do two or more businesses integrate operations, resources, staff, and practices? The integration effort anticipates the long-term success or failure of a merger. While successful integration leads to significant synergies, cost savings, and sustained growth, unsuccessful integration hurts the company, which suffers for a very long time from additional overhead, multiple policies and processes, conflicting strategies, and different cultures. For these reasons it is critical that integration efforts are carefully designed and that a cohesive and effective approach is taken to integrating all the functional areas within an organization.

One of the most disruptive and challenging events that a company can go through in its lifetime is a major merger of its businesses. Soon after the excitement and fanfare of a merger is announced (and sometimes months beforehand), the real challenge of integrating the two or more businesses begins. The integration effort is the real test of whether the merger will eventually be viewed as a success or as a failed attempt to improve the business. However, the rewards and penalties of integration can be tremendous and long lasting. For instance, companies that successfully achieve benefits from significant synergies, cost savings, and sustained growth. On the other hand, companies that have failed at integration seldom recover completely and feel the pains of carrying additional overhead, multiple policies and processes, conflicting strategies, and different cultures for a very long time.

For these reasons, it is critical that integration efforts are thought through ahead of time and that a cohesive and effective approach is taken to integrating all the functional areas within an organization. For example, since Astra Pharmaceuticals and Zeneca formally merged in 1999, the two companies have been undergoing integration efforts, and expect to complete the integration during the third quarter of 2000. The goal of the merger was to achieve synergies as well as to leverage leading practices across the two companies. In this article we lay out the approach that was taken by these two major

companies in merging their procurement areas. This approach began with the organization integration as the focus and quickly migrated to process and systems integration.

As a first step in organizing the company for integration, it was important to set up a core team at the functional area level (for example, the operations core team). The core team then defined the integration program for the overall functional area which included: identification of the integration program team, including the sponsor group and task forces; development of a detailed plan for each phase of the integration program; and the development of the guiding principles for integration.

In defining the integration principles, the Astra Zeneca core team began at a general level and then developed specifics for the functional area.

#### General integration principles include:

- Focus on the leading practice way; not the “old” company A or company B way
- Do things 100% fast – 70% right
- Ensure quality through prioritizing issues and using rigorous fact-based analysis
- Actively reach out to people in the other company
- Pursue a cross-mix of perspectives
- Use “common” language and terminology
- Communicate, communicate, communicate
- Surface issues immediately at the source
- Support agreed upon decisions

*Min Chang is a senior manager in the Andersen Consulting Supply Chain Practice. She focuses on supply chain solutions for the pharmaceuticals and high-tech industries.*

*David Mordia is the leader of purchasing services AstraZeneca. His expertise is in purchasing, facilities, engineering, and the pharmaceuticals industry.*

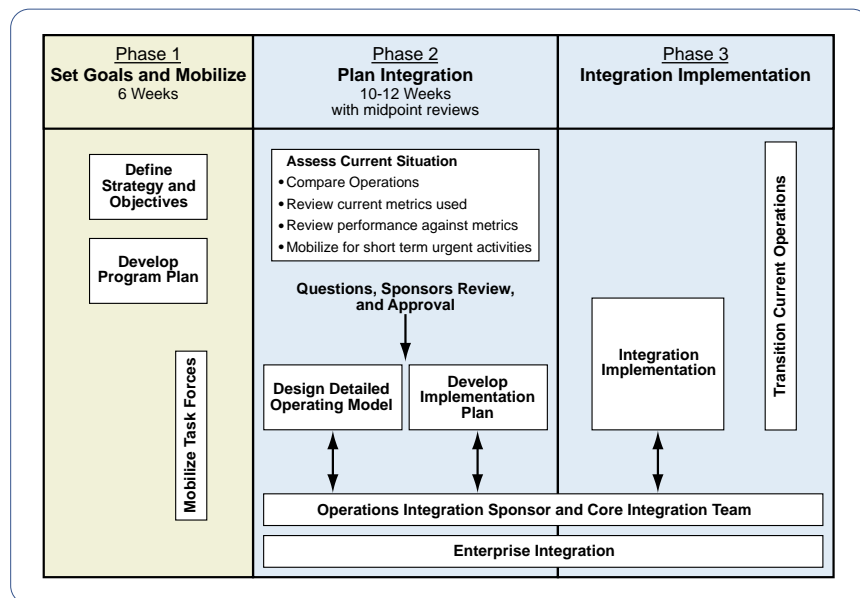
**Functional integration principles include:**

- Focus on the customer
- Effectively balance innovation, synergy, and cost
- Set clear goals and a solid plan to achieve them
- Develop single, transparent, and objective processes
- Create teamwork and collaboration
- Provide accountability for decisions or outcomes
- Support decisions and each other

The integration approach used by the operations core team as well as the procurement task forces encompassed three phases: Phase I – Set Goals and Mobilize; Phase II – Plan Integration; Phase III – Integration Implementation. As part of Phase I, the team structure was defined and the team charter was created by the overall operations functional area and by the individual procurement task force. The charter basically helped the team fully understand the objectives of the integration effort within their functional area including the scope, deliverables, activities, and critical success factors. In addition to developing the charter, each task force also developed a detailed work plan for all phases with specific integration milestones.

**Phase 1**

In Phase I the procurement task force was formed with representation from procurement professionals and their customers from both former organizations. In addition, the task force further expanded the team into several workstreams to address each of the key commodity areas (includ-



**Figure 1.0** Phases of integration

ing information systems, marketing, and sales). The objectives and goals of these workstreams were to complete Phase I – III of the integration effort for their respective commodity areas. Each workstream also developed its own team charters and workplans. The intent of this approach was to cascade the integration effort down into the organization and ensure involvement, contribution, and ownership from as many levels of the organization as possible and feasible.

