

LESSONS OF A CEO:

AN INTERVIEW WITH AXEL HEITMANN



Axel Heitmann

When Bayer announced in 2004 its plan to spin off its €7 billion base chemicals business into a company that was known only as “NewCo,” many people in the industry were skeptical about its chances for long-term survival. After all, many of its businesses were unprofitable and the company was burdened with debt and in need of dramatic restructuring.

Now at the end of its second year as an independent entity, LANXESS is a much different company and the initial skepticism has been silenced. Having divested its low-margin and most cyclical businesses, restructured its portfolio and cut costs, LANXESS has improved its profitability for the past 10 consecutive quarters. The company recently announced that it is poised to achieve its profitability and investment rating targets in 2008, one year earlier than planned.

LANXESS AT A GLANCE

- > Germany-based LANXESS has 16,500 employees worldwide, revenues of €6.9 billion in 2006 and customers in a wide range of industries. Its product portfolio ranges from base, specialty and fine chemicals to plastics and rubber products.
- > After its first day of trading as a standalone company on January 31, 2005, LANXESS sought to quickly divest low-margin businesses, rebalance its portfolio and restructure.
- > **Leadership perspective**

LANXESS CEO Axel Heitmann: “In the end, we were able to create mutual understanding and to win commitment and support from staff. People understood that we were working on their professional future and that we would do everything possible to win.”

Spencer Stuart consultants Wolfgang Zillesen and Willi Schoppen recently spoke with LANXESS CEO Axel Heitmann about his decision to accept this challenging assignment, how the company addressed the business and talent obstacles it faced in spinning off from a strong, 140-year-old brand, and how he motivated employees throughout the organization to embrace the new business.

The decision to carve out “NewCo” was announced in summer 2004. What was your first reaction when Werner Wenning asked you to take charge of this effort and create LANXESS?

Heitmann: I did not hesitate for a second in accepting the job. I was impressed and pleased that Werner had asked me to take on this role; at the same time, I knew this was going to be a very challenging job with a huge responsibility for 20,000 employees who were unable to develop further within the framework of the Bayer group. While a number of people at the time considered my task a hopeless battle for survival, I saw the opportunity to build something new — to create a company with its own identity. From previous experience with smaller businesses, I was confident and knew what to do and how to restructure the business. The size of the job certainly was a great challenge requiring substantial optimism and enthusiasm in order to succeed.

What challenges did you expect in creating LANXESS when you accepted the job? What were your first steps?

Heitmann: It was obvious that we needed to start with a very honest analysis of the situation. We would only be able to gain commitment from staff and management if we were to start with an open assessment of our strengths and weaknesses in the different businesses and understand our competitive situation. I knew that we had a serious surplus of staff and capacity with the spinoff from Bayer. Therefore, we needed to understand the contribution of each step in our value chain.

Following this analysis, which involved a thorough review of our existing business portfolio, we were able to develop a vision and strategy for the future of LANXESS. Only six weeks after the spinoff, we met with employee representatives in the various regions and explained what needed to be done. We negotiated a restructuring package that was less focused on staff cutbacks but rather on reduction of personnel cost per employee.

We met with staff and provided them with a frank assessment of the current situation and our future plans. In the end, we were able to create mutual understanding and to win commitment and support from staff. People understood that we were working on their professional future and that we would do everything possible to win.

There must have been unrest among staff leaving Bayer, a traditional brand for chemists. How did you motivate them and create a connection with LANXESS?

Heitmann: At the announcement of the spinoff, many people felt like abandoned children and that they were losing their professional identity. Many felt uncomfortable about becoming part of what was only known as NewCo at the beginning.

We invited all staff to help build a spirit of identity and provide us with their ideas about who we wanted to be, what our corporate claim would be and, certainly, what the company should be called. The name LANXESS was created internally and was meant to describe our conviction about the successful launch of a new business: LAuNch suXESS! Our corporate theme “Energizing Chemistry” was an open commitment to our chemicals business, and our choice of red as the company color demonstrated our intention to be noticed in the market. In short: LANXESS was to become very visible as a powerful and self-confident business in a traditional industry.

