Serial and small

M&A strategies that work for consumer products companies

Barb Renner, Pawan Kapoor, Shweta Joshi, and Justin Cook

THE DELOITTE CONSUMER INDUSTRY CENTER
The disparate fortunes of consumer products companies

Go back five years. In 2015 we saw a group of just over 200 US consumer products companies that were middle-of-the-road performers (figure 1).

As our multiverse framework bears out, they were companies at a crossroads. Fast forward four years. Their fortunes have diverged substantially. About one quarter of them have significantly improved their performance and total shareholder return by enhancing the quality of their business, building

Frequent, small-sized acquisitions have proved profitable and value accretive.

Notes:
* Availability of financial resources is determined using total cash, cash from operations, and EV/net debt.
# Quality of business is determined using return on assets, 1-year revenue growth, and 1-year EBITDA growth.
Source: Deloitte Consumer Products Multiverse Framework.
their financial resources, or both. In contrast, about 20% have fallen considerably on those same dimensions and are producing negative returns for their shareholders. Some companies, both within and outside the scope of our analysis, met a worse fate—approximately 195 consumer products companies have filed for bankruptcy since January 2019, and 40% of these companies have done so in 2020.

No company wants to be on the losing end of this competitive struggle. But what is the right path for high-quality growth? While the specific strategies of individual companies vary widely, companies have always had the option to pursue growth organically or inorganically. Of course, many do both. Our analysis centers on the acquisition approach and attempts to determine its effectiveness specific to the consumer products industry.

**Acquisition as a strategy for growth**

To analyze the role of acquisitions in growth, we studied 1,015 global public consumer products companies that collectively were involved in 2,484 transactions over the last decade. Our initial analysis showed that consumer products companies that made acquisitions, as a group, performed better than the overall industry on profitability as well as value metrics. Most notably, the acquirers’ three-year total shareholder returns are substantially higher than the industry median over the time period.
In order to better understand what is driving this finding and clarify the contribution of acquisitions, we compared companies that made acquisitions a core part of their strategy against those that only occasionally made acquisitions. This comparison revealed two groups (figure 2):

- **Serial acquirers:** Companies that, on average, carried out at least one deal every year. In practice, they are mostly large food and beverage companies with market capitalizations of more than US$1 billion, located in the United States and Europe.

- **Less-frequent acquirers:** Companies that, on average, execute fewer than one acquisition every year. Most are smaller in size, but about 30% are large companies. They operate most frequently in either the food and beverage or apparel space and have an evenly spread geographic presence.

**FIGURE 2**

Types of acquirers based on frequency of acquisitions

Which strategy works best?

To determine how well companies that followed serial and less-frequent acquisition strategies performed, we compared their results on a series of three-year industry benchmarks tracking EBITDA, price-to-equity ratios, total shareholder return, and return on invested capital (figure 3).

Serial acquirers outperformed both the industry median and the less-frequent acquirer group on all four industry benchmarks. To confirm that serial acquirers’ performance wasn’t due solely to their large size, we compared only large companies in each group. We found that serial acquirers outperform the group of large-company infrequent acquirers on three-year total shareholder return, a success metric used in the initial multiverse analysis. The result provides further evidence that the credit for success likely lies in the unique serial acquisition strategy.

FIGURE 3
Serial acquirers surpass less-frequent acquirers and industry benchmark

Note: * indicates significant differences between serial acquirers and less-frequent acquirers at 90% confidence level. Sources: Deloitte analysis of deals by global public consumer products companies between 2010 and 2019; Capital IQ.
What makes serial acquirers successful?

There are likely many elements at play for a given consumer products company, but we see three primary factors that stand out in our analysis of serial acquires:

1. THEY BUY SMALL
Most deals made by serial acquirers involved buying small companies with an average transaction size of only US$22 million. These deals do come at a premium, so the choice isn’t obvious. On average, the purchase prices were 6.5x the revenue for smaller targets versus 1.2x for large. Yet, in absolute terms, each small deal required only around 1/20th of the investment needed for large deals. Smaller capital outlays meant the downside risk of each individual deal was contained.

