# SPLIT-UPS AND STAND-UPS DONE RIGHT

## NAVIGATING COMPLEXITY TO UNLOCK VALUE

Split-ups and stand-ups account for much of the recent restructuring activity in the marketplace, with companies increasingly selling subsidiaries or carving out noncore businesses. And what's driving these decisions? The desire to unlock value.

Take eBay, for example: It recently decided to spin off PayPal because of that company's need to seize new opportunities in a rapidly changing industry landscape. The spinoff will allow PayPal to adopt a more competitive focus, attract better talent, and realize greater value — strategic goals that would be harder to achieve if PayPal were to remain a division of eBay and not go solo.[1]

Similarly, US drugmaker Pfizer recently spun off Zoetis, its animal health business, recognizing that it made better business sense for Pfizer to devote its energies to its area of highest profit margins — its core prescription drug business.[2] Symantec is also pursuing a split-off that will convert its cybersecurity and data-storage divisions into two separate, publicly traded companies. Symantec recognizes that, in this case, two is better than one: Security and information management involve different areas of focus and therefore require distinct strategies to be successful.[3]

As these examples illustrate, splits make a lot of sense under the right circumstances. As companies evaluate their strategic priorities, many are realizing that, as conglomerates, they might be better off operating independently as separate entities.

> "Organizations need to focus on their people to realize the full value of a split-up or stand-up."

## THE CHALLENGE

These transactions present not only considerable advantages but also major stumbling blocks. Many companies can skillfully acquire and integrate other companies and their operations, but they can't necessarily do the opposite — successfully spin off companies. Some companies simply have not executed spinoffs before, so their lack of familiarity with key issues and considerations makes this type of deal significantly more complex. Numerous additional factors, including geographic location and time frame, add to the complexity. When companies decide to separate, the split often takes place across multiple countries, and the time frame for these transactions typically is 12–18 months (from initial intent to separate, to the newly formed company beginning to operate as a separate entity).

## THE SEPARATION DEAL FLOW PROCESS

In the course of working with high-performing companies on dozens of split-ups and stand-ups, Mercer has developed an end-to-end process for successfully planning and managing these transactions, with a focus on two critical actions:

1. Translating strategy into solutions that address the people issues.
2. Establishing a dedicated, robust process to execute the separation work over a prolonged period.

The Separation Deal Flow Process is a framework to support these key actions, and it allows organizations to plan and manage these transactions effectively. It's built on the Stage-Gate model, with discrete objectives for each stage. At the end of each stage, the organization confronts a critical milestone that functions as a "go/no go" gate to confirm that objectives are met before moving to the next stage.

## THE STAGES

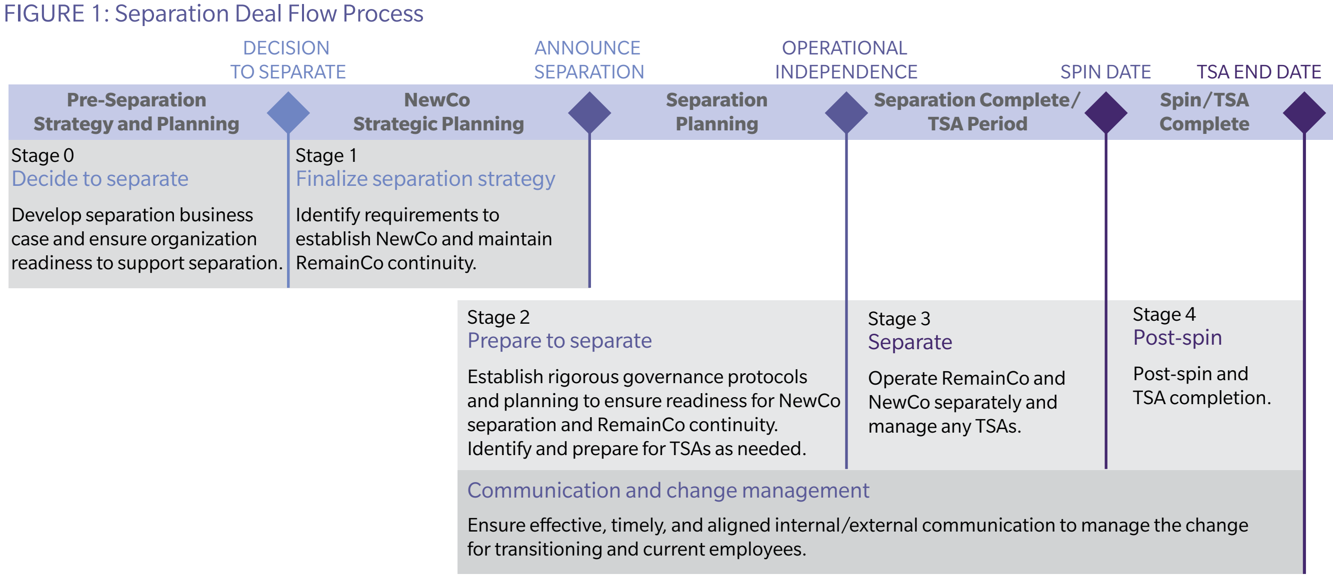
**Stage 0: Decide to Separate**

This stage entails assessing the strategic environment in which the company is operating to determine how it will separate and what the separation will look like. Developing a separation road map is critical to addressing the following key questions:

- Why will an independent company function better than a division or subsidiary?
- How will we do the work? How are we structured to get the work done?
- What resources are required? What kind of people capabilities do we need to complete the work?

