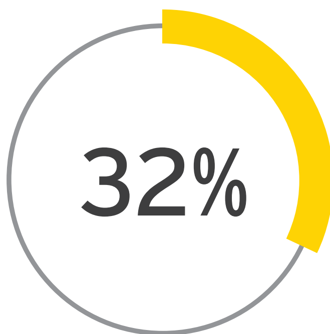
Building a better working world

# How divestments can help consumer-facing companies digitize

2021 Global Corporate Divestment Study

**ey.com/divest/consumer**

## While retail faces pressure to restructure footprints, consumer products companies can leverage divestments to raise capital to fund needed investments in digital and data capabilities.



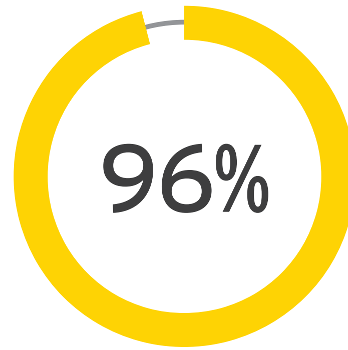

of retailers that anticipate selling banners or geographies expect divestments to represent between 10% and 19% of total revenues.

The COVID-19 pandemic's contrasting effects on consumer-facing companies are likely to play out in differing approaches to portfolio management and divestment strategies going forward. But enabling digital transformation is a common goal in both consumer products and retail.

The differences are highlighted by retail's greater openness to divesting a larger proportion of the business. According to the 2021 EY *Global Corporate Divestment Study*, nearly one-third (32%) of retailers that anticipate selling banners or geographies expect divestments to represent between 10% and 19% of total revenues. The equivalent figure for the consumer products industry divesting non-core categories or brands is just half of that (16%), though this may also reflect their typically greater portfolio complexity and higher number of brands. Many may focus on underperforming assets: according to the 2021 EY *Capital Confidence Barometer*, 65% of retailers and 87% of consumer products companies believe a successful ecosystem-driven transformation will require divestments of nonperforming assets.

Many consumer products businesses experienced a strikingly strong 2020, especially in areas like food, beverages and household products, due to increased at-home consumption during the pandemic. Buoyed by increased consumption during repeated lockdowns and other social restrictions, recent performance should help lift valuations of non-core business units. This could make it a good time to accelerate divestment activity, which could be used in order to fund upgrades to outdated digital and data and analytics capabilities.

For retail, the pandemic is likely to have intensified pressures to restructure and focus on delivering experiences to bring consumers back to stores while also supporting a boom in e-commerce.




of consumer products companies are considering asset-light approaches.

## Asset-light approaches gaining attention

Many consumer products companies are considering adopting asset-light approaches. These involve the transfer of people, processes, manufacturing assets and technology to third parties better suited to owning and/or operating these assets.

Asset-light approaches are attractive to consumer products companies for many reasons, such as lowering downside risk, removing liability for manufacturing facilities, improving visibility of earnings, and gaining management time and focus. They also enable companies to focus on core activities rather than processes that can be more efficiently handled by other companies.

However, when it comes to profit sharing and loss of valuable data, companies may have to make a trade-off between reduced risk and liability, more time and management focus, etc. As a result, these types of deals have been more limited than expected in the consumer products sector, though prominent companies like Starbucks have managed to strike some deals.

Nonetheless, companies' post-pandemic strategies could provide a new impetus to this type of activity. The vast majority (96%) of consumer products companies are considering asset-light approaches, with two-thirds (66%) having developed plans and already seeking partners and providers.

Further evidence of the appetite to streamline the consumer products operating model comes from companies' openness to selling parts of their value chain. Although the majority look to divest non-core categories or brands, 10% are open to taking action on the value chain, primarily in manufacturing and distribution.

Meanwhile, retailers' efforts to reduce asset intensity are already well advanced in some areas. For example, most of the apparel they sell is already manufactured by third parties. But companies clearly see the opportunity to do more. Over half (54%) are already seeking partners, and only 12% say they are not considering some form of asset-light approach.

Moreover, a majority of retailers (58%) agree that companies will increasingly outsource or divest capabilities where they cannot add differentiated value. This proportion is slightly higher than in consumer products (55%).

## Innovative deal structures and models are becoming more prevalent

Growth in innovative deal structures seems likely to accelerate. One model gaining traction sees companies divesting their presence in a particular geographical market to a local distributor. This entity becomes a quasi-partner, required to invest in marketing to grow the brand.

Consumer products companies are also exploring the use of licensing as another route to lower overhead and enable greater investment in digital capability.

Divestments can also help fund the exploration of innovative business models such as subscriptions, rentals and direct to consumer.

For retailers, the question is different. The key calculus is that of managing their store footprint and balancing the loss of physical sales when closing some of their outlets against the likely conversion to online sales.

## Consumer products grappling with ESG challenges

A growing governmental and investor focus on environmental, social and governance (ESG) issues poses a very significant challenge for consumer products companies in particular. In fact, according to the EY Future Consumer Index, 68% of consumers expect companies/organizations to drive positive social and environmental outcomes. Even where management and stakeholders strongly support ESG-friendly policies, implementing these is likely to involve a more profound transformation of the supply chain than in many other sectors — and significant expense.

Companies also may not be able to control all the ESG elements in their business. Examples include inadequate supply of recyclable polyethylene terephthalate (PET) or limited electrical vehicle infrastructure. These factors clearly affect the capacity of consumer products companies to reduce their plastic use and fleet emissions.

ESG considerations appear unlikely to drive divestments yet: just 23% of consumer products companies' divestment plans are directly influenced by sustainability challenges or social issues or policies.

But the prospect of future legislation in areas of environmental and social impact is already influencing strategic decisions in the sector. One example is PepsiCo's purchase of SodaStream: exposure to home preparation gives the company a way to continue participating in the soft drink revenue stream even if traditional sales are limited by sugar taxes or other measures.

## Recommendations

- Consumer products companies should consider harnessing valuations enhanced by the pandemic by divesting non-core units and reinvesting to upgrade digital capabilities.
- Retailers may review their store footprints with even greater intensity to highlight candidates for sale or closure while strengthening their online and home delivery capabilities.
- Both types of companies should investigate asset-light approaches as potential routes to reduced operational complexity and increased focus on enhancing core businesses.

## Conclusion

As in many sectors, digital transformation is the key challenge facing the consumer area. Divestments can play a vital role in this. Consumer products companies should consider funding upgrades of their outmoded capabilities by selling non-core units at a time of advantageous valuations. Retailers, meanwhile, may explore how sales or closures can streamline their physical footprint while building their online and home delivery presence.

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