



READY? SET. GROW!

Talent Implications in a New Era of Consumer Packaged Goods and Durables M&A Activity

In a nine-month period commencing in June 2000, the consumer packaged goods (CPG) and durables industry underwent a dramatic period of consolidation. The trigger for the M&A activity was an intoxicating blend of circumstances:

- A mid-'90s equities run-up, and therefore the near peak of market value;
- An inability to attract capital compared with high-flying tech and Internet stocks, yet capital was widely available;
- Stagnant domestic growth, coupled with sporadic international forays; and
- The shift of power to the now ascendant retailer.

Once it began in June 2000, the activity continued at an incomprehensible pace. Every major company and financial institution was busy executing new alliances: ConAgra Foods and International Home Foods; Unilever and Best Foods; Georgia-Pacific and Fort Howard; PepsiCo and Quaker Oats; General Mills and Pillsbury; Kraft Foods and Nabisco; Kellogg and Keebler. In the midst of these successful deals was a failed effort by Coca-Cola to create a joint venture with Procter & Gamble (P&G) and Pringles, and an initial pass at Quaker Oats. In January 2001, Nestlé announced its intent to acquire Ralston Purina. P&G didn't stay on the sidelines long, acquiring Clairol in May 2001.

The merger activity set off a wave of private equity investment, as the newly consolidated businesses shed non-core brands and assets for cash or equity to fund acquisitions, reduce product/brand redundancy or respond to regulatory challenges. It also had implications for leadership in the industry; most companies were reactive, but a few anticipated how leadership requirements might evolve as a result and built talent management and acquisition capability to accelerate their performance and market leverage. Companies that did not prepare their organizations and did not find a chair when the music stopped found themselves under intense pressure to cut costs and improve margins in the face of these newly formed, large-scale, global competitors and increased customer leverage.

Fast forward: The next transformation

Nearly 13 years later, the global recession that began in late 2007 and deepened through 2009 forced the industry once again to respond to flat or declining growth trends with a series of mergers and acquisitions. Companies may have packaged their communication about these deals in colorful gift wrapping, but make no mistake, most of what we have witnessed during the past four years have been “must-do” transactions for one side of the deal, or both. And yes, there was the occasional shrewd and opportunistic gambit, but often the seller was eyeing storm clouds rather than sunny skies. Others have made deep investments overseas, especially in the BRIC countries of Brazil, Russia, India and China. Regardless, slow growth, commodity and energy cost containment challenges, retailer leverage, and the inability to attract capital investment has persisted and driven:

- > M&A activity to find global brand and product leverage and clout;
- > Investments in global and emerging international markets; and
- > The shedding of non-core product and brand portfolios.

While bold, much of the activity was addition by subtraction. M&A activity between 2009 and 2012 was predominantly borne from one or more highly motivated parties, reflective of some form of implied or exerted necessity. And, while transformational, we witnessed large portfolios being split into separate companies based on growth theories. Additionally, there were a set of opportunistic and consequential acquisitions that helped accelerate companies' market positions.

A transforming landscape:

While not a comprehensive list, what follows is evidence of where the weight of the activity for the past four years resided

Company Splits and Spins	System Consolidation	Opportunistic Market Expansion	Private
<ul style="list-style-type: none"> • Cadbury Schweppes spins off Dr. Pepper/7Up • Kraft acquires Cadbury • Nestlé acquires Kraft's frozen pizza business • Ralcorp spins off Post Foods • Bimbo Bakeries acquires Sara Lee's North American bakery business • The J. M. Smucker Company acquires Sara Lee's North American beverage business • Sara Lee Corporation split • Dean Foods spins off its WhiteWave unit • Sara Lee spins off D.E. Master Blenders; renamed N.A. business Hillshire Brands Company 	<ul style="list-style-type: none"> • PepsiCo acquires The Pepsi Bottling Group (PBG) and PepsiAmericas (PAS) • Coca-Cola acquires Coca-Cola Enterprises North American operations 	<ul style="list-style-type: none"> • Mars acquires Wrigley • Pfizer acquires Wyeth • Merck acquires Schering-Plough • Kellogg acquires Pringles • Campbell Soup Company acquires Bolthouse Farms • Tempur-Pedic International acquires Sealy Corp. • Unilever acquires Alberto Culver • ConAgra acquires Ralcorp 	<ul style="list-style-type: none"> • Blackstone-owned Pinnacle Brands acquires Birds Eye Foods • KKR, Vestar and Centerview acquire Del Monte Foods

The moons that have driven the waves of deal activity are most certainly investor-driven, but the catalyst is an ongoing strategic tension in the consumer goods ecosystem: manufacturer scale and brand leverage seeking balance with customer scale and buying leverage.

