Carve-out communications

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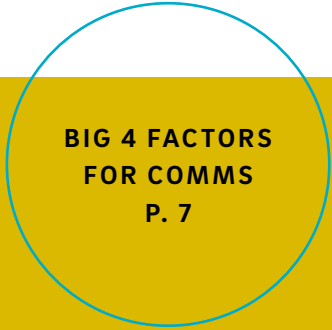
DON'T GET
LOST IN THE DEAL!
P. 11

Successful carve-outs

Adding value through a tailored approach

BIG 4 FACTORS FOR COMMS P. 7

In brief

The number of carve-outs is on the rise. More and more companies are realizing their potential to create value. Yet not all transactions go well: some have even done more damage than good. Communications plays a key role in successful carve-outs. But it's a tricky area to get right; for example, internal and external stakeholders need to be carefully managed, and a lack of experience needs to be quickly overcome. To help, we have developed a framework that can be tailor-made to support the planning and execution of any carve-out communications project. It covers every stage of the process, from identifying the main drivers of the strategy, including the business set-up and organizational structure, to the preparation, concept and implementation phases. Better still, it has proven successful in real-life situations.

Title: Westend61/Getty Images

VALUE MATTERS

Why comms are key to delivering a value-creating carve-out

Global carve-out activity has boomed in the past 20 years, with the number of carve-outs, spin-offs and split-offs having increased significantly. In 2000, there were just 50 of these transactions among public companies. But, following a low during the 2009 recession, there has been a stable high of between 150 and 200 cases per year since 2011.

The figures suggest that companies are increasingly focusing on their core business. They have reevaluated their portfolios in an effort to become more agile, responding to cost pressure or seeking to realize value by divesting parts of their business. Another factor has been pressure from investors, especially activist investors, who value the sum of the parts higher than the conglomerate structure.

The approach can be successful, as the S&P US Spin-Off Index suggests. It charts the performance of entities that have been separated from large US firms. Since its creation in 2006, the index has increased by more than 300%. In contrast, the S&P 500 Index of large US firms added only 90% in the same period.

But despite their potential to create value, carve-outs can achieve the opposite result. A poorly managed transaction can destroy value for both the new entity and the parent.

Alongside strategic and managerial factors, communications play a crucial role in successfully steering a carve-out. However, it's a tremendously complex area and tricky to get right, especially as companies tend not to have experience, due to the rarity of carve-out transactions.

For example, a huge range of stakeholders needs to be engaged. Externally, capital market communications and investor relations are key to securing the transaction; media representatives need to be briefed to ensure communications sovereignty and a positive public perception of the transaction; and customers, suppliers and business partners need to be kept up to date. Meanwhile, internally, a variety of target groups with diverse information needs and varying attitudes towards the carve-out have to be managed.

In short, even with a bulletproof concept, execution of the carve-out is the real challenge. The Roland Berger publication "The carve-out challenge" already provides a roadmap for the fundamental strategic planning of a carve-out. This article instead focuses on how good communications can serve as a central enabler for successful execution of the project – covering all phases, from preparation and concept to implementation.

The main challenges in carve-out communications

Managing a broad range of stakeholders, overcoming a lack of experience and managing stakeholder insecurities are the primary challenges facing communications teams embarking on a carve-out project. In this chapter, we take a closer look at each and outline some possible solutions.

Managing stakeholders

Given the broad spectrum of stakeholders attached to a carve-out project, numerous internal departments need to be involved in communications. These include media relations, investor relations, corporate affairs, internal communications, marketing and branding, as well as sales and service. Close cooperation and alignment between them is key. While daily interaction might be routine in listed companies with highly professional communications departments, smaller companies are usually less experienced and prepared for major events such as carve-outs.

This raises the central question of how to organize carve-out communications internally. They may be completely centralized, with all communication measures directed by a communications task force. Alternatively, they may be distributed, with different workstreams communicating with their associated target groups. For example, HR takes on responsibility for internal communications, Sales covers customer communications, Investor Relations liaises with the capital market, etc. However, this approach still requires an element of centralization – a steering committee at least – to coordinate measures and messages.

Lack of experience

No matter where carve-out communications are located within the organization, it is usually a one-off experience for all parties involved. Even highly professional communications teams lack experience in how to deal with transaction communications. And there isn't much time to learn – the transaction comes on top of daily business, increasing everyone's workload. Prioritizing between daily business and the project is not

easy. Performance across the company's operating businesses must be maintained to deliver against its KPIs, even while the carve-out project is taking place. Communications teams need to take this into account, and support managers with prioritization while reassuring external stakeholders that driving business remains the top priority.

