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M&A Practice

Consumer goods: A changing landscape for successful M&A

Buffeted by economic trends, consumer goods companies have diversified their M&A strategies, with winners balancing growth and margin expansion. Success ahead requires integration tailored to each deal's thesis.

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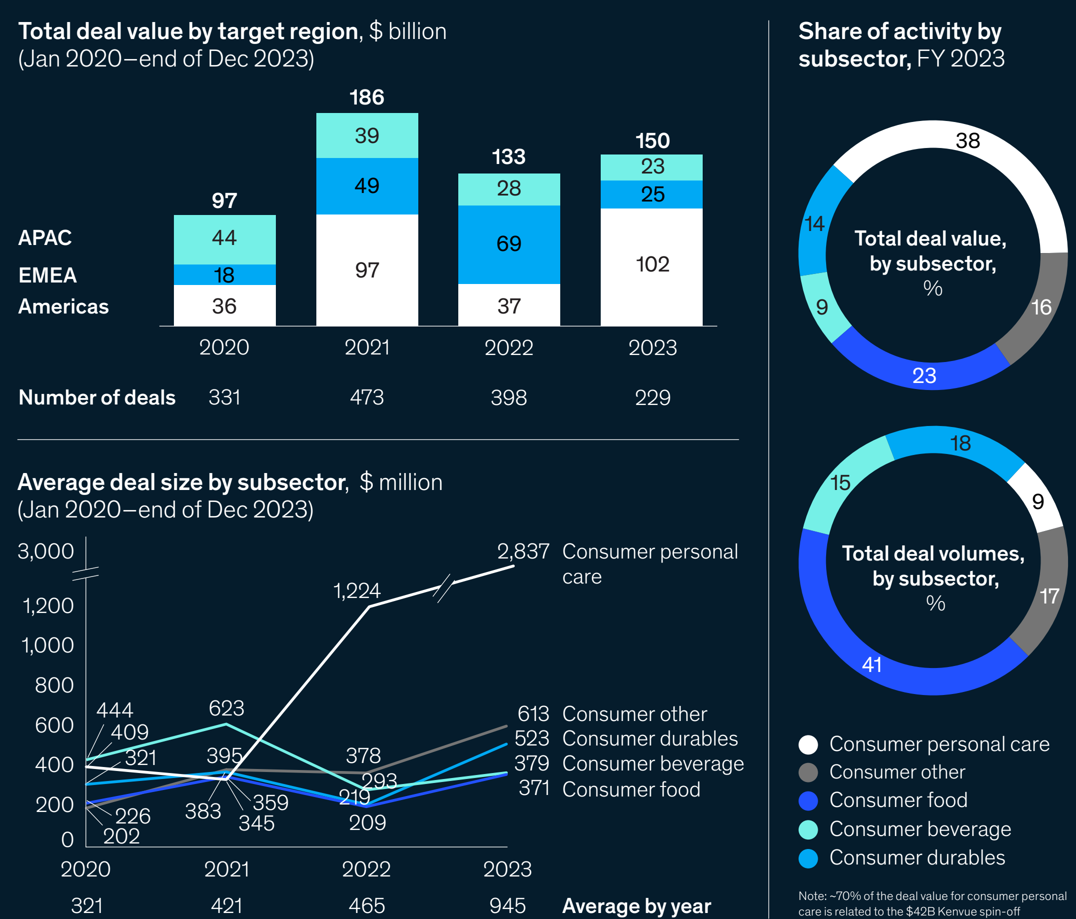
Over the past decade, programmatic mergers and acquisitions—in which companies execute a series of smaller deals based on a specific business case—have consistently generated more value than other M&A strategies. But, while programmatic M&A continues to create value, the strategic focus of consumer goods M&A programs has shifted fundamentally, in line with macroeconomic trends.

Since the start of the previous decade, players seeking growth have moved from the traditional approach of strengthening their core portfolios

Fact sheet

Consumer goods

Fact sheet



through large consolidation deals to multiple smaller deals for high-growth, “challenger” companies. This shift was most pronounced from 2018 to 2021, when companies were hyper-focused on top-line growth. However, the recent inflationary environment has prompted consumers to reduce purchasing volumes in about 90 percent of consumer goods categories, causing investors to renew their focus on the bottom line. This shift is evidenced in consumer companies’ M&A strategies by an uptick in traditional consolidation deals, as such deals emphasize cost synergies and margin expansion.

