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Spin-off Spin: Lessons Learned About Brand Management

By James Bell

Breaking up has not been that hard to do. Over the last decade, the number of spin-offs, carve-outs and tracking stocks has doubled, and their aggregate value has grown over 40 times to \$143 billion. Robust economic conditions led many organizations to determine that their core business would improve without a subunit (e.g. PepsiCo's spin-off of its restaurants), or that the subunit

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could compete better on its own (AT&T's equity carve-out of Lucent). Still, about half of these spin-offs failed to create shareholder value in terms of improved market valuations. (Interestingly, this is still a major improvement over merger activity where only one in five resulted in increased market valuation.)

In examining many of the successes and failures, a recurrent and determinant theme is how both the "spinner" and "spin-off" (or "spincos") manage their brand communications before, during and after the event. A recent Lippincott study of divestiture activity over the past five years looked at several spin-off communication factors that were present in successful and unsuccessful spin-offs.

The study, completed in May 2002, discovered that 83% of the winners—defined as those whose market valuation had increased—positioned themselves as "being independent of the parent," while only 22% explained the divestiture as "being a strategic priority for the parent." Having a clear and stated vision, mission and values not surprisingly was found to be a critical factor, with 83% of winners articulating this very early on, usually at or before the time of launch. This notion of independence is carried through in messages about the spincos' leadership as well. Nearly two-thirds of the winners used the opportunity to announce new senior leadership from outside the company, while just 29% of the companies who decreased in valuation did. Reinforcing a central benefit of the divestiture as "increasing shareholder value" is also critical—78% of winners did; 71% of losers failed to do so.

The winners, time and time again, saw this not simply as a financial event to take advantage of favorable market valuations but also as a true catalyst to transform their organization's brand identity, strategic thrust, competitive positioning and company culture. How this gets communicated, and to whom—investors, customers, partners, the press, employees—proved to be a key determinant of whether they were a success or failure.

Who are we? What do we do? What do we stand for? What does this say about the parent? Why is this important? These are all basic questions that all too often haven't been properly answered or, at worst, not completely thought through. Any new company requires a clear strategic intent—a reason for being created in the first place. Palm used its carve-out from 3Com to clearly communicate its change in focus—from a hardware company to a wireless Internet infrastructure company. Its accompanying pre- and post-announcement

communication activities-including prospectuses, road shows and employee meetings-consistently carried this simple message. Further, it established strategic and investment alliances with AOL, Motorola and Nokia well ahead of the IPO. The buzz around the IPO made Palm an attractive company to join as it recruited new senior talent.

Similarly, back in 1996 when AT&T separated its Network Systems division to create Lucent Technologies, the new company grabbed the opportunity and aggressively set out to define itself and enter into previously precluded channels. It spent \$100 million over a concentrated four-month period in advertising to explain that it "made the things that make communications work." Yet it wasn't a start-up, fly-by-night enterprise, a message it also hammered home through its overt linkage to "Bell Labs Innovation."

Today, the Lucent brand may have lost some of its luster, but the annualized total shareholder return it generated two years after the spin-off was 74%!

This commitment to developing and articulating the fundamental direction and re-conceptualizing the vision, mission and values sounds obvious, but many of the losers have neither asked these basic questions nor clarified and communicated the answers in a simple, consistent and repetitive manner.

Culture Shock

Many of the most common missteps around spin-offs have to do with employee communications. Whether it's the failure to harness and heighten motivation associated with independence or the failure to turn the anxiety of the unknown into a positive direction, so much rides on how employees act and react. Management again has this opportunity around the event to dramatically send messages that help set expectations, address the complexities of autonomy and manage the difficult tension between stability and change. Yet many are so preoccupied with the financial details that they do not realize the enormous opportunity and obligation to their fellow workers.

Take 1999's Hewlett-Packard spin-off of its measurements business. Although it seemed to be an identity replay of Lucent Technologies right down to its parental endorsement ("Innovating the HP Way"), Agilent Technologies planned ahead and used this event as a way to redefine and energize its culture. While HP had a seniority-based, homegrown human resource philosophy, the new company was able to change to a more entrepreneurial meritocracy befitting its pursuit of higher growth opportunities. Still, even after HP management's commitment to traveling to various sites to discuss spin-off plans, gather feedback and answer questions, one top executive noted, "No matter how much we thought we were communicating, it wasn't enough. You must be very rigorous with employee communication."

Likewise, Conexant redefined its culture after its separation from Rockwell. Coming from a legacy of predominantly government customers, long product development cycles and hierarchical management style, Conexant used the event to streamline its operations, improve efficiency and redefine its business and culture as a growth-oriented communications infrastructure company.

Branded or Stranded?

Clearly, corporate identity and brand management are interwoven in this process of redefinition and culture change. At its most basic level, what to name the new baby is a crucial decision. Will it signal a totally clean break (like Palm), a clear break with some connection to the past for credibility (Lucent with Bell Labs Innovation), or is it a line extension (like barnesandnoble.com or DLJ Direct) that signals the same old company in a brand new medium and distribution system? People will quibble about the name and what it suggests. Certain names are instantly clear, straightforward and strong (Palm, Airtouch, 360° Communications); others more coined and prone for derision (Syngenta).

But, ultimately, the name will become a brand as it takes on its own character and develops its business model, organizational structure and product and service portfolio. So most any name can be made to work just so long as it is legally available, protectable and linguistically neutral. But how you come out of the birth canal matters a lot. Those newborns with a clearly articulated vision, business strategy and reason for being who take the separation event as an opportunity to communicate forcefully and understandably to its key constituents-particularly employees-tend to live long and prosperous lives.

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