



Repeatable M&A in consumer goods

Mergers and acquisitions deliver better results for consumer goods companies than for companies in other industries. Why, then, are so many consumer goods companies settling for occasional deals instead of building a repeatable model for doing lots of them—and doing them right?

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Traditionally, investors looking for consistent returns could reliably turn to consumer products companies to put their money to work. And why not? These companies once had a formula for creating profitable growth: Delight consumers with innovations, expand into exciting new international markets and add to their stables by buying up-and-coming new brands.

But something has changed. Most consumer products companies recently have adopted the fashionable trend of stepping up share repurchases and dividends. According to a Bloomberg analysis in the fall of 2014, S&P 500 companies were on track to spend 95% of their collective profits in 2014 on dividends and share buybacks, with consumer goods companies fully active.

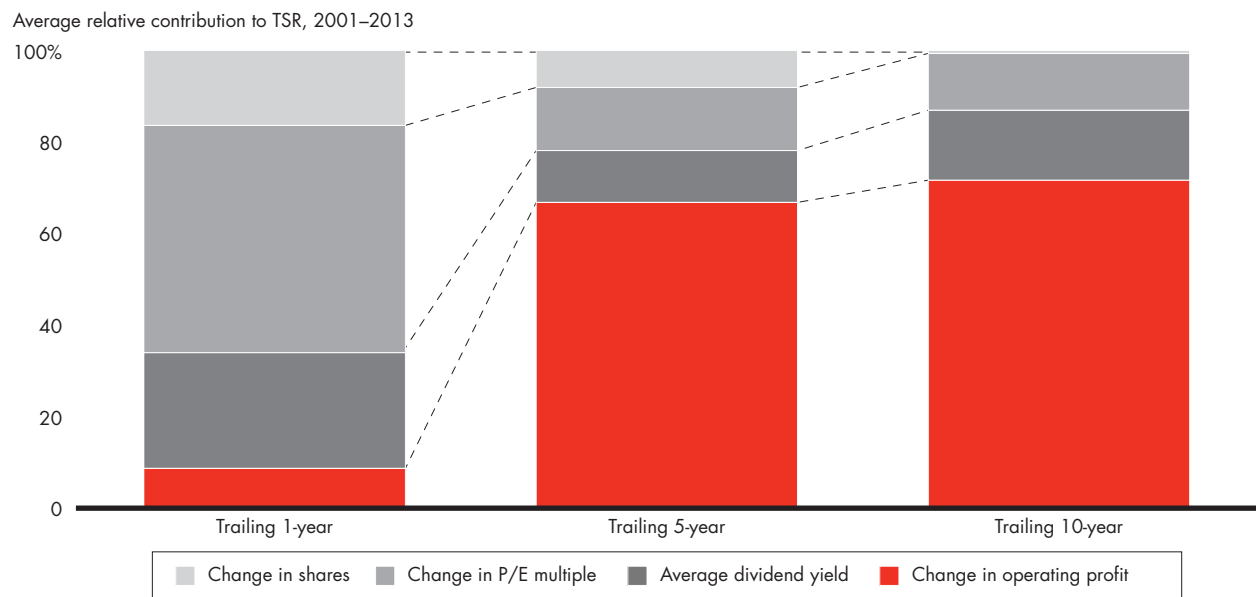
At some level this makes sense. After all, who can fault the wisdom of returning money to shareholders? In fact, several activist investors have taken stakes in consumer goods companies making exactly this argument. The problem is, buying back shares is a bit of a sugar high (see Figure 1). It may help short-term earnings per share, but in the long term it does nothing to deliver above-average total share-

holder returns (TSR), defined as stock price changes assuming reinvestment of cash dividends.

Bain & Company analysis shows that growing operating earnings is the only way to spur long-term TSR. And the one thing that spurs operating earnings growth: systematic reinvestment into the business.

