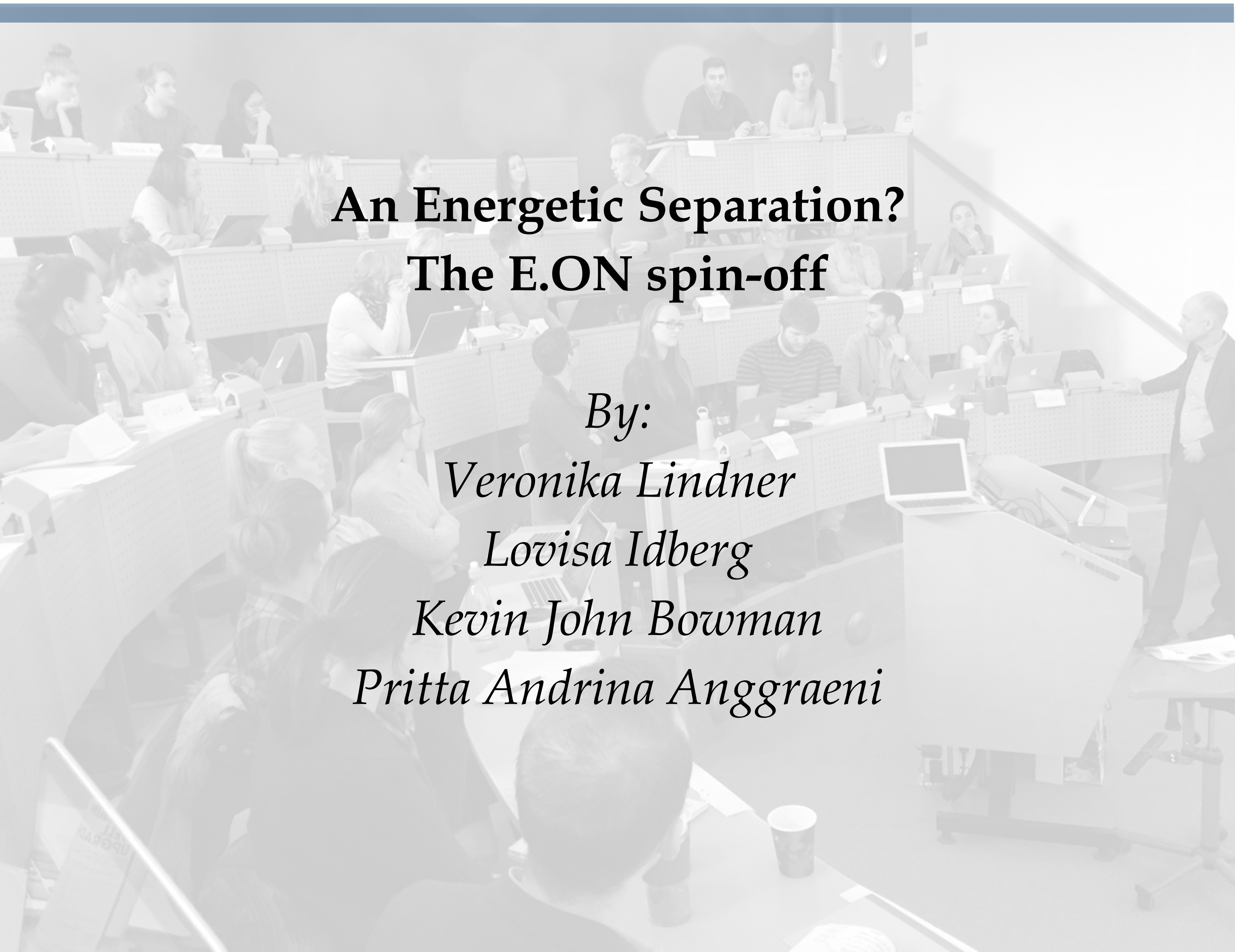
CORPORATE BRAND MANAGEMENT
AND REPUTATION

MASTER CASES



An Energetic Separation?
The E.ON spin-off

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Corporate Brand Management and Reputation: Master's Cases

The "Corporate Brand Management and Reputation: Master's cases" is a case series for applying the case method of teaching and learning in higher education. The cases are relevant to brand strategists in private and public sector organizations, as well as academics and students at universities, business schools, and executive education.

