STRATEGY

Why IT Matters: The Art of Successful Carve-Outs

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Navigating complexity, speed and cost to unlock new growth opportunities.

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When a company in the food ingredients industry was separating from its bioscience-based subsidiary, it faced the monumental task of establishing a standalone IT infrastructure capable of supporting operations across more than 30 countries. The stakes were high, and any missteps could disrupt global supply chains, strain customer relationships and derail the company's ambitious growth plans.

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A global chemicals company grappled with tight deadlines and budget constraints as it tried to establish an ERP and public cloud platform for a new entity, which would lay the foundation for a cost-effective and future-ready organization. The challenge was not only to disentangle IT systems from the parent organization but also to ensure that ongoing operations continued seamlessly.

A large Swiss industrial products company that spun off its turbocharging unit had to consider its implications on several businesses and support functions. Besides, the company decided to execute a transformation of the business unit as well as establish a fit-to-size technology landscape that was cost-effective and scalable to business demand.

These examples highlight a critical truth: Successful carve-outs* require more than strategic intent. As noted in a recent article in the **European Journal of Information Systems**, IT carve-outs are challenging—with transaction contracts typically allowing only three to six months for completion and costs often exceeding budgets. As IT infrastructure, data management and emerging technologies are deeply integrated, carve-outs are

intricate technological endeavors. Success demands meticulous planning to untangle intertwined systems and data built over years, if not decades. By prioritizing assessment to map dependencies, alignment to bridge strategy with execution, agility to navigate complexities and acceleration to stabilize and optimize operations, companies can turn the complexities of carve-outs into opportunities for scalable, future-ready growth.

> *While the academic literature often distinguishes carveouts from divestitures and spinoffs, we use the term "carve-out" in a broader sense as the separation of a business unit from its parent company. We include the following in it: Equity Carve-Out (Spin-Offs), IPOs, Sale, Joint Venture and Non-Core Asset Divestiture.*

Understanding the Triple Challenge

IT challenges in carve-outs fall under three primary categories:

1. **Complexity:** Disentangling intertwined IT systems, applications and data repositories is a daunting task. Legacy systems often have hidden dependencies, and separating these without disrupting operations requires meticulous planning.
2. **Speed:** Tight deadlines are critical to minimizing disruption and seizing market opportunities. This can strain resources and call for rapid decision-making. The parent company's stability must be maintained, while equipping the new entity for independence and future-readiness.
3. **Cost:** Balancing separation cost control with building a robust IT foundation for the new entity is vital. Limited resources for building new infrastructure can impact success. While transition service agreements (TSAs) with the parent company provide interim IT support, they can soon become an expensive burden.

Four actionable steps can serve as a roadmap for navigating these challenges in carve-outs.

The Four Keys to Carve-Out Success

The IT-related challenges in carve-outs underscore the critical need for a well-defined, comprehensive strategy focused on systems migration, IP and contract management, timelines, TSAs, modernization and cost-reduction initiatives. Prioritizing essential infrastructure and deferring investments in non-essential components are critical for success.

However, successful carveouts are about more than resolving challenges. They present a unique opportunity to transition from legacy systems to a mature digital core. This will allow organizations to design IT systems that are agile, scalable, aligned with modern business objectives and capable of integrating advanced technologies such as AI and machine learning.

Achieving this transformation requires a strategic approach grounded in four interconnected steps:

1. Assessment: Laying the Groundwork

A comprehensive assessment is the foundation of a successful carve-out.

The experience of the food ingredient company's carveout mentioned above underscores the importance of this phase. The company started out by mapping its digital landscape in meticulous detail. It created a comprehensive catalogue of everything—from cloud-native services to automation tools—its infrastructure, databases, applications and third-party integrations. This enabled the firm to anticipate challenges, identify dependencies and develop mitigation strategies. For example, the company identified the need to reduce operational applications from 900 to 100, not only for efficiency but to build a fit-for-purpose digital foundation specific to the company's operational needs and future scalability.

Guide: Map your IT landscape

- List all IT assets: Catalog hardware, software, databases and network components.
- Identify interdependencies: Map out how systems and data interact.
- Assess risks: Determine areas where separation could disrupt services.
- Plan mitigation strategies: Develop plans to address identified risks.

2. Alignment: Bridging Strategy and Execution

Alignment ensures that the carve-out supports the strategic goals of both the parent company and the new entity.

A large construction chemicals powerhouse faced the challenge of disentangling complex IT systems without disrupting operations—a task akin to performing open-heart surgery while the patient is awake and active. Following a rigorous assessment of its IT environment, the company created a detailed roadmap to implement ERP and IT systems using Accenture's myConcerto platform and to establish a 90% public cloud environment— all within 15 months. This aggressive schedule required agility and quick adaptation to market demands. The carve-out team prepared detailed plans covering all aspects from resource allocation to contingency planning to address unforeseen challenges without deviating from strategic objectives.

To achieve alignment across the organization and ensure a shared vision, all stakeholders were engaged in the planning process. The company defined clear objectives for specific carve-out goals aligned with the overall business strategy to set a clear direction. Selecting the right technology to implement efficient and effective systems was also key. This alignment resulted in a 30% reduction in IT operating costs and contributed to a 67% increase in market value within two years.

Guide: Consider the following questions at the alignment stage

- Are all stakeholders involved in the planning process?
- Does the IT separation plan align with strategic objectives?
- Have potential conflicts been identified and addressed?

3. Agility: Adapting to Challenges

Unexpected issues are inevitable in complex projects, making agility essential to adapt swiftly without derailing the entire process.

