M&A Views

Deloitte M&A Views podcast: M&A matchmaking: Finding the right consumer products partner

Transcript

Greg Jarrett: Welcome to Deloitte M&A Views, a Deloitte podcast series exploring the latest trends and topics in mergers and acquisitions. I'm Greg Jarrett. And today we're discussing M&A activity in the consumer products sector. Specifically exploring four common types of M&A transactions and the importance of driving business model coherence as part of integrating two businesses.

We're joined today by two of Deloitte's consumer products M&A leaders, Bryan Barnes, a partner with Deloitte Touche LLP, and Shashi Yadavalli, a principal with Deloitte Consulting LLP. Bryan, I'd like to start with you. Maybe you can kick this off with an overview of deal activity in the consumer products sector. It seems like it's been extremely busy of late.

Bryan Barnes: Overall deal volume in the consumer products sector remains very strong year-to-date in this fiscal year. We're particularly seeing a lot of activity, both domestic and inbound, in the food and beverage space. A lot of this has been influenced by a relatively iconic deal that happened in the retail sector, which is affecting the sales channel in ecommerce. But a number of other factors, such as continued increase in health and wellness concerns, which is having an impact on demand for organic ingredients and food on the go, or portable food; the influence of the millennial generation; and there’s just an elevated, overall consumer confidence coupled with increased consumer spending that's really having an impact on M&A deals.

Greg Jarrett: The landscape seems to be changing drastically as far as consumer products are concerned. Shashi, let me ask you this. In the opening, I did mention that we'd be exploring four common types of M&A integration. What are these four types, and how are they defined?

Shashi Yadavalli: Sure. Thanks for the question, Greg. We've categorized the type of M&A integration activity into four types, primarily along two different dimensions.

One is the relative size of the two companies, of the acquirer and the target. And the other dimension is how similar the business models of the two companies—again, the acquiring company and the target company—are. And based on those, we've come up with four different types. And we've labeled them: “Merge,” which is really having two organizations of comparable size and very similar business model. A “tuck-in,” which is an integration of a smaller company, but very similar business model. A “bolt-on,” which is an acquisition of a smaller company with a very different business model. And “transformation,” which is an acquisition or an integration of a target of comparable size, but a very different business model.

Greg Jarrett: Well that leads me to my next question for you, Shashi. Is there a major factor—or factors—that can lead to a successful or, perhaps, not-so-successful merger or acquisition?

Shashi Yadavalli: There are several factors across the deal life cycle that can impact the success of the transaction overall. Whether their target was a good, strategic fit in the first place. Was there effective due diligence performed? Did the acquirer pay a fair price for the target? Was the integration well handled? So there are several aspects. But one that I would like to highlight and focus on in this conversation is the ability of the acquirer to realign the business model of the combined company so that the post-integration—the combined organization—operates in a very coherent fashion.

We just published an article called *M&A matchmaking,* where we've done some research looking back at M&A integration activities for over 100 consumer products companies. And our research shows that companies that drive toward a coherent business model in the long run generate nearly 50 percent higher shareholder value compared to the rest of the population. And M&A transactions, especially several bolt-on deals, or a major deal of a company with a very different business model—the transformation type of deal that I just described earlier—can significantly disrupt the business model coherence and may require a very deliberate and concerted action to restore the balance of the business model. In the article, we discuss a series of checklists and actions that can help drive better coherence as the companies are embarking on their integration journey.

Greg Jarrett: So, Bryan, what impact can business model alignment have on the outcome of a transaction?

Bryan Barnes: The alignment really helps the companies make focused investments into areas where they choose to play and win. Operating with a hybrid or mixed model can create strategic and operational conflicts and lead to suboptimal performance. Just due to their nature, M&A transactions tend to have the most sudden and disruptive impacts on maintaining a coherent business model. However, a complementary merger or tuck-in, where a company acquires a smaller target with a similar business model, results in a combined company whose overall business model is relatively unaffected by the transaction. On the other hand, when a company acquires a company with a different business model, regardless of the size, the outcome can be a sudden or dramatic reduction of coherence. And we've seen time and time again the detrimental impact on business performance and value creation.

