KPMG

M&A Spotlight on:

Consumer Markets – Insights with an investor's lens

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The New Consumer Is Creating a Need for Consumer Markets M&A

Global deal value reached a record in 2015 and some of the largest deals involved consumer markets companies. Last November, SAB Miller agreed to be acquired by Anheuser-Busch InBev for $117 billion and earlier in the year one of the largest food companies in the world was created when H.J. Heinz bought Kraft Foods for $53.83 billion. Activist investors have also targeted the sector and last year, activist investor Bill Ackman's Pershing Square took a $5.5 billion stake in snack maker Mondelez International Inc.

A significant part of this activity is in response to the demands of the "new consumer." Consumers are no longer waiting for companies to introduce new products and services or relying on them for information. Consumers are now comfortable telling companies what products will make them both happy and healthy and are sharing their insights on social media, one of the most important influencers. And although they love mobile shopping, today's consumer also wants instant delivery. In order to obtain a better understanding of how these trends will affect M&A, KPMG recently surveyed 74 consumer markets dealmakers.

The consumer is evolving into a more active participant

Today's consumer is much more involved and engaged. One of the most pronounced trends is the value that consumers are placing on products and services that promote their well-being. According to the KPMG survey, the most significant change that the industry has seen is the emphasis being placed on sustainability (59 percent) and health (41 percent). Other changes include less product loyalty (36 percent), social media's influence on buying decisions (30 percent), and increased emphasis on comparative pricing (12 percent)[1]. These consumer preferences will influence new product and service entrants and will also create the need for established players to acquire or develop products and services that embody these "feel-good" values.

While an emphasis on health and sustainability appear to be somewhat established, consumers are notoriously fickle. Companies need to be nimble. When asked what aspect of the evolving consumer was most challenging to their companies, the vast majority of executives said it was their ability to respond to quickly changing consumer tastes (59 percent). Other challenges include responding to the consumer's desire for an omnichannel experience (42 percent), increased difficulty of developing brand loyalty (36 percent), and the consumer's newfound reliance on social media (32 percent).

Operating models are changing with the rise of the digital consumer

In terms of M&A, traditional consumer markets companies will need to realign their growth strategies to invest in new services, products, and channels to meet consumer preferences. Data analytics and other tech tools are crucial for this process and should be used to track consumer preferences in real time. All strategy discussions should include a technology component. Many consumer companies have not yet taken this step. When asked if they currently had a strategy to address the Internet of Things—arguably one of the most important current consumer issues—78 percent of survey respondents did not.

M&A professionals said that the most important factor in their growth strategies was the importance of acquiring the right brands (56 percent), followed by acquiring relevant technologies and the need to

[1] Multiple responses were permitted in all questions where responses exceed 100 percent.

add healthier or greener products to their portfolios (both 49 percent). Using all available tools to capture customer data and to understand, and even predict, consumer preferences can lead to more successful deals. The ability to turn customer data into business and strategic insights is extremely valuable.

Consumers are demanding a thorough omnichannel experience and consumer markets companies need to respond. Acquirers should focus on growth, of course, but any potential target also needs to be evaluated in terms of providing access to multiple digital platforms. Therefore, consumer markets companies might find themselves shopping for tech targets with valuable IP components.

When asked what aspect of the omnichannel consumer was most challenging for their companies, the largest percentage of respondents cited the need to respond to a customer's desire for immediate delivery (42 percent), followed by developing an adequate back-end channel (27 percent), and higher fulfillment costs (20 percent). However, despite these issues, the vast majority of consumer markets executives had a positive view of how their digital customers affected profitability. Eighty-five percent said that online shopping was beneficial due to cost savings and only 15 percent said it was more challenging due to the difficulty of showcasing products.

M&A expected to be favored growth strategy

According to a recent KPMG survey of consumer markets deal professionals, 92 percent plan to pursue one or more acquisitions this year[2]. Positive economics in 2016 should result in healthy M&A in this sector. One of the most important driving forces for consumer markets companies is consumer sentiment. Consumers are buoyed by an unemployment rate below five percent, low gas prices, and low interest rates. However, those trends need to be balanced against global uncertainty, an election year, and current stock market volatility.

Conclusion

Due to slowing organic growth opportunities, consumer markets companies have been turning to M&A as the best strategic alternative to enter new markets or expand into existing markets by acquiring new customers, products, and technology. Executives need to pursue these basic M&A goals in conjunction with new business needs and models that result from an evolving consumer. In a business that must adopt as quickly as the consumer changes his or her mind, the company with most adaptive growth strategy has a keen advantage.

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[2] For a copy of the entire report: "U.S. Executives on M&A: Full speed ahead in 2016," please visit kpmg.com.

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