Looking ahead, we expect the most successful players to develop a hybrid deal approach that couples investments in small, high-growth brands to enter attractive long-term categories with portfolio consolidation acquisitions to drive the bottom line in core categories. To ensure success with this hybrid approach, acquirers will need to look differently at how they integrate and support their targets.

Trends in consumer goods M&A

With changing macroeconomic trends in recent years, companies have had to shift their M&A strategies to adapt. To understand the M&A landscape and what these companies are trying to achieve in M&A, our analysis below can be viewed through three different lenses:

1. *Deal volume and value.* This first lens involves the assessment of deal volume and value within specific sectors, which yields insights into the quantitative aspects of M&A activities within the consumer goods sector.

2. *Deal frequency.* This lens is crucial for understanding whether companies opt for a consistent, programmatic approach involving a series of deals, or choose more infrequent dealmaking involving sporadic medium or large transactions.

3. *Deal strategy.* The deal strategy lens covers the strategic intent behind consumer goods M&A deals. It involves categorizing deals into archetypes based on dominant strategic motives, providing a qualitative perspective on the evolving landscape of consumer goods M&A.

Examining consumer goods M&A trends through these lenses enables a comprehensive assessment of the sector’s dynamics. The lenses can serve as a guide to make sense of recent M&A activity.

Shifts in deal volume and value

After low deal volume and value in the COVID-impacted year of 2020, the consumer goods landscape experienced a marked shift in M&A deal volume and size. In 2021, as sizable assets in the sector became both scarce and prohibitively expensive, companies strategically pivoted toward a higher-volume, lower-deal-value approach. This movement peaked in 2021, which saw approximately 470 consumer goods deals globally. Afterwards, deal volume decreased significantly, falling to roughly 230 deals in 2023. (See fact sheet above.)

The share of activity by subsector varied across deal volume and value. (See fact sheet.) As for volume, the largest single category remained food, constituting about 40 percent, while beverages and durables collectively accounted for an additional 30 percent. Personal care remained the smallest segment. As for deal value, personal care was the largest at 38 percent, although this was driven mainly by large spin-offs of pharmaceutical companies’ consumer businesses. Prime examples are Johnson & Johnson’s $42 billion spin-off of Kenvue (2023), and GlaxoSmithKline’s $31 billion spin-off of Haleon (2022).

Shifts in deal frequency

Consumer goods M&A performance varies significantly in terms of deal frequency. Notably, programmatic M&A strategies emerged as consistent drivers of higher returns with lower risk during the period from 2013 to 2022. The success of programmatic approaches is highlighted by their ability to deliver excess annual total shareholder return (TSR) of 2.3 percent, outperforming all other strategies across sectors. In the consumer goods sector, the excess TSR of programmatic strategies was 0.9 percent, compared with 0.4, 0.5, and negative 1.5 percent, respectively, for selective, large-deal, and organic strategies (Exhibit 1). This gap in performance across industries has been widening, underscoring the efficacy of programmatic M&A.

Furthermore, across sectors, programmatic dealmakers with the most deals earned the highest returns. Seventy percent of them outperformed programmatic peers who made fewer deals.

This approach is associated with long-term success as well, as evidenced by the fact that most of the top 100 largest firms globally, across all sectors, employ programmatic M&A over a long period of time, such as ten-plus years. Many of the most successful programmatic M&A players in consumer goods also build formidable in-house M&A capabilities for M&A strategy, deal execution, and integration.

All of this demonstrates the importance of successful inorganic growth strategies and execution as well as how the market rewards the players that do it most—and do it better.

Shifts in deal strategy

Our analysis splits consumer goods M&A deals into four strategic archetypes:

— *Portfolio consolidation*—strengthening the core with established brands to build scale

— *Adjacency plays*—betting on companies adjacent to the acquirer's core business

— *Data and tech enablement*—adding capabilities in these areas to support growth

— *Challenger brands*—buying smaller, fast-growing companies in the acquirer's core business.

