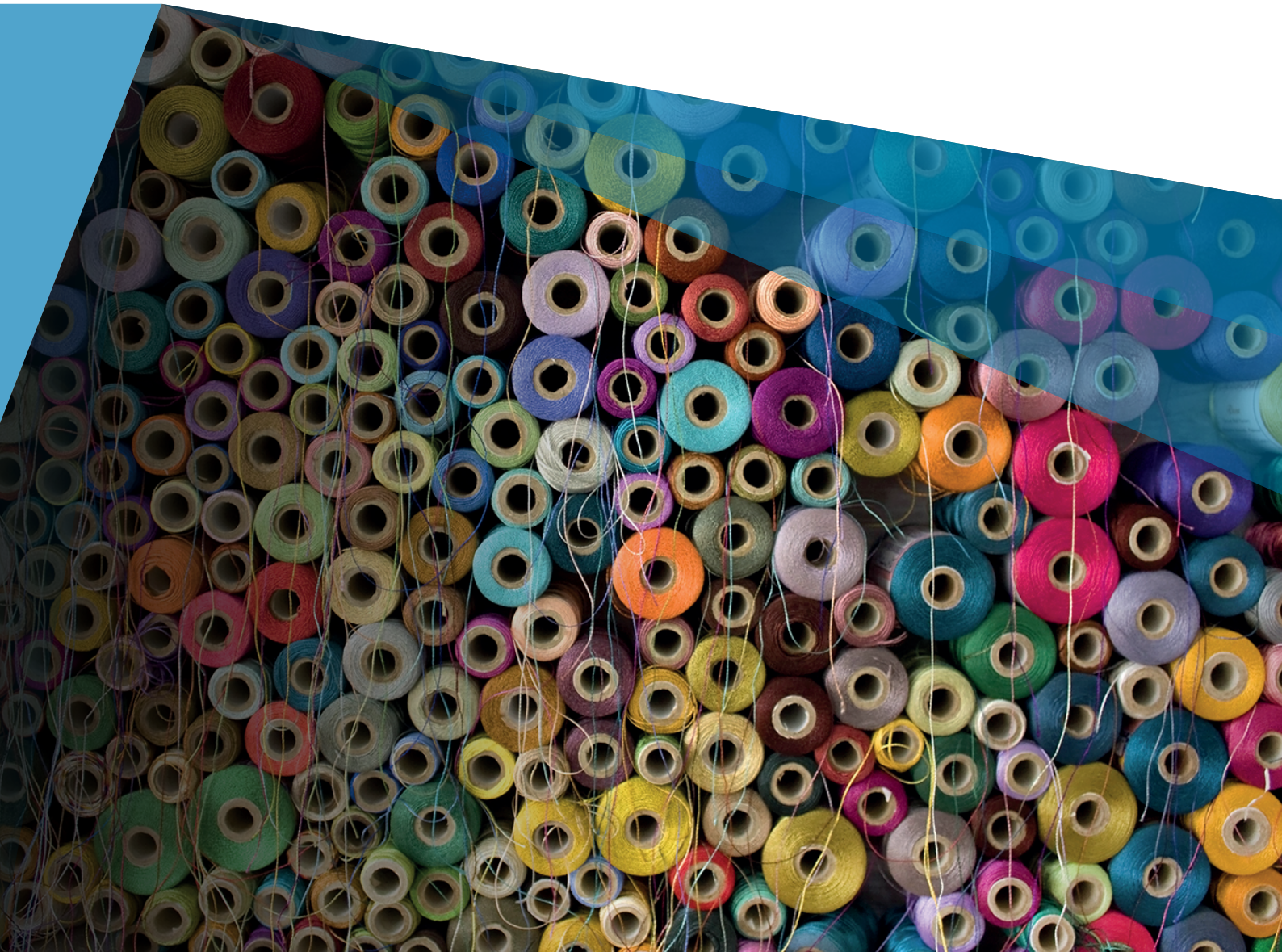


GETTING INTEGRATION RIGHT IN CONSUMER GOODS M&A



GETTING INTEGRATION RIGHT IN CONSUMER GOODS M&A

Consumer Goods companies have a long tradition of robust mergers & acquisitions activity. In general, this M&A activity falls into three distinct categories: acquisitions of scale, of scope, and of capability.

Many acquirers tend to make a crucial mistake in believing that each kind of M&A should be executed and integrated in the same way. The foundation for a successful M&A, however, is nuanced and depends on three key elements – process, people, and practice – that firms must be prepared to modulate to meet the specific conditions of a given merger & acquisition.