The separation road map requires the organization to answer these questions, and as a result, the organization can bring its strategy to life.

FIGURE 1: Separation Deal Flow Process



**Stage 1: Finalize Separation Strategy**
The goals of Stage 1 are to identify what's needed to establish NewCo (the entity being created or spun off from the parent organization) and to determine its structure, leadership team, and staffing model. It's important to keep in mind the implications for RemainCo (the parent company executing the spinoff), so it can continue to operate without disruption. Staying focused on the parent's operations helps locate logical points of connectivity and separation.

**Stage 2: Prepare to Separate**
Stage 2 outlines the work to execute the separation. Because timing is crucial, this stage overlaps with Stage 1; establishing the people, process, and structure necessary for the separation occurs while the strategic evaluation of the requirements of NewCo and RemainCo is taking place. Instituting governance protocols ensures NewCo's readiness for the separation.

**Stages 3 and 4: Separate and Post-spinoff**
At the end of Stage 2, NewCo and RemainCo are functioning as two separately operating businesses; however, the legal separation has not yet taken place — this is the focus of Stage 3. Before the spinoff date (the date of legal separation), the Transition Service Agreement (TSA) is completed, along with any other final separation activities, to ensure that NewCo is fully independent.

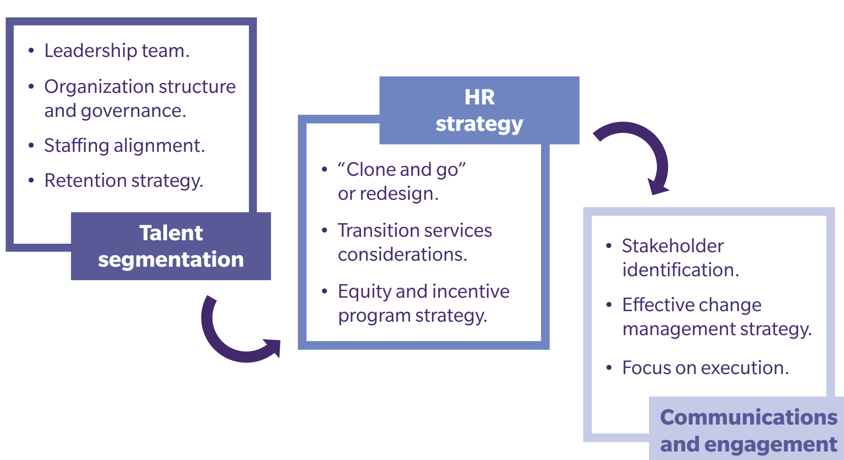
**Communication and Change Management**
Throughout stages 2, 3, and 4, a communications and change management effort must underpin the separation work that is taking place. This effort is critical, especially in the latter stages, to realizing the greatest value from the transaction: It ensures that both internal stakeholders (employees) and external stakeholders (customers, suppliers, and shareholders) are engaged and their interests aligned.

> "Employee disengagement can result in loss of talent and productivity, which can cause organization performance to decline."

## CRITICAL PEOPLE CONSIDERATIONS

A well-planned process is merely one critical success factor in this type of transaction. Achieving operational continuity during a spinoff also requires that a company fully address people issues — a process that can be divided into three areas: talent segmentation, HR strategy, and communications and engagement.

FIGURE 2: Critical People Considerations



### TALENT SEGMENTATION

During a separation, new roles are created, but talent shortages may emerge too. Identifying a leadership team for the spinoff early on is vital, because new talent may be needed and critical decisions about how to source talent will have to be made. It's important to remember that the staffing implications impact not only NewCo but RemainCo as well.

A separation requires rethinking organization design, job content, structure, and governance. Both RemainCo and NewCo should have a clear workforce plan for how new requirements will be met and how dedicated or shared employees will be allocated. A retention strategy helps identify key talent in both the short term and the long term and creates the right incentives for talented people to stay and contribute to the newly separated organizations.

### HR STRATEGY

Because the people issues involved in a spinoff are complex and wide-ranging, HR policies and systems must be carefully considered:

- Will NewCo use existing programs ("clone and go")? Is the parent's administrative structure (payroll systems, and time and attendance systems) easily replicated, or is a new structure needed?
- Should existing costs and risks be transferred to the spinoff or stay with the parent?
- Does NewCo serve similar markets as its parent, or do NewCo and RemainCo need to revise competitive market benchmarking?
- Should employee incentives stay the same?
- How will HR be administered throughout the spinoff process?
- How do equity plans need to change when ownership changes?

