LIFE SCIENCES

STRATEGY FOR FASTER ACQUISITION AND INTEGRATION

TCS Industry Insights

Debashis Ghosh is President of Manufacturing, Life Sciences, and Energy at Tata Consultancy Services.

1. Do you expect the pace of M&A activity in the life science sector to pick up, slow down, or stay steady in the next five years?

Life sciences companies currently face strategic challenges including a softer sales pipeline, falling profit margins, and regulatory pressures. In the recent past, M&A activity has been driven by portfolio consolidation, cost optimization, market expansions, and tax inversions. However, for pharma and bio-tech companies, acquisitions of mainly European companies for the purpose of tax inversion will slow in coming years. M&A focus will shift to emphasize market expansion, pipeline expansion, margin improvements, and increasing product portfolios. For medical devices companies, the focus will be on access to new and emerging markets, acquiring new technologies, and acquiring vertical integration capabilities, such as the ability to add services onto products.

Look for a shift from mega deals to comparatively smaller transactions, where pharmaceutical companies acquire niche capabilities and focus on transformation. Large M&A activity will center around the U.S. and Western Europe along with other consolidation across the globe.

At the same time, the industry will also see divestitures, as companies shed their non-core assets which lack significant growth potential or synergies with core product or services. As these companies focus on consolidation and infusion of capital to their core businesses, they will strengthen their respective leadership positions, as we have already seen in some recent deals involving Novartis, GSK, Boehringer Ingelheim, and others.

2. How important is M&A expertise to the success of today's life science companies?

Even with the increased focus on M&A in life sciences, some recent deals did not deliver the desired business outcome due to poor planning around integration. To meet business objectives, companies need to do comprehensive M&A due diligence, followed by careful change management to ensure well planned integration across the enterprise, including business processes and IT systems. It is critical that life sciences companies build their in-house capabilities where needed to manage these integration-related business activities more effectively.

3. What tactics do the smartest life sciences companies use to maximize the value of life science startups, after an acquisition?

These companies acquire a startup to gain access to IP, technology, and skills that help unlock new areas of business growth and expansion. This requires preserving and nurturing the startup, while providing added access to the marketplace, partner ecosystems, and company resources. At the same time, the acquirer must continuously evaluate and capitalize on the synergies with the start-up, with an eye to expanding its own products and services.

While traditional M&A approaches have focused on financial values and markets, talent is often the prize today. The people of the acquired business are themselves a key driver of the deal, representing significant business value. The acquired company's leaders or teams have developed some specific ways of operating, solutions to problems that have been central to their success. Thus, M&As can be used to introduce fresh ideas and break an operational logjam in the larger organization.

4. How would you rate life science companies' expertise in this area, as compared to other industries? From whom could they learn?

Some mature organizations in sectors such as technology and retail have streamlined the M&A integration process, adopting a set of best practices for operational playbooks, change management, and related matters. Within the life sciences industry, select large companies have been fairly successful with M&A deals. Still, considering the high level of deal volume expected in the life sciences sector, life science companies should focus on two lessons from mature companies in other sectors.

First, these companies should build a rigorous pre-deal due diligence process that identifies potential risks and complexities and informs deal decisions. Second, a repeatable integration process can help companies quickly take advantage of acquired capabilities and realize deal synergies. Additionally, life sciences companies should improve their capabilities around change management and the ability to assimilate team members from diverse organizational cultures.