THREE TYPES OF CONSUMER GOODS M&A

In recent years, mergers & acquisition activity in the Consumer Goods industry has been of three kinds: scale, scope, and capability.

Scale: An acquirer seeks greater scale by buying smaller businesses similar to its own where it can apply known techniques to drive value from synergies. This is the most common type of acquisition for Consumer Goods companies, and they are most comfortable with it. Synergies feel real and achievable, and the story is easy to tell to investors, channel partners, end consumers, and employees.

Scope: Here, buyers seek to expand into adjacent businesses to grow in new categories or markets. Typically, acquirers believe they can apply some of their existing techniques to drive value from cost synergies. But they also look for revenue synergies in opportunities to extend products or brands from one category or geography, to another.

Capability: Here, a traditional Consumer Goods company acquires a target possessing new, different capabilities. The objective is to extract those capabilities (either through personnel or intellectual property) and infuse them into the more traditional, acquiring organization. Synergies here are less tangible, the acquirer hoping to co-opt the acquired organization's growth and absorb its new capabilities.

FOUNDATION FOR SUCCESSFUL M&A ACTIVITIES

The foundation of M&A integration should be the same irrespective of the type of transaction and is made out of three elements – process, people, and practice. (See Exhibit 1.)

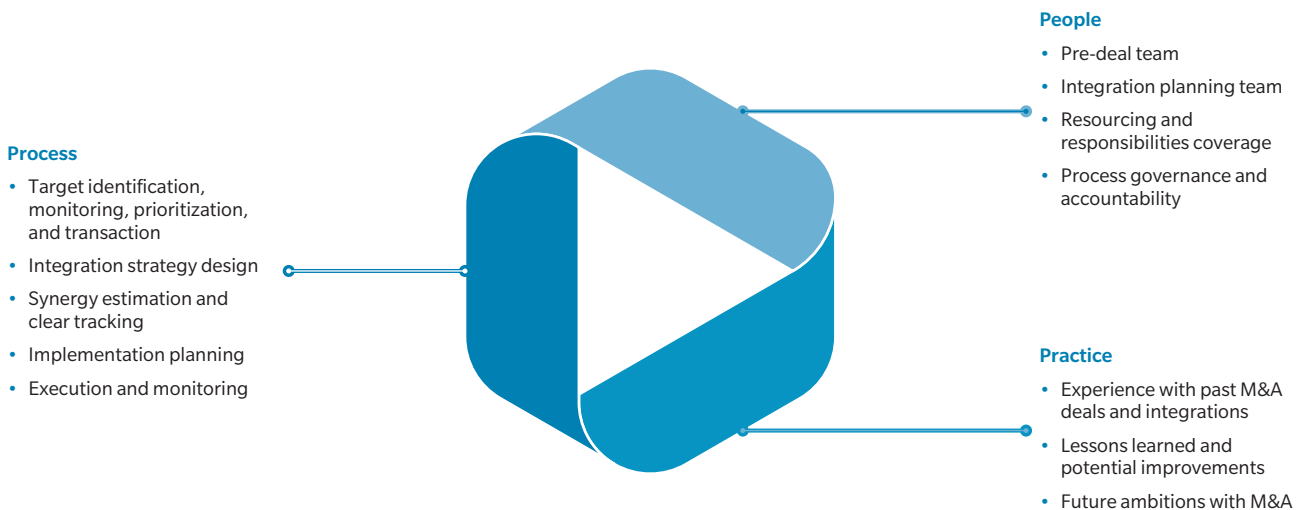
Process: Making acquisition activity rigorous and repeatable. If M&A is a key part of its corporate strategy, an acquirer needs a well-defined process for identifying targets, monitoring them over time and prioritizing among them, and lastly assessing their value and purchase price. Knowing, prior to any substantive negotiations, what you want and what price you are willing to pay is critical to success.

Successful acquirers rigorously design integration strategies and execution plans, and set timetables for realizing synergies. Robust post-merger integration processes involve these key factors: setting clear objectives up front, planning all elements of business and governance at all levels of the organization, and establishing clear metrics tracking performance.

People: Assembling a dedicated and skilled team. Buyers sometimes think of the identification and integration of an acquisition as a side project for a group of senior leaders, supported by a junior analyst or planner. To make acquisitions work and build M&A skills, firms need dedicated teams of specialized and experienced personnel.

Practice: Building capability through repetition and improvement. As with anything, success in M&A requires practice. Such efforts work best when organizations set strategies, provide opportunities to practice, and learn from their experiences.