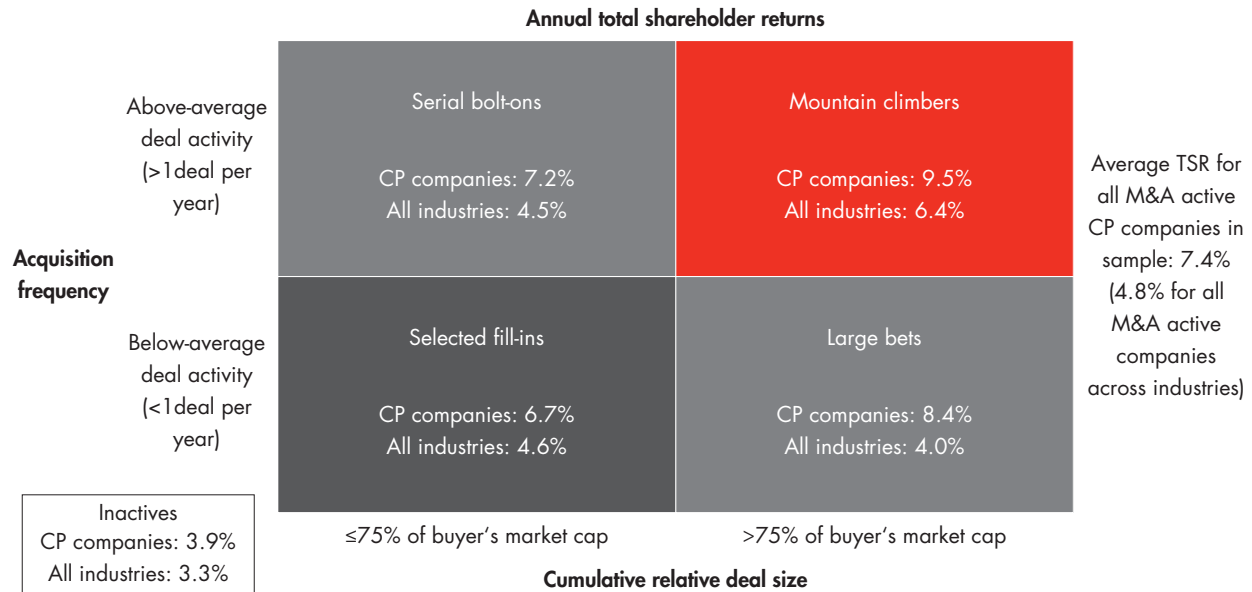
Like their counterparts in other industries, consumer products companies now sit on record levels of cash, and investing in M&A happens to be a particularly attractive option for them. In Bain's study of 1,600 companies across all industries, we observed that the rewards of M&A were indeed greater for consumer products companies than for the average company (see Figure 2). Consumer products companies that engaged in M&A during the period from 2000 through 2010 turned in an average annual TSR of 7.4%, while the average for all companies was 4.8%. Our research also determined that the bigger and more frequent the deals, the better the long-term results. Those companies making acquisitions that added a large amount of their market cap did the best. In general, the more a company's market cap came from its acquisition, the better its per-

Figure 1: Share buybacks have relatively little effect on total shareholder return. Growth in operating profit is far more important



Notes: Change in each variable refers to the trailing CAGR equal to the stated time period; dividend yield is given as the average dividend yield over the trailing period, change is not used as dividend yield impacts TSR directly
Sources: S&P Capital IQ; Compustat; Bain analysis

Figure 2: In consumer products, frequent and material M&A is even more rewarding than the average



Notes: n=1,616 companies, of which 174 are consumer products companies; number of deals includes all deals; relative deal size for deals with undisclosed value assumed at median sample deal size of 1.3% of market cap; cumulative relative deal size 2000-2010 based on sum of relative deal sizes vs. respective prior year-end market cap
 Sources: Bain M&A Study 2012; Dealogic; Thomson; Bain SVC Database

formance was likely to be. Large-scale and frequent acquirers—we call these companies “Mountain climbers”—outperformed companies that occasionally engaged in M&A or sit on the sidelines. As a group, Mountain climbers achieved an average annual TSR of 9.5%.

Repeatable Models® in M&A

It’s logical: Companies that make more acquisitions are more often likely to identify the right targets, to develop the capabilities required to vet deals better and faster, and to form the organizational muscles to more effectively integrate acquisitions. Essentially, leading acquirers develop what we call Repeatable Models for M&A. They create a learning system that helps them build a unique, proprietary set of M&A skills and capabilities that are deeply rooted in their strategy and applied repeatedly to new deals. They sustain institutional investment in their M&A capability, much as if they were building a marketing or manufacturing function from scratch.

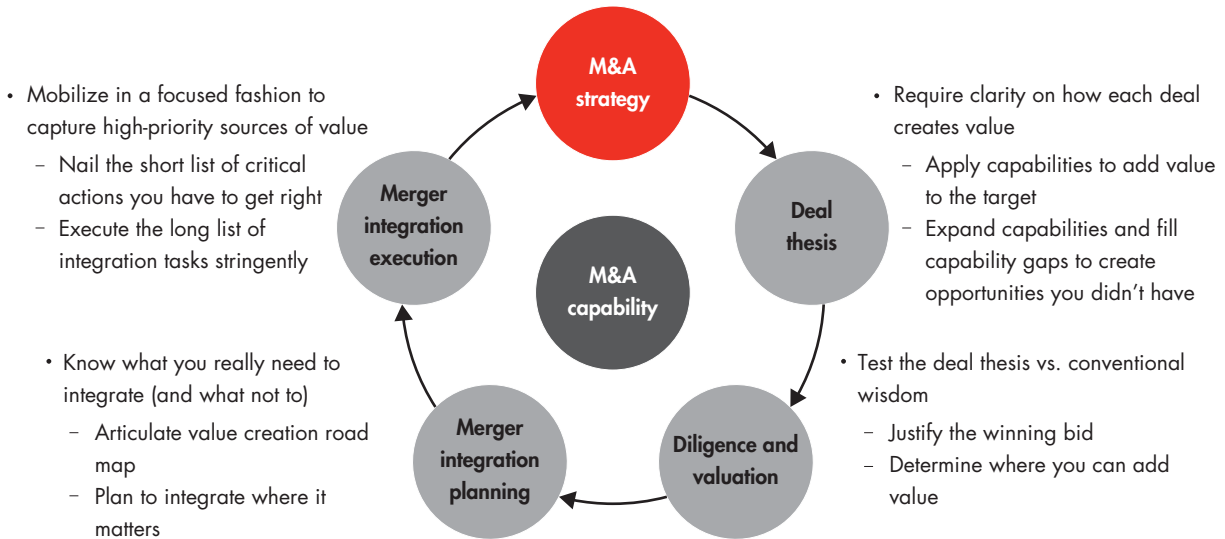
These M&A leaders create a system for identifying, evaluating, closing and integrating good deals (see Figure 3). They maintain a clear understanding of how M&A will

