The Narrative Branding Company

The ABCs of Branding Corporate Spin-Offs

By Michael Thibodeau and Randall Ringer

As Neil Sedaka famously sang, "breaking up is hard to do." It's even harder when the breakup involves a business unit, division or other corporate asset. Although the primary benefit is creating wealth, not all spin-offs achieve that. In fact, a review of recent spin-offs reveals only half actually improved market valuation. Often overlooked is the role of branding in achieving a successful spin-off.

This issue is of growing importance. The market is at the early stages of a wave of corporate spin-offs as companies seek to improve shareholder value amid today's economic turmoil. This includes companies as diverse as Motorola, American Airlines, InterActiveCorp, Altria, TimeWarner and Cadbury-Schweppes, all of whom are considering divesting some of their businesses.

Issues often arise from short-sightedness:

1. *"The numbers will speak for themselves."* Often companies expect financial logic to be self-evident. This overlooks the need for customers to have reassurance, employees to have a sense of direction and for investors to understand the vision of the spin-off and the spinner companies.
2. *"I just need a name and logo for now. We can sort out the branding stuff afterwards."* The immediate need is for a name and logo to use in the roadshow. As a result, companies end up in a last minute scramble to get their branding in order as they separate their businesses. Early missteps become costly to fix later.
3. *"We need a big push and resources only until launch day. After that it will be business as usual."* The focus and internal pressure is to reach that big day. The expectation is that the communication needs will then decline. In reality, the pace does not let up. The need to communicate with audiences continues. The re-branding process often continues for another 12 to 24 months.

"Independence alone won't make us successful. We also need to define who we are, what we stand for, our values and culture, and the value we deliver to our customers. That means having a clear and powerful brand that not only differentiates us from our competitors but also drives how we behave in our dealings with each other and with customers."

–Jeff Clarke, CEO, Travelport Inc.

So what steps can be taken to increase your chance of success?

Getting your brand story right is one way to beat the odds. To do that, the spin-off and spinner companies need to have the right brand story to tell to investors, employees and customers. All too often branding is an after-thought to the deal making. "Brands play a huge role in value creation during spin-offs. They help companies present an engaging story, help foster understanding and build excitement. This is true for both B-to-C as well as B-to-B companies," said Michael Thibodeau, Managing Partner of Verse Group.

To help companies think through the branding needs of a spin-off, Verse Group has developed a list of key considerations. This list is based on the Verse Group team's experience on dozens of high profile spin-offs.

The ABCs of branding spin-offs

A) Assess your branding needs: The right time to start the assessment process is the moment your organization begins exploration of a spin-off. Having a broad perspective as to the needs of the new company will open possibilities for increasing value and avoiding risk.

1. *Assess the brand needs of the new company:* Assemble a multi-functional team that will represent the branding needs of the new organization. This team can provide a broad view of everything the new company will need – from employee badges to electronic templates, from business cards to building signage. The team should include all major business functions including: Marketing, IT, HR, Operations, Legal and Investor Relations. They will be able to surface issues that are impacted by branding, set realistic lead-times, prioritize activities and resolve problems along the way.
2. *Assess the brand needs of audiences:* Who are your new audiences? New customers and business partners? Investors and employees? What are your audiences' concerns around the spin-off? Remember that all of your audiences are connected. Ignoring one part of your audience can influence the others.
3. *Assess available brand assets:* Audit all your brand assets, tangible and intangible, including trademarks and patents. Look at your naming conventions for products and services. Are there other branded assets such as symbols, packaging, or a fleet of vehicles? Having a clear picture of your current brand assets will make the transition to a stand-alone company easier.

Best practice – Travelport: When Cendant initiated spin-off plans for its travel intermediary division, one of the first decisions was appointing a Chief Integration Officer. This senior executive brought together business units, Operations IT and HR from the start to prioritize branding needs, develop budgets and identify the brand assets of greatest value. Assembling all of the right pieces and having the Travelport brand story in place early on helped to create excitement around the new company's business strategy, ultimately helping Cendant realize $4.3 billion through the divestiture.

Travelport

B) Build a robust brand: The first question regarding a spin-off is often, "what are you going to call it?" Underlying that is a bigger question of "what do you want to be?" Getting that answer right will directly influence the financial valuation placed on the new business.

1. *Build understanding with a compelling brand story:* Create a new story that addresses the needs of all your audiences. To be compelling, the story needs the metaphors and ideas that will strongly resonate with customers. And the brand story needs to work whether reduced to a slogan or expanded to a sales presentation.
2. *Build to meet your brand needs:* Doing business on day one of the spin-off requires more than a name and logo. A robust brand system should be created to meet all of the brand needs identified by your interdisciplinary brand team. These branded elements should be prioritized and implemented based on cost, need and impact. Careful planning will lead to more accurate budgeting for the spin-off.
3. *Build branding into the negotiation process:* Brands and trademarks have real monetary value. Agreements on how, and how long, the spin-off can use the spinner corporate brands or trademarks can directly affect the amount of wealth created by the spin-off.

Best practice – NXP Semiconductor: As part of Philips, the $6 billion semiconductor division was overshadowed by the larger Philips story. As a stand-alone company NXP was able to tell it's brand story as a top 10 semiconductor company and the leader in vibrant media technologies. The new story underscored their focus on high growth segments, which meant a higher valuation for the spin-off. At the same time, NXP was able to leverage their long heritage through prominent use of the phrase "Founded by Philips".

NXP founded by Philips

C) Communicate, communicate, communicate: Many times a spin-off falters from a lack of communications. Communications not only to customers, but also to employees, the press and investors. Plan carefully the communications programs to all stakeholders leading up to launch day. At the same time, plan for the first 12 months after launch day. And the next 12 months after that. All of your audiences will want to know that you have a sustained and robust plan.

1. *Communicate to investors:* Introduce your brand story to prospective investors. This process doesn't end after the spin. On-going brand communications with investors will lay the groundwork for future rounds of financing or potential mergers.
2. *Communicate to customers:* Your competitors will look at this as a disruption that puts customers into play. Frequent and open communications with customers is the best way to keep them on your side.
3. *Communicate to employees:* Frequent employee communications can reduce culture shock and amount of distraction. The more that they know about the new brand story, the better they will be able to internalize and act on it.

Best Practice – Dex Media: Dex Media had a strong heritage of communicating with customers and consumers. But as a spin-off from Qwest, they needed to develop their own investor and employee communications program. Leading up to and following the launch, internal branding efforts created a strong Dex company culture focused on results. This focus, in turn, translated into increased cash flow and minimal disruption. Two years after the spin-off, Dex Media was acquired for a total valuation of $9.5 billion.

DEX MEDIA

Getting the branding right contributes to creating more financial value for companies. Randall Ringer, Managing Partner of Verse Group observes, "The value that a compelling brand can create far outweighs the costs. But to benefit, companies have to start the branding process early."

verse

The Narrative Branding Company

For more information, contact:
Michael Thibodeau, mthibodeau@versegroup.com
Randall Ringer, rringer@versegroup.com

Verse Group® is the independent brand consultancy that combines practical marketing experience with a storyteller's creativity. Our Narrative Branding® methodology is the proven strategic approach for companies seeking to make their marketing more effective. We help companies stage their brand stories through design, verbal and experiential identity. Our multinational clients include: Samsung, Marriott (NYSE: MAR), Coldwell Banker, Dex (NYSE: RHD), Kodak (NYSE: EK), Days Inn (NYSE: WYN) and NXP.

Call us at 1.212.979.7500 or visit www.versegroup.com