Exhibit 1: Foundation for Successful M&A Activities



TAILORING THE APPROACH

The elements of process, people, and practice are necessary for any M&A transaction. Nonetheless, each type makes different demands on these elements and requires modulation for different objectives. Consumer Goods companies must be prepared to tailor their approach depending on the type of acquisition being planned, be it scale, scope, or capability. (See Exhibit 2.)

SCALE ACQUISITIONS: MARKET SHARE EXPANSION

Cost synergies are the primary motive in scale acquisitions, and those synergies usually arise from two sources: a reduction in the cost of goods sold (COGS) and a reduction of Selling, General, and Administrative (SG&A) expenses – typically, headcount. Acquirers often fall prey to hubris: They make the mistake of believing that because they compete with the acquired company in the same product categories, they know everything about the target – and that because they are larger, they are better at certain critical capabilities. In our experience, hubris has been the undoing of many an acquisition, and the acquiring company should therefore be open-minded and look for the ‘best of the best’ from both companies.

Speed, in scale M&A, is critical. Acquirers must act fast: every day that passes represents lost efficiency. Consequently, major decisions – such as which leaders to keep, which IT system to use, etc. – should be made quickly.

The third area requiring tailoring in scale acquisitions is organizational design. Headcount reduction is a significant part of scale acquisitions, and acquirers need a robust process to determine the outcomes, timings, and financial impact of the myriad headcount decisions being made.

A good example of a recent scale transaction is the 2015 merger of Kraft Foods Group and Heinz, and attempted acquisition by that combined entity (Kraft Heinz) of Unilever earlier this year, where cost synergies including headcount reduction were a key catalyst for the transaction.

SCOPE ACQUISITIONS: GEOGRAPHIC OR CATEGORY EXPANSION

Scope acquisitions require a different set of tweaks to the foundational elements. Buyers sometimes spend an enormous amount of time on financial due diligence and minimal time on operational due diligence. This can lead to a misunderstanding of certain elements of the acquired business. To avoid this, it is critical to spend time early on to ensure that the integration team develops a robust operational fact base – an understanding of the end consumers, key channel partners, supply chain and sourcing processes, and IT and financial systems and processes. This helps to refine synergies and know where to target integration efforts.

Additionally, scope acquirers should expend more energy ensuring that key members of the target’s leadership and broader team will stay on with the combined entity. In a scale acquisition, a mass exodus of personnel can be more easily managed, but in a scope acquisition, large-scale departures may be the death knell. It is important to learn more about the target’s culture and the preferences of its employees. They should be integrated into the new company – and be given a sense of ownership to maintain motivation.

A unique element of this integration process should be identifying and expanding opportunistic growth efforts in the target’s business, something we call “organizational dabbles.” These may have been small, underfunded initiatives in the smaller, acquired company, but in the new larger entity, such projects can be given new life and expanded significantly. As part of the integration effort, we suggest that the integration team establish a “Performance Improvement Plan” for each piece of the business, considering new opportunities for the combined organization. This provides paths to new growth opportunities for the business and gives managers an opportunity to be heard.

A good example of a recent scope transaction is the acquisition of US-based WhiteWave Foods by France-based Danone for \$10 billion. Through this acquisition, Danone added several brands to its portfolio and expanded its presence in the growing organic food category.

Exhibit 2: Tailoring the approach for different types of M&A

	SCALE	SCOPE	CAPABILITIES
Investment thesis	<ul style="list-style-type: none"> Apply known techniques to drive value from synergies, and fast 	<ul style="list-style-type: none"> Expand into adjacent businesses to grow in new categories or markets Achieve some cost synergies, but drive integration through revenue synergies by extending products or brands from one category or geography to another 	<ul style="list-style-type: none"> Identify new, different capabilities in the target Extract those capabilities and infuse them into the more traditional, acquiring organization
Approach & key learnings	<ul style="list-style-type: none"> Go fast to drive the synergy value in COGS and SG&A costs quickly Watch out for organizational hubris 	<ul style="list-style-type: none"> Take the time to learn, in detail, about the operations of the business to know where to focus integration efforts Identify organizational dabbles, and build performance improvement plans 	<ul style="list-style-type: none"> Go slow to go fast Don’t sweat the small stuff

CAPABILITY ACQUISITIONS

Capability M&A is perhaps the furthest afield from traditional M&A integration approaches, and seemingly the most topical in 2017. In capability deals, there is less focus on immediate synergies. Cost synergies are unlikely – capability acquisitions consist in buying startups or very small companies. Revenue synergies are likely a goal, but the increased revenue is likely to come from the acquiring company as it integrates the new capabilities into its core business. The critical elements of the integration, therefore, are about capability building for the core business -- and are situation-dependent. This will be a key area of M&A activity going forward, and we recommend the following guidelines: set objectives upfront, retain employees, and limit unnecessary changes.

