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Building a better working world

Consumer industry highlights

Global Capital Confidence Barometer

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A note from Jeff Wray, EY Global Consumer Transactions Leader

M&A appetite grows amid strong economic outlook and need to reshape portfolios

The appetite for mergers and acquisitions (M&A) among consumer products (CP) and retail companies is at its highest level in nearly a decade, amid a combination of economic strength, sector growth, disruptive channels and business models, and the need to satisfy investor demands for higher returns. As noted in the 20th EY *Capital Confidence Barometer* (CCB), 62% of executives in the combined consumer and retail sector expect their company to actively pursue M&A. Retailers (71%) are even more M&A-minded than their consumer products counterparts (59%).

On the surface, consumer executives have a robust view for growth in the economy and in sector revenue, as 94% of executives say the prospects for the global economy are improving and 88% say the same for the sector. Both results are up sharply from a year ago.

This positive view is understandable: many consumer products companies are reporting improvements in organic growth, as the focus on cost cutting over several years has freed up capital, allowing companies to invest more on increasing market share and driving category growth. Retail executives are even more positive about the sector (94% see it improving, compared with 86% for consumer products executives). However, this may be relative. The optimism comes following a significant period of bankruptcies and store closings, as the retail industry was one of the first to face massive digital disruptions. Retail bankruptcies and store closures will likely continue; the pace has merely slowed.

Rising costs, economy top challenges to growth

Still, the current revenue growth rate for the consumer sector remains at 4%, and sector executives also showed a touch of pragmatism. Almost one-third said slowing economic activity is the greatest external risk to their business.

More directly, both consumer products (22%) and retail (18%) executives cite increasing production costs as the most significant challenge to growth. The push for more natural and less processed foods is one factor driving up costs for consumer products companies. At the same time, companies are investing in technology to meet consumer demands for transparency on sourcing and food safety. Retailers, meanwhile, face the cost of maintaining both traditional and digital distribution channels. They are investing to provide unique, personalized shopping experiences as they also focus on reaching consumers where and when they want.

Only 11% of retailers mention new market entrants and only 10% cite disruption from more technologically advanced competitors as the most significant challenge to growth. This indicates a predominant short-term view focused on quarterly or annual financials. Hence their top issue is rising production costs, with inflation coming from many directions, including labor or tariffs.

Digital investment a primary focus

Still, the digital world makes it easier for startups to find customers through social media and digital advertising and compete more easily with established companies. At the same time, technology makes it easier for consumers to compare on price, making it more difficult for retailers and manufacturers to pass rising costs on to consumers.

To counter, 97% of executives plan to invest in technology. This includes investments for internal efficiencies or creating new products and services and improving the customer experience. Companies are also exploring artificial intelligence (AI) and automation to improve front-end and back-office processes.

Portfolio reviews may build in agility

Regular portfolio reviews can help find areas to free up capital for these technology investments. Fortunately, portfolio reviews have become almost *de rigueur* for both consumer products and retail companies as they look to build agility and resilience into their strategies in this evolving digital world. In fact, for the first time, more companies in the survey (consumer products – 42%, retail – 38%) are reviewing their portfolios every quarter than are reviewing them annually (consumer products – 23%, retail – 36%).

The results of these reviews vary somewhat between the sectors though. Consumer products companies said that as the result of a portfolio review, they differentially invested capital in a particular business unit (31%) or reshaped capital allocation across their whole portfolio (29%). For retailers, the most frequent result of their most recent portfolio review was to identify an asset to divest (25%), though reshaping capital allocation (24%) was the second most frequently mentioned result.

Meeting customers where they live is key

Traditional deal strategies have often centered on bottom-line synergies to create value. But executives are signaling that it will be market expansion, top-line synergies and access to differentiated customers that they will be focusing on to elevate deal success. Companies that keep a sharp eye on what needs to be improved in their portfolio and that continuously look for acquisition targets that can help fill those needs will best be able to meet the demands of future consumers.

Top five consumer products investment destinations


1. UK


2. US


3. China


4. Germany


5. France

Top five retail investment destinations


1. US


2. UK


3. China


4. Germany


5. France

Consumer industry key findings

Investments in technology and adjacent sectors are key to address disruption.

97%

of respondents are planning significant investments in technology this year.

41%

of respondents review their portfolio on a quarterly basis.

44%

of respondents use M&A to grow into adjacencies due to sector convergence and to respond to changing consumer behavior.

Consumer products manufacturer key findings

M&A plans are increasing, but competition and value gaps could be hurdles.

59%

of CP respondents expect to actively pursue acquisitions in the next year.

38%

of CP respondents strongly agree that the valuation gap between buyers and sellers is highest since the global financial crisis (26% in retail).

93%

of CP respondents expect more hostile and competitive bidding in the M&A market in the next 12 months (85% in retail).

Retail key findings

Technology plays a key part in both enhancing the consumer experience and bringing more efficiency to operations.

33%

of retail respondents aim to increase the use of technology, automation and AI as the key priority of their employment strategy (21% in CP).

55%

of retail respondents plan significant technology investment this year to create new products and services or improve the customer experience.

48%

of retail respondents say activist shareholders are urging them to make acquisitions (33% in CP).

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