Put on notice: A model for the future

In March 2013, a new moon rose and shone light on what the coming year(s) may look like for the industry. H. J. Heinz was acquired by Berkshire Hathaway in partnership with 3G. What follows are not new observations, but they are elemental: Really smart people, with a track record of success and swarms of analytical brilliance within their firms, determined that Heinz, trading near 52-week highs, was worth a 20-percent premium — and they expect a significant return on that investment. As several CEOs have shared with us, this is a game changer, and the game is at once exhilarating and frightening.

“This is big news. It bodes well for valuations going forward as the market moves to focus on market and brand growth,” said one.

The Heinz deal and the attention surrounding investor Nelson Peltz’s sizable holdings in PepsiCo and Mondolez International signal that smart money sees growth and investor prosperity ahead for the consumer packaged goods and durables industry. The premium paid for Heinz certainly represents the value of the brands, but it also signals that the sector is now viewed as undervalued, and that value can be achieved by driving great brands, extending the company’s reach and market share, as well as shedding costs.

In addition, some see private ownership as an ideal platform for growth, providing shelter from public company quarterly scrutiny relative to capital and dividends as well as international tax advantages. “If I’ve learned one thing, it is that being private in this day and age in CPG is a competitive advantage,” explained the North American president of a global consumer products company. “We think in terms of years not the quarter. We can chase acquisitions you might not in a public setting and we can absorb risk.”

While the past few years have seen the majority of the activity serve management’s need to right the domestic cost structure and balance sheets to reflect domestic growth prospects, this next wave will tilt heavily toward global expansion. For U.S.-centric companies, that may be the more frightening message: Value will be created by investing in growth abroad, funded by a relentless and ruthless cost-cutting effort at home.

Talent implications: Preparing for growth

Depending on where their companies are in this evolution, business leaders may or may not need to revisit their long-term strategic plans. However, nearly all business leaders and human resources executives in the industry will want to refresh their talent planning in light of this fundamental shift. History has shown that companies that are not prepared to take advantage of strategic opportunities to merge or acquire businesses in a transforming market get left behind or marginalized. To be prepared, companies must have a robust M&A capability to identify and evaluate strategic opportunities. They need the processes in place to quickly build a high-performing team aligned behind the merger strategy and ready to implement the integration plan once the deal is completed. And, as companies remake themselves into larger, more global businesses, leadership profiles will evolve to include new competencies, including a more global mindset and increased digital and mobile marketing savvy.

Ready? The right talent and capability for strategic growth	Set. Securing the team in transition	Grow! Leadership requirements for the long term
<ul style="list-style-type: none"> Evaluate the quality of your strategic capabilities (talent and structure) across four dimensions: <ul style="list-style-type: none"> Market and consumer trends/targets Corporate development Enterprise finance Information systems and decision support Must have robust M&A capability <ul style="list-style-type: none"> Sufficiently staffed Sufficiently supported (professional services) 	<ul style="list-style-type: none"> Know the talent you are buying: <ul style="list-style-type: none"> Acquisition targeting and strategy must include an independent assessment of the caliber and value of the executive talent Develop retention plans for the acquiring company's best talent through the period of change/integration Define the responsibilities of key roles in the combined company. Roles may be larger in scope and complexity; when companies don't acknowledge how roles will evolve, they can place people in critical positions who are ill-equipped for their new responsibilities and expectations Time to opportunistically build muscle: <ul style="list-style-type: none"> An acquired company's best business and functional leaders are the most marketable and at their most vulnerable 	<ul style="list-style-type: none"> Leadership profile and competencies must elevate: <ul style="list-style-type: none"> Knowledge, scale, scope and perspective that can rotate between harmonized established markets and culturally nuanced emerging markets Global diversity in thought, experience and culture, as distinct U.S. (base) vs. international (growth) executive profiles moving rapidly toward extinction Organizational structure; going global stresses management conventions, which may demand matrix management Digital/mobile savvy-market strategy

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About the author

Arthur S. Brown leads the Consumer Durables & Packaged Goods Practice for North America and is a member of the firm's global Consumer Goods & Services Practice.

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