The cases are written by groups of master's students as a course project. The specially developed case format is defined as: *"A management decision case describes a real business situation leading up to a question(s) that requires assessment, analysis, and a decision reached by discussion in class. The alternative approaches and recommendations from the class discussion are followed by a description of the choices made by the case company. This description is then discussed by the class."*

The student groups select the topics of their case providing updated and relevant insights into the corporate brand management. The cases can be used as "written cases" (handed out and read in advance, later to be discussed in class) and/or as "live case" (presented by the teacher following a discussion in class). Each case includes teaching notes, visuals with speaker's notes, learning objectives, board plans, and references.

The mission of the series is *"to develop cases for discussion providing insights into the theory and practice of corporate brand management and reputation, with the intent of bridging the gap between academic teaching and managerial practice."*

The series is a result of co-creation between students and teachers at the elective course Corporate Brand Management (BUSN35 – five-credit course/eight-week half-time studies), part of the master's program International Marketing and Brand Management at Lund School of Economics and Management, Sweden. The cases represent the result of the intellectual work of students under the supervision of the head of course.

Although based on real events and despite references to actual companies, the cases are solely intended to be a basis for class discussion, not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. The cases are free to be used and are to be cited following international conventions.

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WRITTEN CASE

MANAGEMENT DECISION CASE

B6 – 2022

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An Energetic Separation? The E.ON spin-off.

Jonas Idberg is cycling to his job as a global energy commodities trader right now. He knows today will be a strange day at work: E.ON, the company he works for, just announced massive changes that will affect him and many others in the company. He will no longer be working for E.ON, a company he has been with for ten years. Instead, he and many of his colleagues will join a newly created company that will be split off from E.ON - a new organization that will have to decide its own future.

He is working in the head office in Düsseldorf which will no longer be a part of E.ON. He knows he is going to miss some of his colleagues who are staying with E.ON and moving to Essen. He is also not sure about the future of the energy market. E.ON has kept the renewable energy portfolio, which seems to be the future of energy production for the world going forward and left the less green solutions of energy generation with the "new company". How can this "new company" position its fossil fuel assets in the best light possible with a future increasingly determined to stop global warming?

Jonas is curious about what this New Company will become. How will the New Company be different from E.ON? What is this new company really about at its essence? What aspects will be reduced or optimized?

History

E.ON was formed by the merger of two conglomerates VEBA and VIAG in June 2000. Since then, the structure of the German energy market has been considered unsatisfactory from a competition policy perspective. EU Competition Commissioner Neelie Kroes and the EU Parliament viewed E.ON as an oligopoly, and for some time had been generally suspicious of potential competition violations the company may have committed. Because of these concerns, the German government had been contemplating breaking the company up.

After its founding-by-merger, the company continued to restructure on many occasions. E.ON concentrated most of its mergers on other energy companies outside Germany to speed up its transformation from a German energy provider to a global one. They bought their way amongst others into Sweden (Sydkraft in 2001); the UK (Powergen in 2002); the US (Louisville Gas & Electric Energy in 2002); and Russia (OGK-4 in 2007). Besides buying energy companies, they also entered the gas market in 2001 with a €10.3 billion acquisition of Ruhrgas, now a twenty-countrywide company.

Starting in 2010, The E.ON Group became a major driver behind the development of renewable energy. In addition to their energy generation and renewables sectors, they had two other global segments (global commodities, and exploration & production). Now in 2016, E.ON is a company of just over 43,000 employees and has over 32 million customers across the globe.

The Transformation

Despite these mergers and acquisitions, the company had some problems: the energy market had changed in the past years. For instance, the German government decided on a policy called *Energiewende* in 2010. This was a shift in energy policies, favoring greener and more sustainable energy production and distribution over the next decades. This forced an early shutdown of some nuclear units, shortened the operating lives of others, and put commercial pressure on fossil generation by preferentially subsidizing renewable sources. This put a big strain on parts of E.ON's operations: coal, nuclear, and gas.

As a result, E.ON's Merger and Acquisition (M&A) strategy was no longer enough to stay competitive. Therefore, E.ON began a strategic reevaluation of its business model called E.ON 2.0 in the year 2011. They created this program to lower the controllable costs and reevaluate the energy market in Germany and the EU and their position in it. E.ON 2.0 showed "that over the past few years two energy worlds have emerged: a conventional and a new energy world" and that these worlds "place completely different demands on energy companies". E.ON saw itself heading in the direction of new energy - but still had a big part of their energy generation portfolio in non-renewable sources.