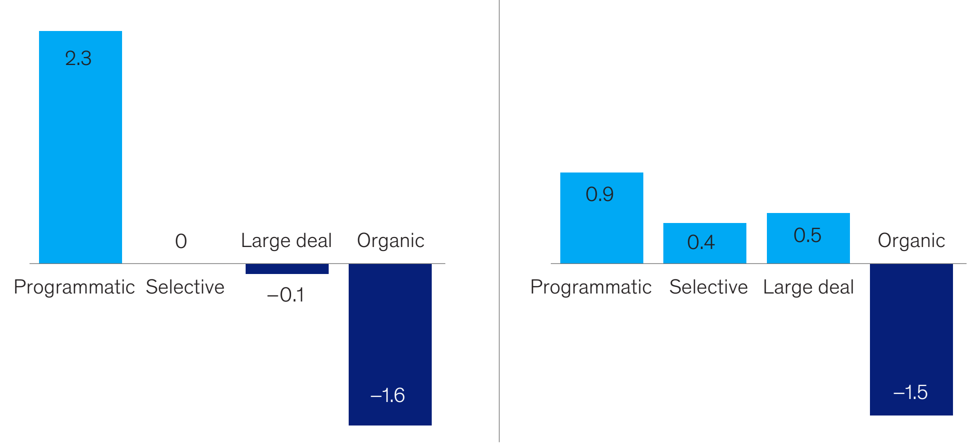
Our research indicates a fundamental shift in the use of these archetypes during the past decade.

Exhibit 1

A programmatic approach to M&A tends to create higher returns than other approaches.

Global 2,000[1] median excess TSR by program type, % (Jan 2013–Dec 2022)

Consumer companies' median excess TSR by program type, % (Jan 2013–Dec 2022)



Distribution among top companies,[1] %	14	47	14	26	11	52	10	28

Note: Figures may not sum to 100%, because of rounding.
[1]Companies that were among the top 2,000 companies by market cap on Dec 31, 2012 (more than $2.5 billion), and were still trading as of Dec 31, 2022; excludes companies headquartered in Africa and Latin America.
Source: Global 2,000 (2022); S&P Capital IQ; McKinsey Value Intelligence

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The shift has significant implications on how M&A in consumer goods will evolve in the future, as well as what it takes to successfully execute inorganic strategies.

From 2013 to 2018, companies mostly pursued large deals within core categories (what we call portfolio consolidation). From 2019 to 2022, they moved to top-line growth at all costs: they leveraged low interest rates to snap up multiple small, high-growth challenger brands, data and tech enablement companies, and adjacent players to gain access to new categories.[1]

However, in 2023 the data starts to show a return to portfolio consolidation (Exhibit 2). This change has been driven by a combination of lower asset valuations and investors' increased focus on the bottom line versus growth. Portfolio consolidations naturally offer more "bankable" cost synergies and are easier to integrate into existing large-company operating models than smaller, high-growth brands.

Outlook for the next wave of M&A

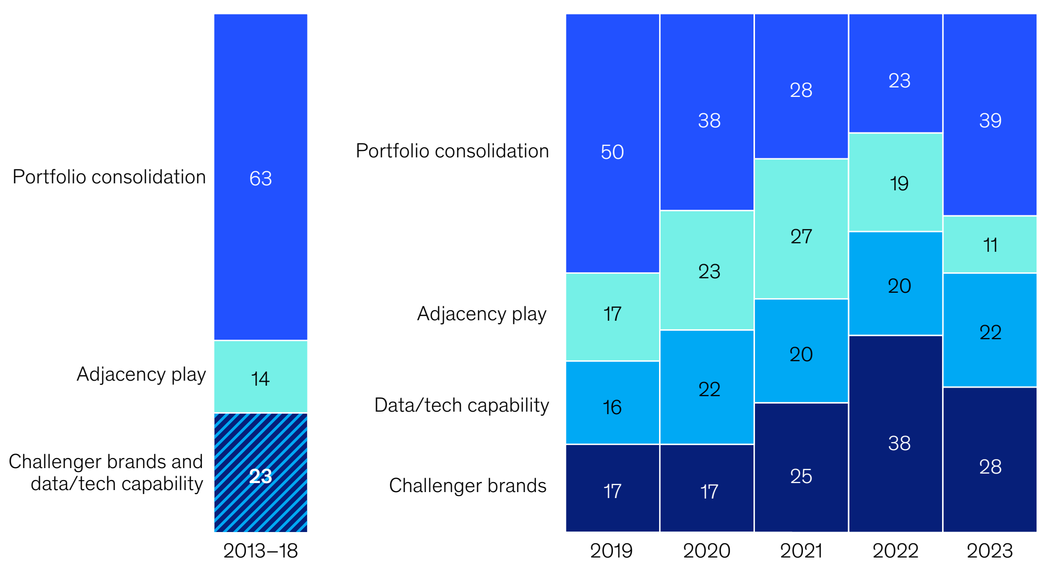
As we look to the future of consumer goods M&A, we believe the landscape will continue to be shaped by evolving macroeconomic conditions and their implications for shareholder expectations. We see three likely evolutions that will define the next wave:

1. *A shift away from "growth at all costs."* As companies increasingly pursued adjacency plays and challenger brands leading up to 2022,

Exhibit 2

M&A trends in consumer goods are shifting toward historical norms.

Share of deals by deal archetype, % of deals



	2013–18	2019–23
Average deal size, $ million	1,300	600

Source: Global 2000 (2022); McKinsey Value Intelligence; S&P Capital IQ

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[1] "The next wave of consumer M&A: Executing for value," McKinsey, October 21, 2019.

they were largely driven by pursuit of growth and cautious about damaging any of their targets' "secret sauce"—the things that make them unique. This resulted in less integration and fewer cost synergies. With inflation boosting input costs, and consumers becoming less accepting of higher prices from cost pass-throughs, companies will increase their cost synergy ambitions.

2. *Reduced multiples will re-invigorate portfolio consolidation.* High consumer goods multiples over the past four to five years have made large industry consolidation deals prohibitively expensive. While the size and growth profile of some assets will make them inaccessible, the challenges to consumers' wallets today will affect the outlook for many consumer goods companies and suppress acquisition prices for those seen as vulnerable. We expect this to open up opportunities for scaled, top-tier players to make a few large, transformative deals focused on portfolio consolidation, as evidenced by the clear uptick in this strategy in 2023.

3. *Reduced deal volume compared with 2021–2022, but an uptick in 2024.* Higher interest rates than in the past decade will limit the sheer number of deals that companies can pursue, as leveraged positions present a challenge to company economics. While we do not expect higher rates to limit everyone from pursuing programmatic strategies, we do expect that they will continue to suppress deal volume in the near term compared with averages of the past five years. They will also reinforce the role of cost synergies in deal theses. As a result, strategic buyers will have a double advantage over private equity suitors as they rely less on leverage and have a greater ability to extract combinational synergies. Hence, we see a potential increase in deal volume coming from strategic players—but if rates continue to fall in 2024, this trend could revert.

Winners' recipes for getting it right

The move from portfolio consolidation toward smaller, more frequent deals reflected a growing awareness that programmatic M&A is a more viable strategy than others, with higher chances of success. Now, even with a recent trend toward portfolio consolidation, companies that build ongoing M&A capabilities outperform those that conduct episodic M&A. Our analysis draws on our experience with consumer goods companies, augmented by in-depth interviews of executives at several successful acquirers. We identified three components of successful M&A in the consumer goods sector.

Shift from what you gain to what you give

After years of trial and error, many executives have recognized that a deal is not just about what a target can do for them, but also what they can do for the target. These elements can be resources, funds, or broader distribution to help scale brands. Also important are front- and back-office capabilities to professionalize the target's operations, among other attributes. For example, one global consumer goods company helped to stabilize the supply chain of its newly acquired juice company. As one executive summed it up: "They had an old plant with bad co-packers. We had capacity elsewhere. It was a good synergy to bring them into our facility." Similarly, in a transatlantic food integration, the acquirer had a clear long-term vision of how its best-in-class R&D capabilities could refresh and refurbish the target's product offering while staying in line with its brand heritage.

Choose the right degree of integration

We have seen four integration models emerge in consumer goods, each with its own pros and cons.

— *Full integration:* The acquired brands become undifferentiated from other brands in the acquirer's portfolio. This establishes comprehensive control, boosts opportunities for cost synergies, and can refresh the legacy portfolio. However, integration can hinder company momentum, and it risks destroying value if not managed properly and at the right pace. Moreover, key talent may disengage or leave.