Given that the capability acquisition investment thesis is less straightforward to both external and internal stakeholders, a clear purpose and set of objectives must be set around the acquisition and subsequent integration. For instance, some capability acquisitions concern intellectual property: The target company may have some superior code, data, approach or process. In some situations, the acquired company's employees are only important in the transitional phase for transferring know-how to the acquirer. In others, the target's real value is its people. If this is the objective, a very different approach is needed. First off, integration efforts should be slower. It is hard to learn the secret sauce the target company offers if you immediately begin to disrupt it and bombard it with requests – our phrase here is “go slow to eventually go fast”.

Another option is to promote the target's leaders to key leadership roles in the newco and give them freedom to make the acquired business their own. This strategy may lead to rapid, very positive change, but evaluating the target's leaders in advance will be critical.

Regardless of which path you choose, if the people are important to you, there is another overarching capability acquisition truism – don't sweat the small stuff. If your team is used to doing large-scale or scope acquisitions with significant cost synergies where the acquiring leadership team makes all the decisions, this may be a difficult habit to break, but in a capability acquisition integrating financial planning, IT systems, and benefits packages may not be worth the effort. Again, go slow to eventually go fast.

A good example of a recent capability transaction is the 2017 acquisition of True & Co. by PVH for an undisclosed amount. With this purchase, PVH can access True & Co.'s savvy consumer base and its expertise in ecommerce sales, data, and consumer engagement, which surely was highly attractive to PVH.

CONCLUSION

In any M&A situation, the most important first step is to have a clear view on why you are undergoing the transaction and what benefits it will bring to your organization. If this is a scale acquisition, how can you speed up your efforts and ensure you are quickly realizing cost synergies? If this is a scope acquisition, how can you identify areas of growth in the target, encourage organizational dabbles, and empower your new employees? And, if this is a capability acquisition, how can you preserve what made the target special in the first place – people, brand, and culture - while still realizing the benefits of the acquisition?

M&A is a complicated process regardless of the type or size of the acquisition. Going in with your eyes open and acknowledging that not all acquisitions and integrations are created equal will be critical for success.

AUTHORS

Jeremy Sporn, Partner

Keith Creehan, Partner

Stephanie Tuttle, Engagement Manager

ABOUT OLIVER WYMAN

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

In the Retail & Consumer Goods Practice, we draw on unrivalled customer and strategic insight and state-of-the-art analytical techniques to deliver better results for our clients. We understand what it takes to win in retail and consumer goods: an obsession with serving the customer, constant dedication to better execution, and a relentless drive to improve capabilities. We believe our hands-on approach to making change happen is truly unique – and over the last 20 years, we've built our business by helping retailers and consumer goods companies build theirs.

www.oliverwyman.com

CONTACTS

JAMES BACOS

Global Retail & Consumer Goods Practice Leader
james.bacos@oliverwyman.com
+49 89 939 49 441

WAI-CHAN CHAN

Global Consumer Goods Practice Leader
wai-chan.chan@oliverwyman.com
+852 2201 1700

NICK HARRISON

Global Retail Practice Co-Leader & France Lead
nick.harrison@oliverwyman.com
+44 20 7852 7773

SIRKO SIEMSSSEN

Global Retail Practice Co-Leader
sirko.siemssen@oliverwyman.com
+49 89 939 49 574

RICHARD MCKENZIE

Retail & Consumer Goods Practice Lead – Asia
richard.mckenzie@oliverwyman.com
+852 2201 1700

COEN DE VUIJST

Retail & Consumer Goods Practice Lead – The Netherlands
Coen.DeVuijst@oliverwyman.com
+31 20 541 9790

JEREMY SPORN

Retail & Consumer Goods Practice Lead – North America
Jeremy.Sporn@oliverwyman.com
+1 646 249 0517

MARIA MIRALLES

Retail & Consumer Goods Practice Lead – Iberia
Maria.Miralles@oliverwyman.com
+34 615 036 406

NORDAL CAVADINI

Retail & Consumer Goods Practice Lead – Switzerland
Nordal.Cavadini@oliverwyman.com
+41 44 553 37 64

ANDREW GLOVER

Retail & Consumer Goods Practice Lead – UK
Andrew.Glover@oliverwyman.com
+44 20 7852 7770

RAINER MÜNCH

Retail & Consumer Goods Practice Lead – Germany
Rainer.Muench@oliverwyman.com
+49 160 621 8210

Copyright © 2017 Oliver Wyman. All rights reserved.