Since 2013 E.ON's current leading principle is "Cleaner & Better Energy" and is focused on providing its customers with the tools to reduce their carbon footprint and understand where their energy comes from. They focus on building long term relationships with their employees and as part of that have a share-based payment model for their employees (employee share scheme), which is designed to reward employees that want to contribute to the growth of the company and the long-term success of the company. E.ON continues to invest in their employees. In 2013 they created a new initiative called :agile. This program allowed employees to submit their own innovative ideas to grow and develop the company, which led to a final list of 10 ideas the company plans to test and develop into commercially viable solutions.

A New Structure

However, E.ON had difficulties finding its identity of a green and clean energy provider - as they still had a big part of business from less green sources. Given the aforementioned ongoing and fundamental changes in the energy markets and legislation, E.ON's management board, after long discussion, voted in November 2013 to spin-off the non-renewable energy part of the E.ON group into a new company. This would allow for two companies with different focuses to match the diverging energy worlds. E.ON will spin off its fossil-fuel energy creation business to focus on renewables and energy networks. This will also allow E.ON to become a more client-driven company instead of a resource focused company. While E.ON claims that this decision is based on sound strategy and industry trends, critics see this restructuring as a way to separate the E.ON brand from the negative perceptions of conventional energy producers as it expands its renewable energy footprint.

The "New Company" will take responsibility for non-renewable energy production with the goal of becoming experts in efficient energy production. Despite the move to greener solutions, fossil-fuels will continue to be needed for the short term, and this, where the new company will operate. The "New Company" will need a new name to showcase its position as a highly competent conventional energy producer.

The Final Days

After implementing a few measures, E.ON separated its operations from the New Company on January 1, 2016. E.ON is committed to being more involved in the new energy world, focusing on renewables, energy networks, and customer solutions. In contrast, the New Company operated in conventional power generation (hydro, natural gas, coal) and global energy trading.

The boards of management of both companies are convinced that the separation will be able to diversify their business activities by customers, technologies, risks, and markets as well as take a more focused approach to develop the necessary capabilities and innovations.

In order to facilitate a smooth transition, E.ON's shareholders will hold 53.35% directly and 46.65% indirectly (through E.ON Beteiligungen GmbH) of the shares in the New Company. E.ON then plans to sell the 53% direct ownership in the short term when they list as a separate entity on the Frankfurt Stock Exchange and eventually sell the remaining 46% in the mid-term. Additionally, the New Company kept the Düsseldorf headquarters and the new E.ON moved its operation to Essen.

A number of 13,000 employees will spin-off to the New Company. Several of E.ON's assets have also been transferred in the separation including patents, product brands, and trademarks corresponding with the business areas. With them came the associated pension obligations and other employee costs. After the spin-off, it is expected that the New Company will need to implement additional optimization programs and measures to meet the increasing challenges of the energy market. This includes cost reductions, the analysis of capital expenditures, and the further optimization of current assets. These measures will most likely lead to a reduction in the number of employees of the New Company.

Jonas arrives at work and is anxious but also excited about what this new future will bring. He is hopeful based on E.ON's past commitment to its employees that the new company will work to engage all employees in the creation of the new company. But he is not entirely sure what to expect from the New Company. The board is meeting right now, and he is excited to find out what they decide.

As part of the New Company's Management Board, how do you help the spun-off employees like Jonas's transition into their new company?

How can you make sure that the employees know what the new company stands for despite losing its "green" identity?