Stakeholder insecurities

This leads neatly to the third of the three key challenges facing communications teams – insecurity among key stakeholders. Carve-out projects naturally cause apprehension and fear of change among employees, and business partners and customers may be alarmed at losing personal relationships. Worse, they may even lose trust in the company, potentially damaging business continuity.

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"All too often, companies fall into the traps of preparing too late and neglecting structural and internal capacity planning. They fail to ask themselves: do we have the right people? Are we missing certain skills? Where do we need external support? Are the right structures and channels in place? Such challenges can be overcome if communications teams think and plan ahead."

DR. PATRICK HEINEMANN, SENIOR PARTNER

The risk of losing top talent goes hand in hand with the sense of insecurity. With the new company heading into new and uncharted territory, it can become more challenging to retain and win top performers. However, communications teams must resist the urge to over-promise. Rash promises seen by business partners and customers can be extremely harmful – and labor laws need to be carefully considered in communications measures.

Organizational challenges

In addition to the three main challenges, communications teams must also be alert to and address political elements and internal interdependencies associated with the carve-out. Powerful works councils, for example, may need a delicate touch to manage diverging interests, while interdependencies add a further layer of complexity. IT, for example, is usually a bottleneck. The new carve-out company may require new, stand-alone IT infrastructure, impacting nearly every stakeholder group. Such changes require close alignment across all workstreams.

There's no doubt carve-out communications is complex and challenging even for highly skilled teams. All too often, companies fall into the traps of preparing too late and neglecting structural and internal capacity planning. They fail to ask themselves: do we have the right people? Are we missing certain skills? Where do we need external support? Are the right structures and channels in place? Such challenges can be overcome if communications teams think and plan ahead.

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DELIVERING RESULTS

Framework for a successful carve-out

To overcome the challenges outlined above, we developed a framework for a successful carve-out communications project. It addresses two key factors: first, how to gain a comprehensive understanding of the complexity of the project, including its main drivers; and second, how to build on this analysis to develop the appropriate communications strategy and execute it.

The main drivers of the strategy

Our research revealed that four main drivers underscore the communications strategy: business set-up; organizational structure; transactional set-up; and stakeholder environment *(see "The Big Four" on the next page 7)*. Each must be considered when answering these crucial questions: to whom do we need to communicate? Which content do we need to transmit? How much detail do we need to convey? And through which channels and how often should we communicate?

1.   Business set-up

The business model of the company planning the carve-out directly influences the target groups that need to be involved in the project. A B2B company will focus on communicating with its business partners and suppliers. A B2C company, being in the public eye, needs to think more about its private customers and brand perception.

The legal form of the company is also important. It helps determine not only stakeholder groups, but also the channels and content of communications. A public company, for example, must inform capital markets as soon as the planned transaction has the potential to affect the company's share price. A private company on the other hand can be more flexible about the announcement.

With regards to the target operating model, one of the key questions is whether the company will remain independent after the carve-out or be sold. If an investor is already on board, this will mean an additional stakeholder needs to be involved in communications.

It is most likely that the business set-up will transform after the carve-out. This gives rise to another important aspect of communications: when a company changes from being part of a conglomerate to a small to medium-sized stand-alone company, its self-perception and guiding principles shift. This cultural change needs to be supported by careful management and 360-degree communications measures.

2.   Organizational structure

The company's organizational structure is one of the main determinants of the project's complexity. An international footprint means a greater variety of stakeholders and languages, and as the distance from headquarters grows, it usually becomes more challenging to convey messages and align work. Content also needs to be tailored to local needs. Channels need to be suitable for international communications, with our experience suggesting digital alone is not suf-   ▶

The Big Four

1

Business set-up, e.g.:

> Business model
> Target operating model
> Legal form

2

Organizational structure, e.g.:

> Legal entities
> International reach
> Number of business units

To whom do we need to communicate ▶ **Stakeholder**

What do we need to communicate ▶ **Content**

How detailed do communications need to be ▶ **Level of detail**

How should we communicate ▶ **Channel**

How often do we need to communicate ▶ **Frequency**

3
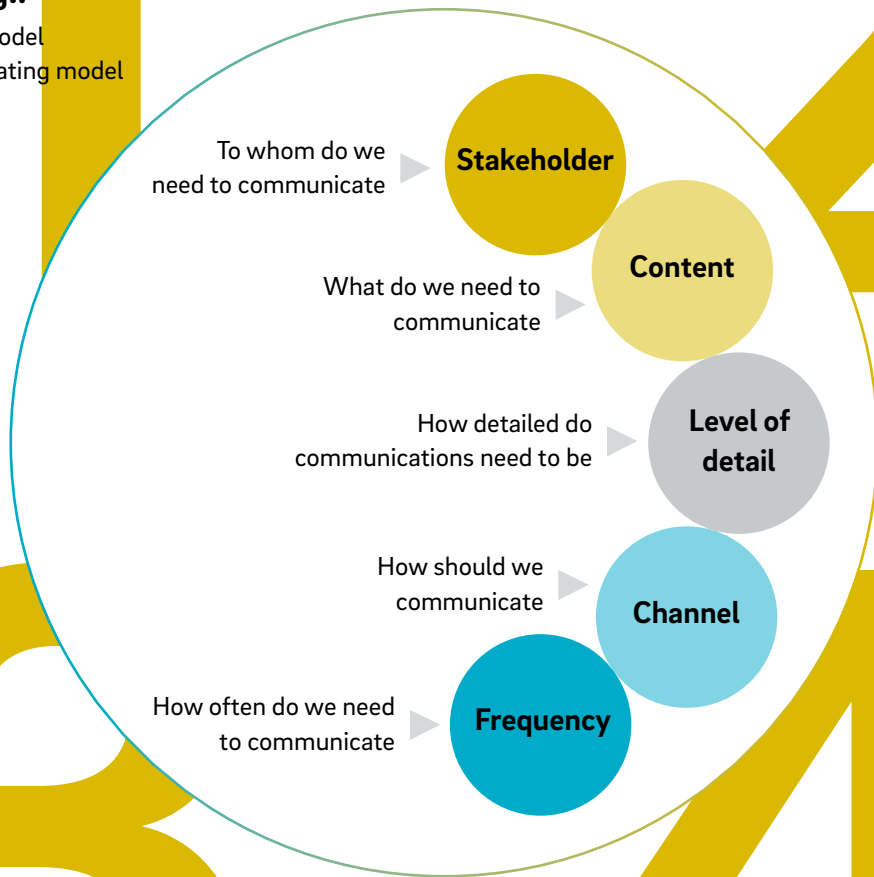
Transactional set-up, e.g.:

> Carve-out scope
> Concept of the transaction
> Timing

4

Stakeholder environment, e.g.:

> Public attention
> Shareholder structure
> Power of employee representatives
> Stakeholder sentiment

Source: Roland Berger

ficient to involve and convince all local experts. Personal communication is still crucial, especially when bridging long distances.

The same applies to separate legal entities or business units of a company. These may have developed their own local practices, guidelines and management styles, meaning a one-size-fits-all approach to communications won't work.

3.   Transactional set-up

In addition to the make-up of the company itself, the core parameters of the transaction also play a key role in defining the communications strategy. For example, the separation of a single department, such as an IT carve-out, naturally limits the scope of the transaction, including the number of stakeholders. But a smaller group of stakeholders does not automatically mean lower complexity. It is still necessary to communicate with both internal and external stakeholder groups. And a partial carve-out has the same reputational risks as a broader transaction.

Then there's the timing of the carve-out. First, this involves the timeline of the transaction and the key question: do we need to finish everything within a few months? In this case, communications will need to focus mostly on a top-down approach, develop a convincing story and immediately begin the roll-out of corresponding measures. The most important questions will center around how to get the relevant information to the target group in the most efficient way. If the timeline allows for more preparation, communications can include bottom-up approaches with feedback loops and involve stakeholders in developing measures.

Second, timing refers to the current economic situation of the company. Is it enjoying a boom time, or is the economy in the middle of a recession? The answer will greatly impact the underlying storyline of the transaction.

4.   Stakeholder environment

A thorough stakeholder analysis provides the basis for any communications measures, even more so in a special situation such as a carve-out. It will determine several strategic factors. For example, a company that is in the public eye, maybe because it is a big local employer, will need to factor in a broader range of stakeholders, including political players. No matter what the size of the company or the carve-out, perception will also be key. Is the transaction seen as a positive development or as a risky adventure? Is public opinion united or are there varying opinions?