— *Partial integration:* Integration is limited—typically to back offices, systems, and selective

Some successful integrators suggest refraining from seeking operational efficiencies in the first few months.

avenues of growth. This option preserves existing commercial capabilities while yielding some efficiencies, as well as growth avenues such as new channels. It helps to retain talent and culture and can infuse legacy brands with new thinking. It typically ends up in customized operating models, depending on the functional strengths of both the buying company and the target company. However, such models are difficult to sustain, as the perceptions of consumers and talent may change, and applying the lessons from the growth brand across the portfolio can be challenging.

— *Accelerator:* The company creates a "new ventures" business unit to build a portfolio of growth brands, with some targeted support such as R&D and procurement. This option lowers the risk of business disruption and can retain and attract talent, unlock innovation, and accelerate growth. It also may limit control and oversight, as well as operational synergies, and it requires new capabilities the company may not have.

— *Fully stand-alone:* Acquirers keep the target company fully independent. This option protects assets such as innovation, capabilities, and ways of working. However, it limits the potential to support overall growth, operational synergies, and control and oversight.

Experienced integrators often agree that, when buying smaller—but still significant—companies, partial-to-full integration can provide the right level of collaboration and coordination while enabling the target to safeguard its "secret sauce." Ingredients in the sauce often include tangible assets such as innovation, digital marketing capabilities, and sales relationships. There may also be intangible ingredients such as culture, mindset, and employee affiliation to a brand or vision. Successful integrators often note that it is difficult to assess employee passion during the due diligence phase, but it is still important. "Purpose is as important as profitability," said one integrator.

As a result, successful consumer goods integrators are careful in assessing how they will use their company's scale and experience to serve the needs of their targets. Common approaches include assigning acquirer supply chain capacity, selectively harnessing the acquirer's broader set of sales relationships, and using the acquirer's scale to amplify brand-led innovation. Some successful integrators suggest refraining from seeking operational efficiencies in the first few months until they truly understand the business. However, almost all executives we have consulted agree that support functions can be integrated, and support systems harmonized. In the current macroenvironment with a focus on margins, it would not be surprising to see companies integrating assets that were left stand-alone in the past.

Of course, every deal, large or small, is different, and each has its own strategic rationale, guiding principles, and competing priorities. While we have observed full and partial integrations to be the most common integration approach, executives should consider the advantages of all four to determine what is best for each deal.

Companies get better results when they apply a repeatable playbook.

Build M&A capabilities that are unique to consumer goods

Consumer goods companies that aspire to become more active acquirers need to build an M&A engine to proceed in a strategic, proactive, and disciplined way. This capability has several foundational elements.

— *Trend prediction skills.* The M&A strategy and deal-sourcing function should rely heavily on understanding next-generation consumer preferences and trends. Based on this understanding, the company can ask itself some important questions: Is my portfolio aligned to the trends? Where do I want to play? How can I win? The answers will establish the M&A blueprint, which is imperative to delineate the boundaries of the playing field and avoid wasting time on less relevant deal offerings. Having clarity on what the company will not pursue is critical to ensuring that it goes after the right assets over a three- to five-year period.

— *In-house M&A skills.* Consumer goods companies that plan to acquire multiple assets over a five-year period should consider developing and growing their own in-house M&A strategy and integration capabilities. Companies get better results when they apply a repeatable playbook and create career paths for professionals who have a passion for seeking and integrating targets. After the deal is done, consumer goods companies need people who specialize in integrating commercial, supply chain, and support functions, especially human resources. These skills are critical to creating a multiyear record of success. Companies that offer career growth for professionals who volunteer for transformative M&A deals have an easier time getting top talent to fuel their inorganic growth aspirations.

M&A is an important source of value creation for consumer goods companies. There is a formula to getting it right, as successful acquirers have demonstrated. While strategy, deal execution, and integration planning and implementation are all foundational elements of that formula, sophisticated acquirers also adopt a mindset of mutual partnership with the target companies to protect what made them successful and to help them grow. That requires building and growing the organization's own M&A capabilities. Given today's consumer trends, having a strong M&A engine is more important than ever.

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