The spin-off of the turbocharging unit of a Swiss industrial company presented significant challenges. It was complex, as the unit had operations in 52 countries and 2,500 employees. Besides it required the separation of business and support functions, including IT, finance, HR and manufacturing, while also transforming the unit's IT infrastructure to be cost-effective, scalable and future-ready. Accenture, as the key technology partner, established an IT M&A Factory to adapt to these complexities, standardizing and streamlining the spin-off and transformation processes. Effective collaboration between the parent company, the new unit, SAP ecosystem partners and Accenture were achieved through Lean Greenfield and cloud strategies.

The project consolidated 20 ERP instances into a single S/4HANA cloud instance, reduced interfaces by over 80 and transitioned 2,000 IT users across 64 global sites to a cloud-first infrastructure using Microsoft Azure and SD-WAN. This transformation enhanced financial performance, user experience and sustainability, while establishing a modern, scalable foundation for the turbocharging unit's future growth. Just as importantly, the project met all timelines and stayed on budget, meeting the demands of the spin-off seamlessly.

Guide: Strategize for agility

- Foster a culture of adaptability and continuous improvement.
- Implement flexible and scalable methodologies like Agile or Lean Greenfield, ensuring strong collaboration among all stakeholders.
- Empower teams to make timely decisions at appropriate levels.

4. Acceleration: Leveraging Technology and Innovation

Completing the technical separation marks a significant milestone, but the real work begins post separation, The new entity must focus on stabilizing and optimizing its systems to ensure long-term success. This involves continuous monitoring of system performance, adopting modern technologies and operating models, and embracing site reliability engineering (SRE) principles for automation and proactive problem-solving.

Post-separation, the food ingredient company mentioned earlier enhanced employee and customer experiences through digital platforms—including a web shop with over 1,000 products—and upskilled its workforce by developing global process owners and attracting top IT talent. Demonstrating strategic agility, the company integrated two new acquisitions within two months of the carve-out, increasing revenue and workforce by 20%.

The chemicals company's focus post separation was on optimization and stabilization. By integrating technology services with business process operations for specific ERP functions, the company ensured seamless operations. Using Accenture's myWizard® and a shared ServiceNow instance, it gained a unified view for monitoring application and infrastructure systems. This reduced order-to-delivery cycle time by 11% and significantly lowered IT operating costs.

Guide: Actions to accelerate the process

- Adopt cloud solutions to enhance scalability and reduce infrastructure setup times.
- Utilize automation tools to streamline data migration and deployment processes.
- Integrate emerging technologies such as AI and machine learning to optimize operations.

In all these four stages, an often overlooked but critical factor is the expertise of partners. Collaborating with partners who have deep industry knowledge ensures that technical and operational decisions align with sector-specific challenges and opportunities: from navigating regulatory requirements to optimizing post-separation operations.

The framework outlined here helps streamline business operations through standardized and automated end-to-end processes, driving process efficiency, organizational agility and customer-centricity. By reducing rework, enhancing transparency and centralizing data for better customer interactions, this approach optimizes operational performance and

delivers a superior return on investment compared to the traditional Copy & Clone model. It offers the dual advantage of combining operational cost savings during the holding period with higher enterprise value at sale, offering a compelling financial case for transformation. One company adopting this approach achieved IT cost savings of €2.5–4.5 million and non-IT savings of €1.2–1.7 million through optimized infrastructure, lean applications and efficient operations. These cost reductions resulted in an EBITDA increase of €3.7–6.2 million, enhancing overall profitability and enterprise value. As a result, the sales price can see an uplift of €29.6–49.6 million, leveraging the improved EBITDA and a strong deal multiple to maximize ROI.

Embracing Digital Transformation and Innovation

Carve-outs offer a unique opportunity to modernize IT systems and integrate emerging technologies. While inherently complex, they offer unparalleled opportunities for companies to reinvent themselves, streamline operations and unlock new growth avenues.

Accenture's report **"Reinventing M&A with Generative AI"** reveals that while most executives expect digital transformation through deals, over half fail to meet synergy targets on time. Around 64% of executives expect generative AI to revolutionize M&A deal processes, but weak technology and data systems, talent scarcity and an unclear focus often act as roadblocks. Success hinges on strategic intent, meticulous planning and leveraging technology and innovation effectively.

Ownership and transfer of AI systems, models and intellectual property introduce new challenges. Ensuring the new entity can independently develop AI capabilities often requires duplicating or adapting existing AI models and renegotiating licensing agreements.

Sustainability is increasingly central to corporate strategies. Carve-outs present opportunities to reassess infrastructure requirements, rationalize data centers and leverage public cloud services to minimize environmental impact. By leveraging energy-

efficient data centers, renewable energy sources and sustainable procurement practices, companies can reduce environmental impact, achieve cost savings and enhance corporate reputation.

Conclusion: Navigating the Path Forward

The art of successful carve-outs lies in turning potential obstacles into steppingstones toward growth and innovation. In a business environment characterized by rapid technological change and increasing complexity, applying these insights can help organizations embark on carve-outs with confidence.

Successful carve-outs demand more than technical execution—they require a holistic approach that considers people, processes, and technology. By focusing on the four keys to success—assessment, alignment, agility, and acceleration—companies can navigate the complexities of carve-outs and position themselves favorably in an ever-changing economic landscape.

The principles outlined extend beyond carve-outs. Whether facing mergers, acquisitions or significant organizational changes, the same behaviors are critical for success. As a first step, assembling a cross-functional team to inventory all IT assets, map interdependencies, and identify potential risks can be a big help. Engaging all relevant stakeholders, including leadership from both the parent company and the new entity, is crucial to build a shared vision for the carve-out and resolve potential conflicts. Finally, companies should ideally look at the carve-out process as building a future-ready foundation, leveraging emerging technologies like AI and cloud solutions.

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