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COMMERCE

2021 is a seller's market: Kearney

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Less than 20 percent of executives expect the M&A deal activities to go down this year compared to last. Image courtesy of Kearney

By NORA HOWE

As companies and investors look to reshape their business portfolios to match consumer sentiments and search for new growth opportunities, the mergers and acquisitions sector is becoming a seller's market.

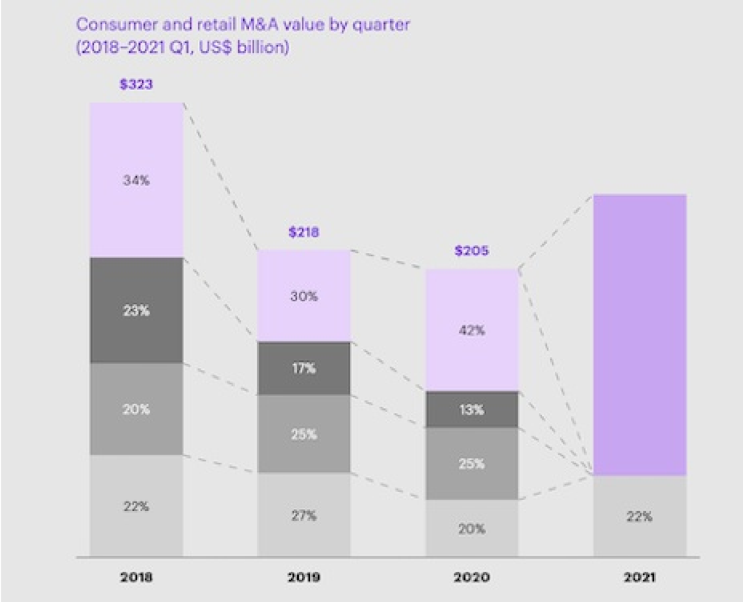
According to the 2021 Consumer and Retail M&A report from global management consultant Kearney, small to midsize assets are sitting in the spotlight as more than half of its survey respondents are seeking targets smaller than $500 million. To succeed in the post-pandemic landscape, brands' need for control over operational assets will be of utmost importance.

For this report, Kearney polled 100 leading consumer packaged goods (CPG) and retail executives for their outlook on mergers and acquisitions.

The year ahead
During the pandemic, consumers demonstrated that trust remains a priority, turning to brands that are reliable, familiar and match their values. In that context, Kearney expects the M&A market to intensify as consumer and retail companies look to reshape their portfolios.

The financial stimulus, low interest rates and booming equity markets have created a seller's market, according to Kearney. The first quarter of 2021 is already showing a strong sign of uptick, yielding $58 billion in announced M&A deals, which is up 40 percent compared to Q1 of last year.

In Q1 2021, Kearney saw nearly 300 special purpose acquisition companies (SPAC) across all industries exceeding the total issuance and raised capital from all of last year.



M&A activity has dramatically accelerated in the past two quarters, signaling potential recovery. Image courtesy of Kearney

Over the past 12 months, there has been an accelerated pace of change across the consumer packaged goods (CPG) industry, driven by new consumption behaviors, renewed focus on sustainability and reshuffling consumer loyalties with technology-enabled convenience.

As a result, major CPG companies are reshaping their portfolio of the future into one which will bring more direct consumer access and greater differentiation.

Out of the top 20 consumer companies, Kearney found that nearly 75 percent of them could be likely candidates to undergo a major divestiture in their portfolio. According to the survey, nearly 40 percent of executives had significantly increased their divestiture activity during 2020, and more than 60 percent of these executives pointed to strategic restructuring and portfolio optimization as the main reasons behind these recent divestitures.

In 2021, 70 percent of executives are primarily looking at scope deals compared to a near-even split in 2020. Most of these deals support access to new customer segments through challenger brands with a "cult" following and unique, well-differentiated value, such as VF Corporation's acquisition of Supreme (see story).

Kearney expected to see a major shift in M&A strategies over the next 12 months, with 85 percent of executive surveys reporting next year's focus to be on local trends.

The consulting firm saw this trend getting traction in 2020 in Asia Pacific with more than 91 percent of the deals being local, however this is in sharp contrast to prior years where cross-border deals were the preferred avenue for growth.

Consumer and retail executives are aware of the events and dynamic trends shaping today's consumer preferences, but also understand that organic growth and innovation alone are insufficient.

Technology is quickly being adopted among luxury brands like Gucci, suggesting the acceleration of the convergence among products and services. Image credit: Gucci/Roblox

Kearney suggests that leadership in today's market requires accelerated change and growth, leading to a more active M&A and divestiture market.

Tech growth

In the report, Kearney also noted the appearance of optionality and convergence in every sector, but specifically acknowledged the technology adoption curve within luxury.

U.S. retail company Neiman Marcus Group expanded its digital investments with its acquisition of Stylyze, Inc., a cloud-based software platform which helps deliver enterprise solutions to home and fashion retail verticals. The acquisition will assist Neiman Marcus in building a differentiated luxury experience.

This is the first of several digital investments and growth moves planned for the retail group. While Stylyze's technology currently supports Connect, the retailer is planning to explore integrating its functionality into additional digital tools, including ecommerce, mobile apps, messaging channels like text message, chat, and phone calls and other engagement channels (see story).

Global investment in the resale platform space is rapidly accelerating.

Last month, French luxury company Kering expressed interest in the circular fashion space with an investment in luxury subscription handbag rental service Cocoon, marking a noteworthy shift in how luxury is approaching the rental/resale market (see story).