In addition, internal stakeholders should not be taken for granted. The overall "mood" inside the company plays a key role, as do internal political lines. A powerful works council is just one example.
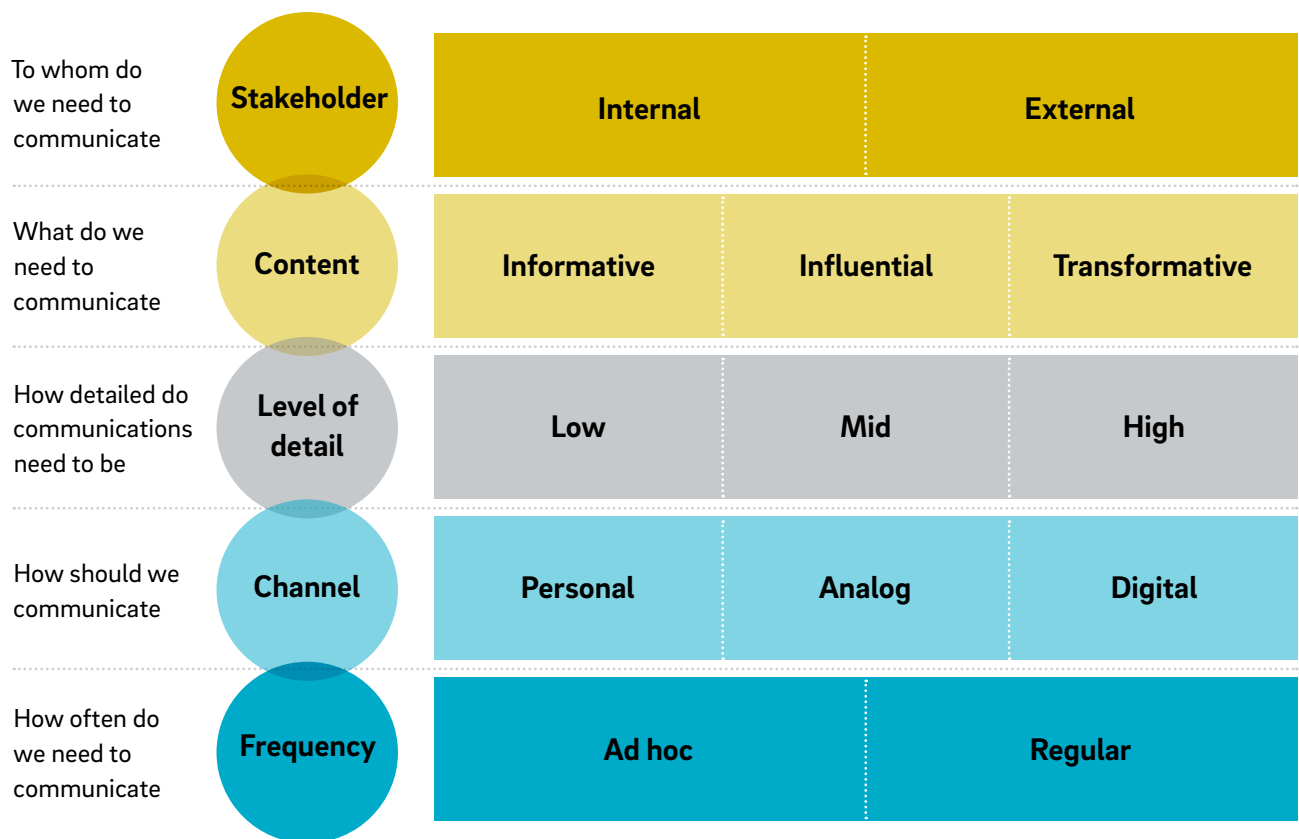
Executing the campaign

After analyzing the main drivers to develop a communications strategy, it's time to shift to implementation. The best way to begin the concrete planning – or communications "tactics" – of the project is to consider its different phases, and the main determinants in each.

Preparation and concept phases

These phases will mostly focus on providing context and creating awareness among a limited group of stakeholders. Typically, in the very beginning, communications will be limited to a small group of internal stakeholders. Afterwards, the management team will gradually involve the broader leadership team, mostly through personal communication. Discussions will center around the "big picture" and aim to inform senior staff about the planned transaction. This may take place via a one-off meeting.