2. THEY BUY TO EXTEND AND EXPLORE
Instead of trying to further grow share in their existing offerings and markets, serial acquirers often bought companies that helped them try new things. These acquisition targets often had different product or service offerings or access to parts of the market not served by the acquiring company. For example, Anheuser Busch was able to add breadth to its portfolio through strategic acquisitions of unique craft and European import brands, including Goose Island, Blue Point, 10 Barrel, Elysian, Devils Backbone, Golden Road, and Four Peaks. Serial acquirers also sought new technology or business capabilities to help them address emerging industry opportunities. And the intangible in-market experience held by these target companies could arguably be harder to obtain through organic investment.

3. THEY GET BETTER AT INTEGRATING
If practice makes perfect, serial acquirers have much more experience integrating acquisitions. They have learned how to accommodate small, innovative businesses into their portfolio without disrupting the very value they wanted to capture in the process.

Companies can tap into the four pillars to integrate acquisitions more successfully (figure 4).
This moment in time

The outbreak of COVID-19 poses perplexing challenges for the consumer products industry and many others. The dual safety and financial concerns resulting from the pandemic are causing consumers to change their buying behavior and shift to new, often digitally mediated channels. As a result, many smaller companies are facing liquidity issues and are struggling to manage their formerly high-growth premium products. It is a time of both challenge and opportunity. Consumer products companies should quickly adapt their offerings and build out new capabilities to meet the moment. Larger companies, with balance sheets to support the strategy, can follow serial acquirers’ approach and buy small, innovative companies to solve for the new, unmet needs. Smaller companies, which could be potential targets, should consider how they would be positioned to help an acquirer extend into and explore new offerings and markets. Regardless, the most successful deals will likely be those integrated through a process that protects the existing business while maintaining the speed of innovation and respects the culture while scaling out for value capture.

![Diagram of Four pillars of success for integrating small acquisitions]

**Four pillars of success for integrating small acquisitions**

<table>
<thead>
<tr>
<th>IMMEDIATE</th>
<th>TIMING OF EXECUTION</th>
<th>MEDIUM-/LONG-TERM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protect the existing business</td>
<td>Maintain the speed of innovation</td>
<td>Build resilience and scalability in the acquired business</td>
</tr>
<tr>
<td>• Keep the acquired talent motivated; redundant leadership overhead may be worth retaining</td>
<td>• Avoid increasing overheads through complex processes, IT systems, decision rights, etc.</td>
<td>• Respect the uniqueness of the acquired business—identify what capabilities must remain differentiated in acquired business to “win” in the marketplace</td>
</tr>
<tr>
<td>• Understand and manage change in perceptions for customers/consumers and channel partners</td>
<td>• Set up an incubator or ventures division to manage the acquired (small) business until it scales</td>
<td>• Simplify, streamline, and grow the business (expand production and distribution, secure alternate supply sources, enter new markets and channels, etc.)</td>
</tr>
<tr>
<td>• Address key risks from diligence (regulatory compliance, supply constraints, product quality, service levels, scalability of IT systems, etc.)</td>
<td>• Continue or enhance funding for R&amp;D and new-product development</td>
<td>• Account for specialized talent for target spotting and integration</td>
</tr>
</tbody>
</table>

Be cognizant of the target company’s culture and preserve it empathetically

• Understand what constitutes the identity of the acquired business and retain it (brand image, sales channels, employee incentives, opinion on social issues, diversity and inclusion, etc.)

Source: Deloitte analysis.

FIGURE 4
Endnotes

1. Deloitte analysis of Thomson SDC Platinum data.


Acknowledgments

The authors would like to thank:

Stephen Rogers, managing director, Deloitte Consumer Industry Center
Nithya Swaminathan, senior manager, Deloitte Consumer Industry Center
John Forster, manager, Deloitte Services LP
Richa Khanna, senior analyst, Deloitte Support Services India Pvt. Ltd.
Richa Anand, senior consultant, Deloitte Consulting India Pvt. Ltd.
Ankur Jain, senior consultant, Deloitte Consulting India Pvt. Ltd.
Kavita Saini, manager, Deloitte Support Services India Pvt. Ltd.
About the authors

Barb Renner | brenner@deloitte.com

Barb Renner is vice chairman and the US Consumer Products leader, Deloitte LLP. She has more than 25 years of professional experience serving large multinational clients through a variety of leadership roles. Renner works directly with consumer and industrial product clients, focusing on their regulatory environment, supply chain, technology and processes, and other issues and opportunities. She has also served in key leadership roles with Deloitte's Women's Initiatives and Junior Achievement.