How did you build your management team in the first place? How did you identify the right leaders for a portfolio of 16 business units?

Heitmann: The board of management had been set by Bayer for the initial spinoff. It was important to start with people who had great visibility within the firm and demonstrated their commitment to NewCo when leaving Bayer. Changes to the board were made only later in the

process. We analyzed the strengths and weaknesses of our management team at all levels and started hiring new people into segments of the business where we thought additional talent was needed. We looked for people with international exposure, with energy and enthusiasm for the role and with the experience to deliver on our stretch targets. We ultimately ended up replacing 30 percent of our management team across the organization.

Did you have a big picture in mind right at the beginning and how far did it have to be adapted as you went along?

Heitmann: We were very clear right from the beginning that our organizational structure needed to be simplified. We eliminated our traditional matrix organization, cut levels of hierarchy and created an environment that was meant to empower business leaders and speed up decision making. We built business units with direct responsibility for all key business functions and created an overall structure for LANXESS that would enable us to manage our company as a portfolio of businesses.

While we had a clear picture in mind of how we wanted to shape the company, we had been crystal clear and open about our four-step process to get there: 1) Immediate performance improvement and cost savings; 2) Focused restructuring of selected business segments; 3) Targeted divestments from our portfolio of businesses; 4) Acquisitions to strengthen our competitive position in areas where we wanted to play.

We have been open and transparent about this four-step process with shareholders, analysts and staff. As we have been delivering along this promise and improved our EBITDA margins, we have generated trust and confidence internally with staff and with the capital market.

What were the greatest obstacles you had to overcome in moving LANXESS forward?

Heitmann: The greatest challenge for us was the sheer scope of the job during the first 12 months following the announcement of NewCo. We needed to spin off from Bayer, set up a large number of service level agreements, redefine our business processes, and gain trust with employees, Bayer shareholders and potential new investors. When we first were listed on the stock market, we were nearly 70 percent exposed to hedge funds. We were able to create a “We can do it!” environment within the company and achieve some quick, short-term successes, including a significant rise of our share price.

Bayer decided to spin off LANXESS through a share split rather than following other theoretical options. What were the reasons for this decision?

Heitmann: I am convinced that the share split was the best way to secure a well-structured and well-managed process for both Bayer and LANXESS. We engaged in fair and transparent negotiations across all parties, including our important partners in the unions and work councils.

Would it have been possible to achieve such improvements in the chemicals business units if LANXESS still belonged to Bayer?

Heitmann: The pressure to succeed and win is certainly bigger in a stand-alone situation than within the Bayer group. We were able to translate this momentum into a lot of energy, drive and enthusiasm across the organization. We wanted to prove that we can do better; we simplified processes, empowered layers of management throughout the organization and shortened our decision-making processes. Our new business architecture of self-sufficient business units certainly helped us to understand and resolve many of our weaknesses quickly.

Assuming a private equity firm would have taken over LANXESS from Bayer, what would they have done differently?

Heitmann: Prior to the spinoff, we debated several options for Bayer’s chemicals business. We came to the conclusion that the split was the best way to secure a well-structured and well-managed process for both Bayer and LANXESS. We were able to enter into fair negotiations across all parties, including unions and works councils. We received the necessary support for a new beginning.

What's your vision for LANXESS three years from now?

Heitmann: My vision is a healthy global company at the core of the chemical industry — a company that is dedicated to the needs of all stakeholders, while following a clear path to sustainable development, sustainable growth and sustainable profit.

In light of the current industry landscape and your goals for the company, what management competencies do you consider essential for your team today?

Heitmann: I believe that the most important competencies needed to achieve this goal are flexibility, international experience, integrity and teamwork. At LANXESS, we prize the qualities of leadership and a readiness to take on responsibility. Our will to succeed is the driving force that ensures LANXESS a bright future.

Spencer Stuart

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