support their growth strategy in alignment with their organic efforts, not only in where to play but also in how to win. They search hard for merger or acquisition candidates that will add to their operating profit, fueling balanced growth. They pursue nearly as many “scope” deals as “scale” deals, moving into adjacent markets as well as expanding their share of existing markets. And these companies create a deal thesis—developed and applied in the context of their overall strategy—and apply a unique value-creation plan that allows them to pay more but get better returns out of a deal than their competition.

Some acquirers focus on a proprietary way of optimizing costs. Others have a track record for using newly acquired platforms with established wholesaler and distribution networks to build global brands. Others have a unique way to scale innovations. But it is always the same core capability in their organic strategy that they also apply to their M&A agenda. By relying on their strengths, not only will they get higher returns than the average acquirer, but they will also build on their experience to become even better at what they are already good at—and increase the edge they have over rivals.

Figure 3: Success starts with a clear understanding of how M&A supports growth strategy

- **Make M&A an extension of your growth strategy**
 - Not only a “where to play” game but also reinforcing your “how to win” model
 - Rely on a company’s differentiated capabilities to create value and further reinforce those capabilities



Source: Bain & Company

Successful acquirers also plan carefully for merger integration, determining what must be integrated and what can be kept separate, based on where they expect to create value. Finally, they mobilize to capture value, quickly nailing the short list of critical actions and effectively executing the much longer list of broader integration tasks.

Companies need to put five elements in place to build this kind of M&A capability:

A strong business development office at the center, typically with close links to the strategy group, CEO and board. The business development office should ensure a strong, ongoing connection between M&A and strategy, linking the company’s accumulated deal-making experience to its core capabilities. The business development office is responsible for working with M&A service providers and maintaining liaisons with business units. It also measures and tracks the results of each deal, essentially creating an M&A learning organization.

Shared accountability for new business activity between the business units and corporate. Business units can come to corporate with ideas for deals, and business unit leaders

should be tasked with identifying new M&A opportunities to pursue in their respective business lines. While the M&A process should be centrally led, the integration process should be largely local.


A commitment to differentiated deal thesis and due diligence. Many companies don’t start due diligence on an acquisition target until they receive an offering memorandum from an investment bank. But there are benefits to developing a deal wish list based on the company’s generic value-creation thesis and systematically assessing potential acquisitions before they are actively shopped. That way, executives have a sophisticated point of view on the asset’s value when it comes on the market. Such a disciplined process leads to a higher percentage of proprietary deals. The best companies also plan post-merger integration from the beginning. To maintain discipline during the entire process, they link due diligence to an investment thesis at all times.

Integration where it matters. The integration process is fundamentally different for scale deals than for scope deals. But any integration has to focus on the sources of value, talent and capability retention and the processes upon which each party depends. Experienced acquirers understand

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the merger integration paradox: A few big things matter, but the details will kill you. And they know that functional groups left unchecked can become a serious liability in any post-merger integration. Veteran acquirers invest to build a repeatable integration model, typically using the momentum of the integration to optimize the merged business in parallel with the integration. Indeed, the disruptive nature of M&A and the integration process opens up the opportunity to implement a broad performance improvement agenda across the organization (see the Bain Brief “Why some merging companies become synergy overachievers”). The most successful acquirers evaluate each integration and determine what they will do differently next time. They build a playbook and invest in building the skills of their integration experts. In effect, they make integration a core competency, and it enables them to beat the M&A odds time after time.

Reliance on good change management principles. People create a big risk for any acquisition. They typically undergo an intense emotional cycle, with fear and uncertainty swinging abruptly to unbridled optimism and then back again to pessimism. Experienced acquirers understand this natural rhythm and manage the risks involved. Bain has developed a battle-tested Results Delivery® framework along 15 dimensions that makes change risks measurable, manageable and predictable (see the Bain Brief “Results Delivery: Managing the highs and lows of change”).

As consumer goods companies plot paths for their futures, they know that nothing beats a mix of organic and inorganic growth. Companies that build Repeatable Models that systematically rely on—and reinforce—their unique capabilities will achieve the best results. Instead of using their record levels of cash to repurchase shares for short-term gains, they’re reinvesting in the business to build companies that will grow and thrive for decades. 

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