Pawan Kapoor | pakapoor@deloitte.com

Pawan Kapoor is a leader in Deloitte's Consumer M&A practice. He has more than 15 years of consulting experience serving consumer products clients in various sectors, including personal care, household goods, food and beverage, and wholesale distribution. Kapoor has served clients on transactions ranging US$100M to US$5B. His typical focus areas include the development of inorganic growth strategies, value-creation planning and execution assistance, and operating model changes that help clients balance efficient scale and innovation. Pawan has served several large multinational companies in their acquisition of smaller entrepreneurial targets. He is a thought leader in Deloitte on unique nature of small deals, particularly that involve companies with differentiated operational/business models.

Shweta Joshi | shwjoshi@deloitte.com

Shweta Joshi is an assistant manager with Deloitte Support Services' Consumer Industry Center. She has nine years of experience in developing data-driven thought leadership on a range of themes in consumer products, including mergers and acquisitions, customer segmentation, digital commerce, cyber risk, regulations, and American pantry. In her prior role with Deloitte Financial Advisory Services, Joshi focused on goodwill impairment, bankruptcy and restructuring processes, and M&A research. In addition, Joshi is a CFA charter holder.

Justin Cook | juscook@deloitte.com

Justin Cook is the research leader for the consumer products sector within Deloitte's Consumer Industry Center, Deloitte LLP. He also heads cross-sector research for the center, examining issues such as how the COVID-19 pandemic affects consumer behavior. With 20 years of experience in market research, management consulting, and technology, Cook asks challenging questions and helps clients understand how the world is changing.
Contact us

*Our insights can help you take advantage of change. If you’re looking for fresh ideas to address your challenges, we should talk.*

Industry leadership

**Barb Renner**
Partner | Deloitte Tax LLP
+1 612 397 4705 | brenner@deloitte.com

Barb Renner is vice chairman and the US Consumer Products leader, Deloitte LLP. She works directly with consumer and industrial product clients, focusing on their regulatory environment, supply chain, technology and processes, and other issues and opportunities.

**Bryan Barnes**
Partner | Risk and Financial Advisory | Deloitte & Touche LLP
+1 404 631 3452 | brybarnes@deloitte.com

Bryan Barnes is a partner in Deloitte’s Risk and Financial Advisory practice. With more than 22 years of public accounting experience, he serves both financial and strategic buyers and sellers.

The Deloitte Consumer Industry Center

**Stephen Rogers**
Managing director
+1 203 563 2378 | stephenrogers@deloitte.com

Stephen Rogers is the managing director of Deloitte’s Consumer Industry Center. He leads a team that conducts research to uncover new ways of thinking, working, and leading within the consumer industry through data- and evidence-driven analysis.
About the Deloitte Consumer Industry Center

The Deloitte Consumer Industry Center is the research division of Deloitte LLP’s Consumer Industry practice. It provides a forum for industry insights, thought leadership, and groundbreaking research to help companies in the automotive, consumer products, retail, transportation, and hospitality and services sectors solve their most complex industry challenges. We identify consumer industry trends, analyze the issues, delve into the technologies, and identify the risks of this rapidly evolving business landscape. We also work with organizations and clients to turn insights into better strategic decision-making to help them navigate uncertainty. For more information, please visit Deloitte.com.
Deloitte Insights


Follow @DeloitteInsight

Deloitte Insights contributors
Editorial: Kavita Saini, Preetha Devan, and Rupesh Bhat
Creative: Swagata Samanta and Sonya Vasilieff
Promotion: Alexandra Kawecki
Cover artwork: Lucie Rice

About Deloitte Insights
Deloitte Insights publishes original articles, reports and periodicals that provide insights for businesses, the public sector and NGOs. Our goal is to draw upon research and experience from throughout our professional services organization, and that of coauthors in academia and business, to advance the conversation on a broad spectrum of topics of interest to executives and government leaders.

Deloitte Insights is an imprint of Deloitte Development LLC.

About this publication
This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or its and their affiliates are, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your finances or your business. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

None of Deloitte Touche Tohmatsu Limited, its member firms, or its and their respective affiliates shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

About Deloitte
Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the “Deloitte” name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms.

Copyright © 2020 Deloitte Development LLC. All rights reserved.
Member of Deloitte Touche Tohmatsu Limited