**Phase 2**

During Phase II the focus lay in the assessment of the “as-is” environment as well as the development of the “to-be” organization, including a high-level process and systems design. In assessing the as-is environment for procurement, the workstreams analyzed the current organizational structures, the current resource levels (e.g., full-time equivalent performing procurement activities in both former organizations), the total spend associated with each organization, the supply base managed, the policies in place in each organization, and the systems capabilities available. The goal of the as-is assessment was to fully assess the current environment at

each former organization so that the workstreams could understand the varying customer requirements and could leverage and utilize the leading practices from each former organization in the to-be design. One of the critical components of the as-is assessment was the full-time equivalent or baseline analysis. This analysis was the basis for creating the resource baseline that allowed the workstreams to fully understand and capture the procurement activity levels being performed in each former organization. In addition, this baseline eventually served as the basis from which synergies were achieved.

Once the as-is assessment was complete, the workstreams focused on the to-be design. The first step in developing the to-be integrated procurement organization was to develop the vision for the end-state. This included defining the procurement organization’s customers, the value the procurement organization will be adding, how the organization will be adding the value and how it will measure success. It was critical to define the overall procurement organization vision up front since it would be the guiding principle for the subsequent design of the rest of the procurement organization.

W<sup>2</sup>**Weblink**

For more on integration, see:

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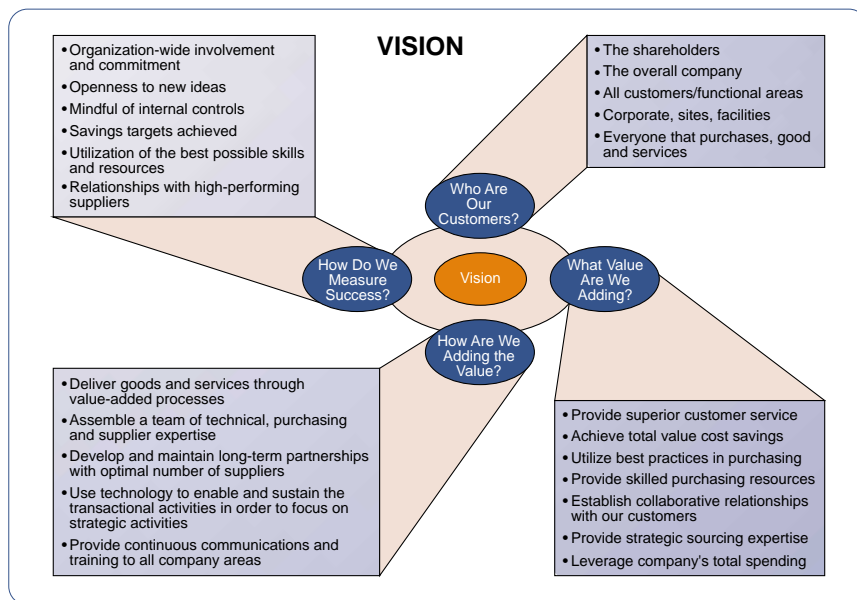


Figure 2.0 Integration vision

In addition to defining the end-state vision, it was critical to develop the end-state operating model as well. The end-state operating model should represent the strategy, organization, processes, and systems that the integrated organization would like to reach within a certain timeframe (usually a couple of years).

Once the vision and operating model were defined, the next step was to develop the “is” and “is not” activity list. The objective of doing this was to determine at a high level the activities that the to-be procurement organization would be involved in and the activities that the to-be procurement organization would not be involved in. A clear activity list helped focus the organization design effort as well as set the parameters in terms of the expected procurement workload.

In addition, the workstreams also developed the to-be commodity and customer lists that detailed the commodity

scope that the organization would cover as well as the customer base that it will serve.

Finally with the vision, operating model, activity list, and commodity and customer scope as inputs, the workstreams drafted several straw models of potential to-be organizations. These straw models were analyzed for strengths and weaknesses and compared against the vision and end-state operating model. This approach was carried through each commodity area within the overall procurement organization; the only variation was that at the commodity level the workstreams defined the detailed commodity scope along with the customer base and critical success factors. These were inputs to developing the straw models for each major commodity area.

Once the straw models were evaluated and the eventual to-be design was chosen, job profiles were developed for each position within the organization structures. These profiles served as the basis for

beginning the staffing process for the new procurement organization. Also, the final organization designs and resource count were inputs to the budget development process for the procurement organization as a whole.

### Phase 3

The last activity in Phase II was to define the transition plan or implementation plan. The transition plan included the detailed implementation plan for executing the to-be organization design including the process and systems work needed to complete the transition.

The implementation approach included continuing the organization integration through staffing and resource transition planning; developing the detailed to-be processes to support the new organization; and developing the to-be systems to enable the transition. In addition to these efforts, the team also started the strategic sourcing effort with pilot commodity categories and pursued near-term integration savings with longer-term strategic sourcing savings to be achieved in later months. The implementation plans created included detailed tasks, timing, and resource requirements for the continuing organization, process, and systems transition. The next phases of work will work to execute against these plans.

### Conclusion

In summary, post-merger integration in the procurement area is a challenging task, but if managed successfully, the effort can create an integrated, effective organization with streamlined processes and systems and an organization that is stronger combined than it was separate.

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