Greg Jarrett: In the last 12 months, we've seen at least one major acquisition that I don't think anybody saw. It came right out of left field, and it could be called disruptive in the extreme. Is this going to become the norm in the future? Disruption over all else?

Bryan Barnes: I think in the short term, you're going to see some additional disruptive deals that we probably wouldn't have seen coming. And the deal that happened earlier this year was somewhat of a launching point for that and really got people thinking differently about strategic options through M&A. Will it become the norm? It would be hard to say. But I definitely think that we're going to continue see some mergers or acquisitions between businesses that we probably hadn't thought of in the past.

Greg Jarrett: Shashi, does this type of merger—this type of integration—take a lot more extreme thought and a lot more procedure than, perhaps, what we might consider to be a normal acquisition or merger?

Shashi Yadavalli: Certainly it does. You're building on something that Bryan mentioned. I, for one, would expect that these types of disruptive transactions will become more mainstream. We're already starting to see that consumer products companies, early on—most of the transactions, the types of deals that they would do would be to buy other brands or use M&A to expand into a new market, new geography. What we're finding is the nature of the deals are changing. Consumer products companies are increasingly buying technology companies. They're buying online capabilities. They're buying digital marketing agency types of capability. Very different business models. It requires a fair amount of thought. It requires a lot of deliberate focus on how they put the two organizations together to truly extract the value of making these types of nontraditional or disruptive types of transactions.

Greg Jarrett: Shashi, two boards of two separate companies look at each other and say, "This is a marriage made in heaven. Our business models match." But besides business models, should anything else be considered upfront before engaging in this deal?

Shashi Yadavalli: Sure. The decision on whether to embark on a deal or not cannot be guided by a single factor, like a business model coherence. We would recommend that clients look at several factors: scale, potential to create value and synergy through the combination, the impact that the combined organization has in the competitive landscape, and price. These are all conditions of whether an organization should move forward with the transaction or not. In fact, we've seen that more savvy deal makers actually don't mind experimenting with targets that have a different business model.

What we have found, though, is when highly coherent companies that make the ball move to acquire a target with a very different business model, they have a very deliberate integration strategy. They follow up with a series of transformative changes that help align the business model of the combined company to avoid, or to improve, the coherence. And they identify the potential issues that could drive that tension from a business model, from a coherence perspective early on in the acquisition process—as early as when they're trying to select different targets. And they have very deliberate strategies that they deploy during the integration process to mitigate that.

Greg Jarrett: At this point, I'd like to ask each of you to help me wrap this up, to summarize. I'm going to start with you, Bryan. Do you have any final thoughts?

Bryan Barnes: Sure. I would just reiterate that companies that deliver exceptional value for their shareholders tend to approach M&A differently. They focus not only on delivering the acquisition's expected synergies but also make a deliberate effort to maintain business model coherence.

Greg Jarrett: And Shashi?

Shashi Yadavalli: Echoing Bryan's perspective, I think as long as companies have a laser focus on value—not just getting the deal done but really how they're going to extract the value from the combination—and they're thinking beyond synergies and beyond getting to a flawless day one, etcetera. Being very specifically focused on how to fix the business model coherence issues that the combination may cause, I think they dramatically improve their odds of being successful in extracting value from the combination.

Greg Jarrett: I'm Greg Jarrett. Thanks for listening to Deloitte M&A Views, sponsored by Deloitte's M&A Institute. This podcast is provided by Deloitte and is intended to provide general information only. This podcast is not intended to constitute advice or services of any kind. For additional information about Deloitte, go to Deloitte.com/about. We also release new podcasts regularly, and if you subscribe, you won't miss a single one. To stay connected and receive more information on Deloitte's M&A service offerings, visit Deloitte.com/us/masubscribe and follow us on Twitter at DeloitteMnA. Until next time.