



Whitepaper

Carve-outs, digital transformation and volatile times:

New challenges and opportunities for consolidated financial statements

Introduction

Volatile times bring special challenges for group accounting. This is all the more true in the context of carve-out projects, the separation of individual divisions from a larger group or a company in the upper midmarket.

At the same time, in the course of the digital transformation, expectations are generally increasing with regard to the availability of data and the possibility of simulating certain scenarios in order to create the foundation for well-founded decisions.

In this context, practical experience shows that a pure view of the consolidated financial statements often falls far short of the mark, especially in transformation projects. This is because the subsequent processes - including, for example, management reporting and [planning](#) - should ideally not be viewed individually, but as integral components of a larger, holistically designed management platform. This aspect is also a particular focus in the case of restructuring and carve-outs. These are situations in which the time factor usually plays a decisive role.

Against this backdrop, this white paper deals with the new, increased requirements surrounding consolidated financial statements - from their use as a management tool to increased flexibility and the optimization of communication between accounting and controlling.

On the other hand, the special case of carve-outs will be in the spotlight. The selection criteria, aspects and concrete recommendations for action relating to the use of modern solutions for group management are discussed.



Volatile times place new demands - also on the consolidated financial statements

Geopolitical uncertainties, an unclear economic outlook and a sharp rise in energy costs: Groups and companies are currently having to deal with a whole range of new developments. Situations in which restructuring and repositioning are naturally also being considered, including the optimization, closure or even sale of individual product lines and business units.

Consolidated financial statements are increasingly becoming a management tool



At the same time, expectations are rising with regard to the consolidated financial statements, which in today's world must also be used more and more as a management tool - still a new perspective for some companies and finance departments, but one that there is no way around.

Actual figures are needed as early as possible in order to provide the board of directors or top management with the insights they need to make well-founded decisions. The simulation of key figures and the performance of analyses also play an important role in order to be able to play through how certain ideas and changes could have an effect in the medium and long term with a view to the future.

This has increased pressure, which is also reflected in terms of timing. Finance managers must be able to deal with ad hoc requests from the board and management and be able to provide the relevant figures and analyses - and do so promptly and not just after days or even weeks. This is a requirement that cannot be solved with Excel spreadsheets.

Flexibility as a decisive factor



A key factor in this context is also flexibility, for example in dealing with key performance indicators. It is important to think about KPIs, to adapt them if necessary, or to recognize at which point previously used KPIs have lost relevance and need to be replaced by new ones. One example of this is the ESG guidelines, the implementation of which will often require companies to redefine the KPIs they use.

New thinking for new requirements

At the same time, new, transformative times also require a new, adapted approach in some areas. Three basic recommendations can be highlighted with regard to group accounting. These can help companies to better master new requirements:



Optimization of communication between accounting and controlling

Communication between accounting, controlling and related areas within the finance organization of a company or group is the most important basis for successfully managing change. The decisive factor here is that the respective protagonists talk to each other (and not about each other).

Establish a common view of key performance indicators.

Point 1 simultaneously creates the prerequisite for point 2: It is necessary to develop and establish a common view and consideration of the KPIs. Such a common understanding of the KPIs used, accepted by all sides, prevents misunderstandings, confusion and unnecessary discussions.

Introduction of sufficiently flexible systems

Finally, in the context of implementation, sufficiently flexible systems are crucial that enable those responsible to illuminate various aspects in different ways. It must be possible both to map new regulatory requirements and to “play through” or simulate changing business models or corporate structures. This provides management with a reliable basis and the time required to make decisions on the foundation of concrete data.



Carve-outs: Flexibility is the trump card

The use of the appropriate software, which enables profound decisions, is particularly elementary in the case of changing corporate structures, for example in the context of carve-out projects.

The background and motives for such a carve-out can be very different. Certain segments of the business may no longer be considered strategic or may no longer be part of the immediate core business in the course of a realignment of a group.