Exhibits

Exhibit 1 Two very different energy worlds emerging

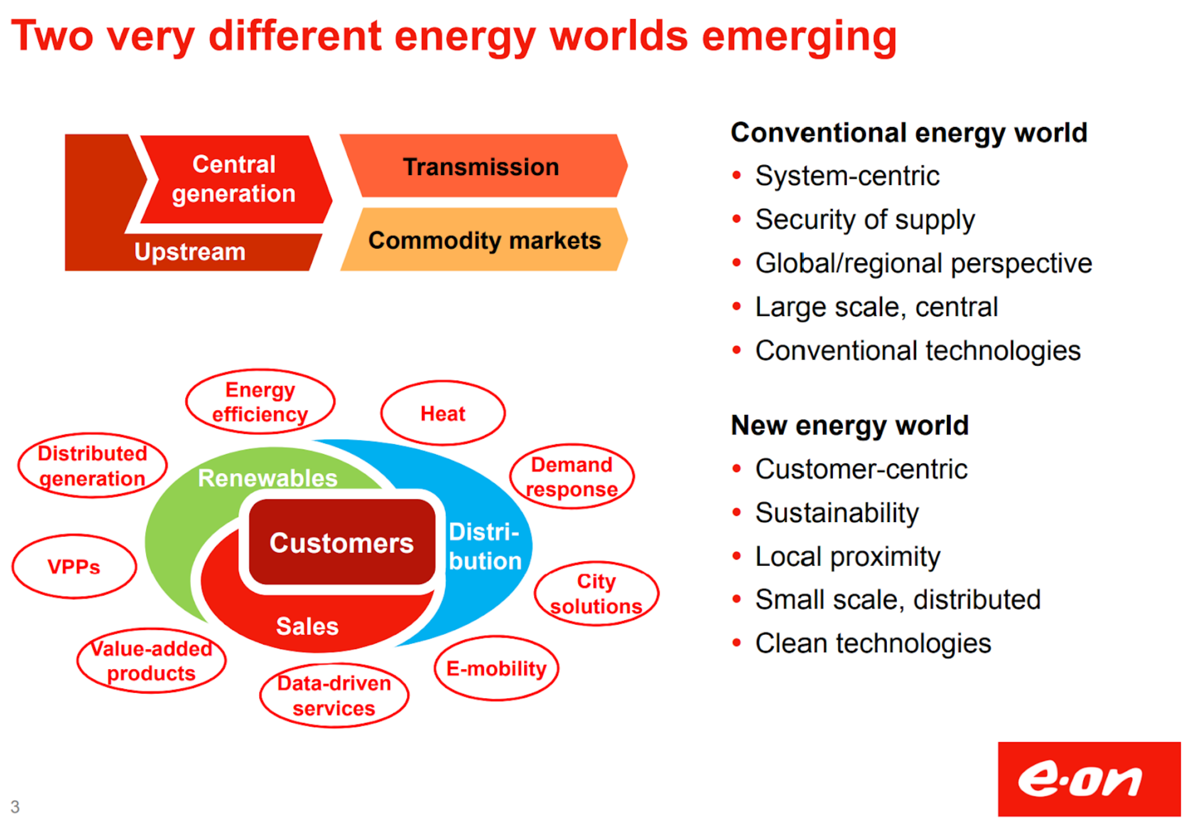

Exhibit 2 Two leading companies

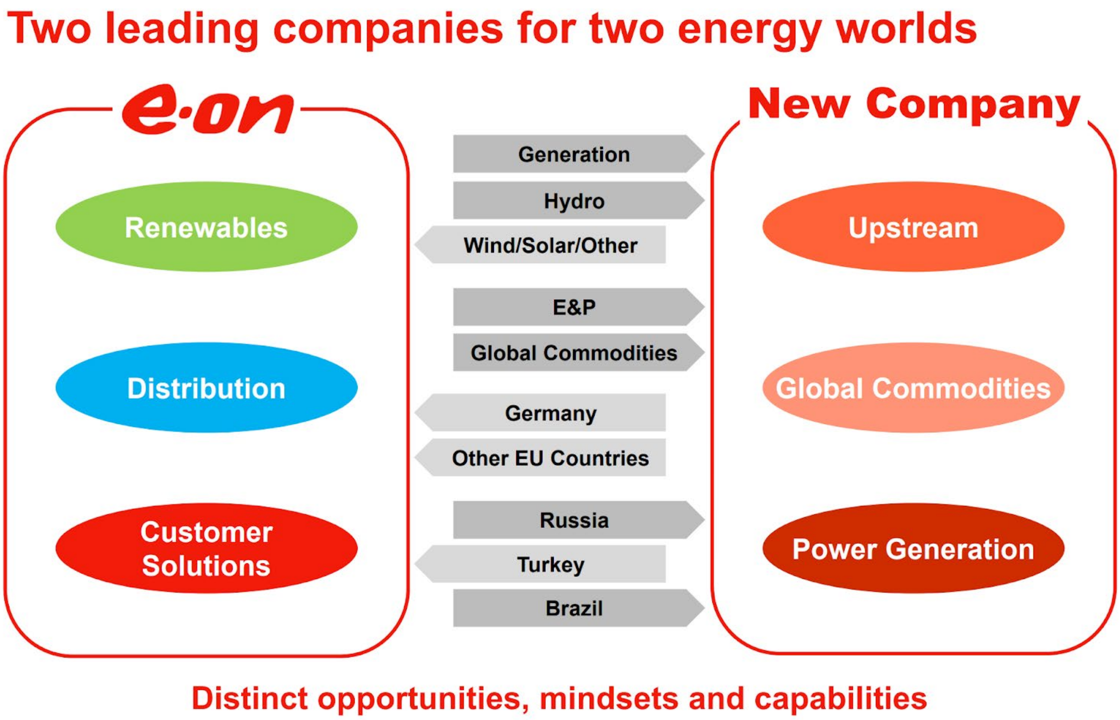

Exhibit 3 Business portfolio: New Company

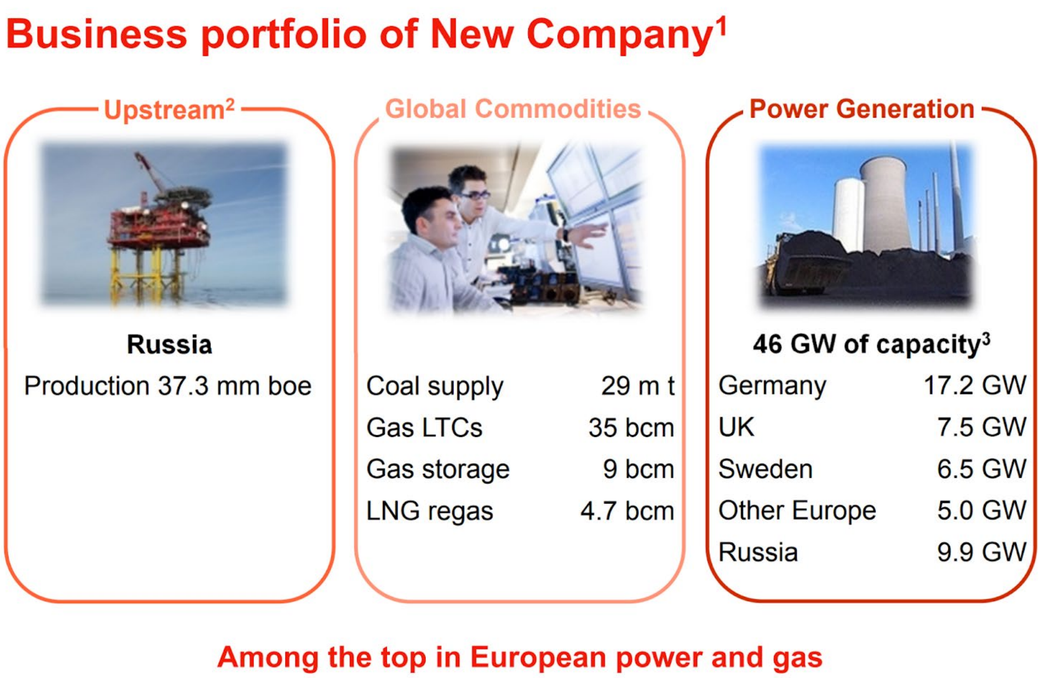

Exhibit 4 Strategy New Company

Strategy of New Company

Strong base

- Attractive power and gas portfolio, among the top in Europe
- Excellent reputation in engineering and operations of conventional assets
- Leading generator and delivery quality in Russia
- Global trading house

Strong future

- Contributing to security of supply in power and gas to Germany and Europe
- Platform for consolidation of European generation
- Trustworthy counterparty for global energy arbitrage and 3rd party services

Upside potential

- Capacity mechanisms across Europe
- ETS revitalization
- Commodity markets recovery
- Opportunities from global arbitrage
- Selected growth in international generation in later years

Reshaping the conventional energy world

Exhibit 5 Proposition for stakeholders

Proposition for customers, employees and other stakeholders

e·on

Empowering customers

- Retains and attracts **employees** as it offers opportunities in a growing market and with a clear purpose
- Responds to the fundamental **customer** need wanting solutions – and not commodities or technologies
- Enables **societies** to build their lives and future on cleaner and more sustainable answers

New Company

Shaping markets

- Offers **employees** opportunities in a leading company with significant upside potential
- Offers **partners** a platform to cooperate and benefit by raising efficiency via consolidation and 3rd party services
- Enables **societies** to transform energy systems at high standards of security of supply