The scope of communications measures will grow exponentially with the beginning of the implementation phase. The starting gun is usually fired by a large-scale announcement to internal and external stakeholder groups. This may include a project name and corresponding visual to make the transaction tangible. The storyline is largely informative, with key messages to set the tone and influence perceptions. It is transmitted through personal communications as

Question	Determinant			
To whom do we need to communicate	**Stakeholder**	**Internal**		**External**
What do we need to communicate	**Content**	**Informative**	**Influential**	**Transformative**
How detailed do communications need to be	**Level of detail**	**Low**	**Mid**	**High**
How should we communicate	**Channel**	**Personal**	**Analog**	**Digital**
How often do we need to communicate	**Frequency**	**Ad hoc**		**Regular**

Source: Roland Berger

well as digital channels and more traditional media such as posters. The objective is to ensure the overall plan is understood while limiting operative details to the teams in charge.

Implementation phase

After the "big bang" of the announcement, communications measures will return to a mostly internal focus, centered on implementation. Work packages will be broken down and distributed among teams, with each ensuring continuous alignment across countries, departments and workstreams.
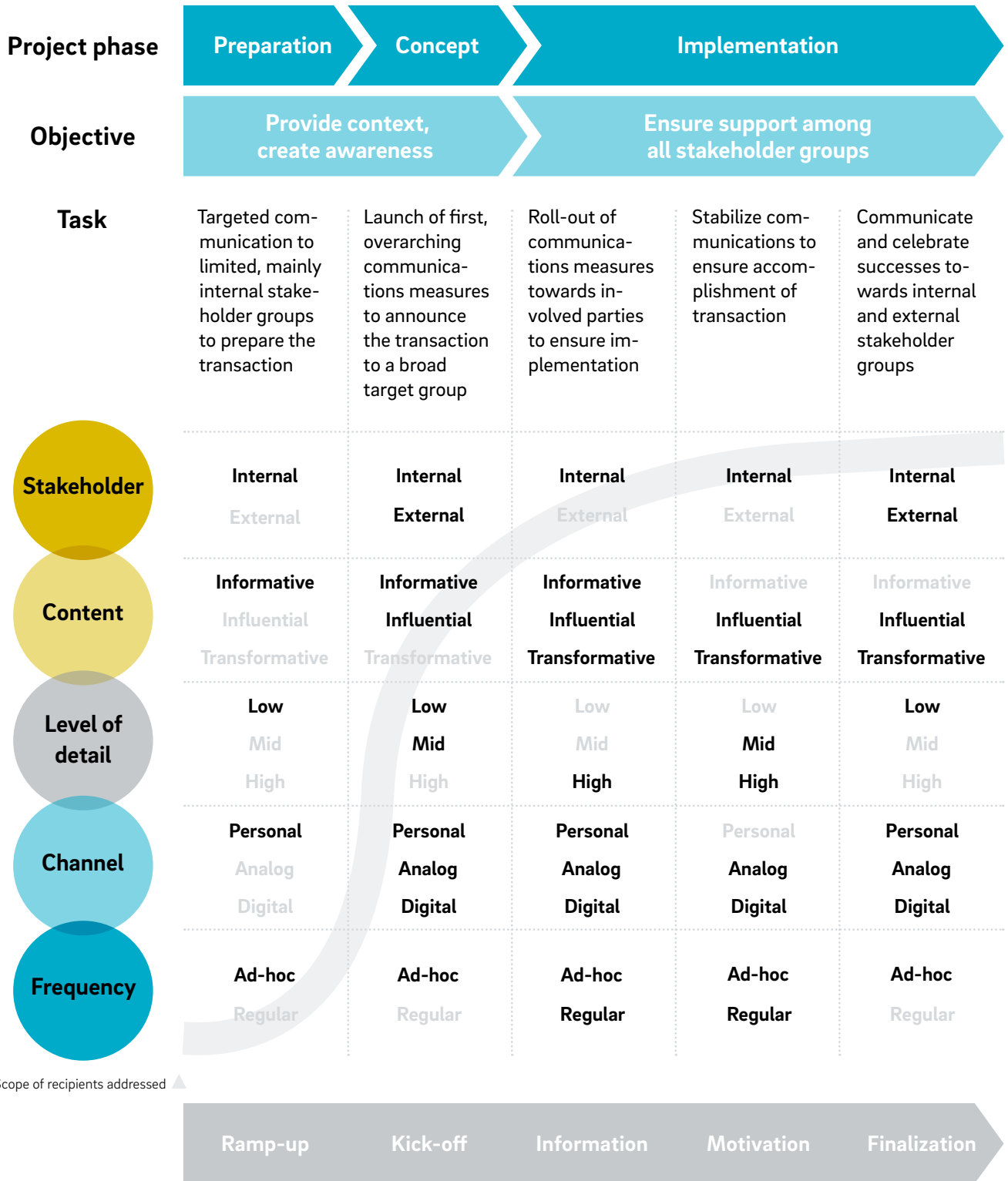
Meanwhile, change management gains in importance, meaning communications need to shift from being informative and influential to transformational. This is particularly the case during the stabilization phase. For example, newly implemented structures need to be cemented, new forms of cooperation need to be established and new external relationships – with media representatives, customers, business partners, etc. – need to be nurtured. As a result, the ad hoc communications of earlier phases must be replaced by regular communication formats. During implementation, continuous support for stakeholders is key.