Complex processes



Regardless of the individual case, one thing can be observed in carve-out projects: The processes behind a successful carve-out project are extremely complex and extensive. The effort involved is also made clear by the fact that larger carve-outs in the German industry landscape have total budgets in the mid-double-digit millions. This clearly shows the immense organizational effort involved. The service and consulting industry has also recognized this and built up specialized teams to support carve-out projects.

One aspect is particularly important: flexibility. This is due to the nature of such projects, which often run for months or even years before details of a possible carve-out are even made public.

Carve-out projects can change



For example, at the beginning of possible carve-out considerations, it is often not even clear whether the investor will be a strategic investor or a financial investor. The two groups may have very different requirements for the business to be acquired, particularly with regard to certain aspects.

Countless individual decisions have to be made before a carve-out is signed and closed at some point in the project. Strategic flexibility is of particular importance here. A wide variety of what-if scenarios must be simulated and management and/or the board of directors must be enabled to make the right decisions at the right time.

Early software selection

The use of a suitable software solution for the consolidated financial statements - and far beyond - is of crucial importance for the reasons mentioned above. In carve-out situations, it is therefore advisable to select the appropriate software for the “new world” after the carve-out together with the specialist departments as early as possible.

It makes sense not to focus exclusively on the consolidated financial statements, but also to be aware of the new role that the carve-out creates for the department. This role often changes: from a position reporting purely to the group, a much more holistic function emerges, in which aspects such as planning and forecasting also become significantly more important.

Flexibility is of elementary importance

Once again, the key factor here is that the flexibility already mentioned several times is indispensable in projects of this kind, since requirements can often change even during the course of the project. Incidentally, this flexibility and a correspondingly agile approach are required not only from the technological solution, but also from the implementation partner who accompanies the introduction of the software and the carve-out.

Continued operation of existing systems often does not make sense

Often the question arises here - quite legitimately - whether it is not also an option to simply stay with the systems that one already has in use?

While this can be a viable solution in individual cases, in most cases there are challenges that tend to militate against it. For example, existing solutions have usually grown over years and have been individually adapted and expanded over time.

If financial processes can be rethought in the course of a carve-out, which should certainly be understood and welcomed as an opportunity, the existing system therefore often only fits the new requirements to a limited extent. It should also be borne in mind here that the carved-out part of the group is usually smaller - another aspect that ensures adjusted, and in some areas possibly also more manageable, requirements.

Reorganization as an opportunity for the finance organization

In the course of a carve-out, the opportunity arises to establish a new, dedicated finance organization. This includes processes that not only fulfill the functional specifications, but with which those responsible also feel completely “comfortable”.

Conclusion

A changing world does not stop at group accounting, which increasingly has to assume its new role as a management tool. In addition to a flexible mindset, for example when dealing with key figures, flexible tools are also required here. Solutions that are not only functional on the data sheet, but with which the “new world” can actually be lived.

Particularly in the context of carve-out projects, the first closing often represents a major challenge for all stakeholders involved. It is not just a matter of legal consolidation, but also of establishing a holistic financial platform for the newly created organization. Aspects such as management, controlling, long-term planning or a rolling forecast must also be mapped.

CCH Tagetik is designed as a holistic management platform. The finance transformation platform creates a uniform basis for aspects such as consolidation and closing, planning, reporting and data analysis, regulation and compliance. A “single point of truth” connects data, processes and people. This enables faster, more forward-looking planning and detailed analyses.

A clear competitive advantage of CCH Tagetik is the ability to react more flexibly and quickly to requirements and to already be able to look back on a wide-ranging history of successfully supported carve-out projects.

This is also made possible by close cooperation with partner companies whose high level of professional expertise is convincing and whose values and business ethics we share. This lays the foundation for sustainably successful customer projects.

Would you like to learn more about the benefits and added value that can be realized with a holistic financial platform like CCH Tagetik in the context of consolidation (and far beyond)? We look forward to hearing from you

