Case Studies Companies By Region

The case study: Cegedim

Post-merger acquisitions and the right signals to clients and staff

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The story. Cegedim was founded in France in 1969 by Jean-Claude Labrune to provide data services to the marketing departments of pharmaceuticals companies. By 1995, it had become a publicly quoted company, although it was still controlled by the Labrune family. It then embarked on an ambitious acquisition programme in which it bought 70 companies for a total of €2bn.

Although it was a market leader in Europe, Cegedim's presence in North America and Asia was negligible. To remedy this, Mr Labrune, the chief executive, led the acquisition of Cegedim's US rival Dendrite International for €750m in March 2007. Cegedim's debt multiplied more than fourfold, to 451 per cent, but in strategic terms the pay-off was immediate: in one fell swoop, Cegedim went from being a strong European group to a global leader in information technology services for the health industry with 8,000 employees in 80 countries and revenues of close to €1bn.

The challenge. On paper, Cegedim was now a global entity. In reality, integrating Dendrite and Cegedim into a single organisation presented a daunting task. Cegedim had been managed conservatively with a focus on preserving client relationships. It eschewed bonuses, promoted employees from within, and reinvested earnings rather than returning them to shareholders. Dendrite, in contrast, used perks such as flights on private jets and generous performance bonuses to encourage aggressive growth. Inside Cegedim the deal was likened to an American ocean liner arriving in a quiet French port: good for business, but bound to stir things up.

Shareholders were likewise concerned. To communicate Mr Labrune's conviction that this was the right move, his family financed part of the deal by taking on €50m of debt as a signal to investors that it believed the acquisition would create value.

The threat to success, however, came from another direction: even before the deal was finalised, Dendrite began to lose crucial clients.

The response. Mr Labrune and his team saw they had to move fast. He created a small team comprising his business unit managers and Cegedim's general manager to study the issues likely to arise post-acquisition.

As soon as the deal was concluded, Mr Labrune then visited Dendrite's clients to explain Cegedim's personal approach to customer service. He also talked to Dendrite employees about the company's commitment to staff. He then replaced several of the most generously paid of Dendrite's top executives with some of Cegedim's best managers. They arrived with strict instructions: make no substantial changes until you have a firm grasp of Dendrite's operations and business model.

The results. Mr Labrune's prudence paid off, and enabled Cegedim to continue acquiring. After integrating Dendrite, the company also acquired in the US SK&A, a healthcare data firm, and Pulse Systems, a company specialising in electronic health records. The company is currently pursuing significant expansion in growth markets, in particular, China and Brazil.

The lessons. Excessive confidence, based on past experience, often leads serial acquirers to overlook potential pitfalls. The trick is to recognise these and take steps to address problems.

Cegedim had experience of acquisitions, but this was mostly in Europe. It would have been easy for Mr Labrune to believe that this experience was as relevant in the US as in Europe. But he avoided this trap.

First, he grasped that US clients are often uncertain of service providers without extensive US experience. By visiting clients himself, he not only showed a commitment to their needs, but also took the opportunity to communicate Cegedim's values and experience.

Second, to deal with the possible defection of crucial personnel to rivals just when they were needed most, Mr Labrune moved quickly to reassure middle managers that Cegedim would not seek efficiency gains by indiscriminately dismissing employees. Instead, he emphasised its policies of rewarding employees for long-term performance. And to reinforce this message, the Cegedim managers who replaced Dendrite executives adopted a low-key approach until trust is established.

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