The closing of the project should not be neglected. A successfully concluded transaction is a powerful story, and various channels and formats should be exploited to convey it. This can be challenging, however, as the closing of a transaction usually receives less attention than the announcement. The storyline should therefore seek to highlight the positive prospects of the company to both internal and external stakeholder groups.

Step-by-step guide

Project phase	Preparation	Concept	Implementation		
Objective	Provide context, create awareness		Ensure support among all stakeholder groups		
Task	Targeted communication to limited, mainly internal stakeholder groups to prepare the transaction	Launch of first, overarching communications measures to announce the transaction to a broad target group	Roll-out of communications measures towards involved parties to ensure implementation	Stabilize communications to ensure accomplishment of transaction	Communicate and celebrate successes towards internal and external stakeholder groups
Stakeholder	**Internal** / External	**Internal** / **External**	**Internal** / External	**Internal** / External	**Internal** / **External**
Content	**Informative** / Influential / Transformative	**Informative** / **Influential** / Transformative	**Informative** / **Influential** / **Transformative**	Informative / **Influential** / **Transformative**	Informative / **Influential** / **Transformative**
Level of detail	**Low** / Mid / High	**Low** / **Mid** / High	Low / Mid / **High**	Low / **Mid** / **High**	**Low** / Mid / High
Channel	**Personal** / Analog / Digital	**Personal** / **Analog** / **Digital**	**Personal** / **Analog** / **Digital**	Personal / **Analog** / **Digital**	**Personal** / **Analog** / **Digital**
Frequency	**Ad-hoc** / Regular	**Ad-hoc** / Regular	**Ad-hoc** / **Regular**	**Ad-hoc** / **Regular**	**Ad-hoc** / Regular

Scope of recipients addressed ▲

| Ramp-up | Kick-off | Information | Motivation | Finalization |

PROVEN SUCCESS

Our framework applied in real-world situations

As our framework shows, many factors need to be considered when planning the right approach to carve-out communications. Indeed, individual projects can differ widely, as we show in soon-to-be-published case studies. In these, we outline the approach we took for two different clients with very different needs.

The case studies make one thing very clear: individual strategies need to be tailored to the specific parameters of the transaction and should be as detailed as possible. Yet they must also be flexible, as agility and adaptability are crucial. A carve-out project will come with unforeseen changes, sudden shifts, additional stakeholders showing up along the way – and communications needs to be able to respond accordingly.

So, in conclusion, plan ahead and develop a strategy. But be prepared to adapt it throughout the project. Doing both will help enormously to navigate the complexity of carve-out communications and ensure the success of both the old and the new company.

Don't get lost in transactions – The importance of a strong additional storyline

A comprehensive communications strategy and campaign are crucial to ensure a smooth carve-out transaction. But while working on the transaction project, communications teams must not lose sight of the bigger picture and overall positioning of the company.

Companies tend to get lost in the transaction and stop communicating other positive messages on issues such as the strength of the company, its vision and way forward. This may mean a company is silent during periods of low activity on the transaction, which can be damaging. The silence increases insecurity among employees, while stakeholders perceive the company as lost in the carve-out process. In addition, the media may seek to fill the vacuum by running their own stories on the transaction.

To avoid this, companies should plan an additional narrative and stick to it during the transaction. Use the time between the announcement and closing of the transaction to, for example, tell success stories, promote innovative products or offer interviews with interesting board members.

Photos: Roland Berger GmbH