### COMMUNICATIONS AND ENGAGEMENT

Spinoffs bring major change: Employees may have new roles or bosses, or even a new location or terms of employment. Although this creates opportunities for growth, productivity loss poses a substantial risk as the transition proceeds. A clear communications and engagement plan can combat this danger by enlisting support from key stakeholders, defining critical changes and timing, and maintaining a focus on execution.

## EFFECTIVE ORGANIZATION AND PLANNING

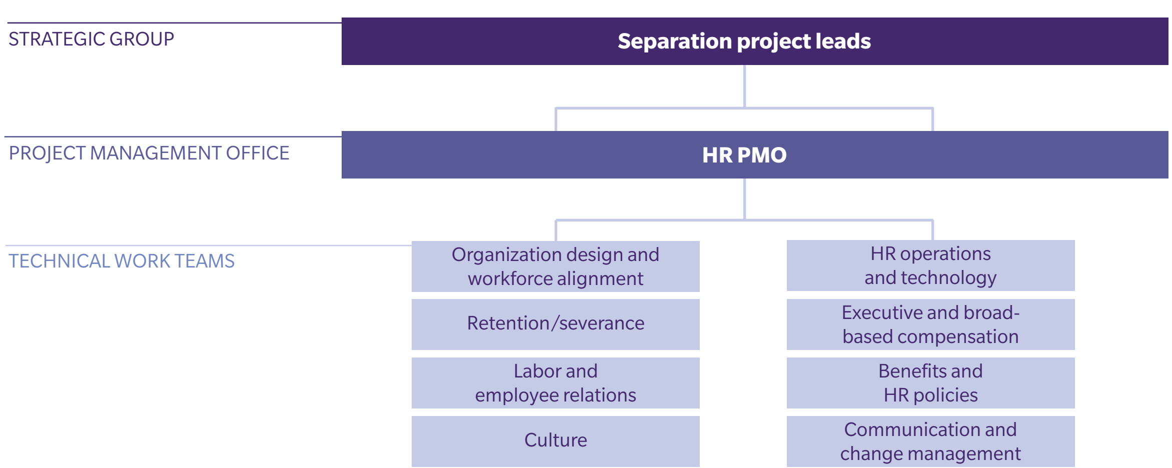
In addition to maintaining a sharp focus on people issues, organizing the right teams to launch the separation work is critical.

An organization should use its end vision to guide decision-making and scoping of the separation work and to equip teams with the information they need to plan effectively. By focusing on major milestones and having a clear view of dependencies (within work streams, HR, and business/functional areas), a company can successfully navigate the complexity inherent in the spinoff process.

### STRATEGIC GROUP

The Strategic Group's Leadership Team steers the separation work, aligning it to the strategy. The team establishes project priorities, has final decision-making authority, and provides guidance to the HR Project Management Office (PMO).

FIGURE 3: Structure to Support Separation Planning and Management



### HR PROJECT MANAGEMENT OFFICE

Overseeing the day-to-day tasks of the transition, the HR PMO ensures that the right resources are in place to complete the work. The PMO proactively manages dependencies, issues, and risks by anticipating potential pitfalls and responding to them.

### TECHNICAL WORK TEAMS

Technical work teams identify and complete the activities required to finalize the separation, prepare recommendations, and work with the HR PMO to resolve issues.

## CONCLUSION

In order to realize the full value of a split-up or stand-up, organizations must establish an effective process to manage work over an extended period.

In addition, organizations need to focus on their people. Employee disengagement can result in loss of talent and productivity, which, in turn, can cause organization performance to decline. A decline in performance can lead to customer dissatisfaction, which requires organizations to spend increased time and energy fixing problems and repairing relationships to avoid losing clients and, ultimately, revenue.

Organizations can avoid these risks by following a well-articulated separation road map, enlisting capable resources to execute the work, and partnering with credible advisors who can guide or augment staff to realize the deal successfully. These key actions help organizations ensure operational continuity during these transactions, safeguard shareholder value, and fully deliver on their strategic goals.

## NOTES

1 Bertoni S. "Ebay and PayPal to Split: Carl Icahn and Elon Musk Wish Comes True," Forbes.com, available at http://onforb.es/1vt3Em8, accessed 13 February 2015.

2 Humer C et al. "Pfizer to Spin off Zoetis Stake to Shareholders," Reuters.com, available at http://www.reuters.com/article/2013/05/22/us-pfizer-zoetis-idUSBRE94L0JB20130522, accessed 13 February 2015.

3 Robertson J. "Symantec to Split Into Storage, Security Companies," Bloomberg.com, available at http://www.bloomberg.com/news/2014-10-09/symantec-to-split-into-storage-security-companies.html, accessed 15 February 2015.

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