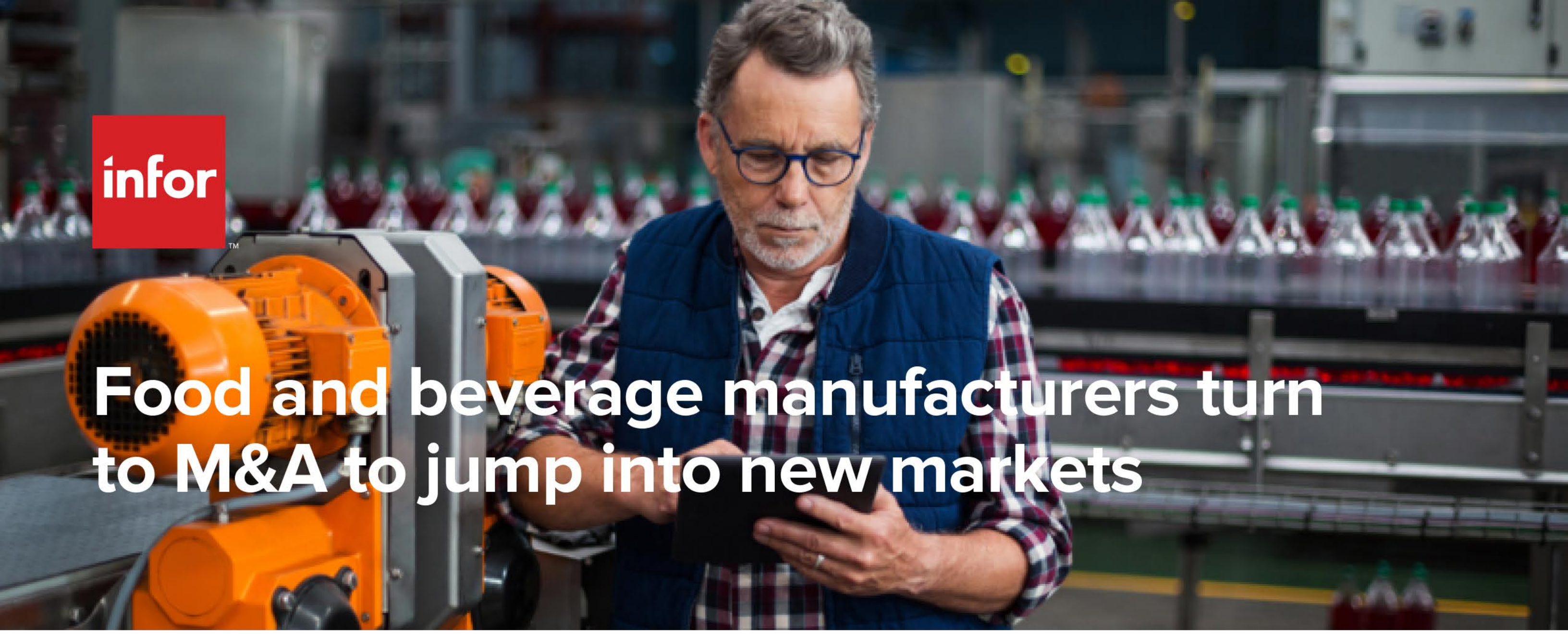

# Food and beverage manufacturers turn to M&A to jump into new markets

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Manufacturers in the food and beverage industry are increasingly turning to mergers and acquisitions to keep pace with consumer demands. In an era where speed is critical, many companies seem to find it to be faster and easier to form a partnership or make an acquisition, rather than invest in R&D or develop their own new products and brands from the ground-up.

## The factors driving the trend

As economic recovery gains momentum and fuels a robust growth period in the food and beverage industry, expansion-hungry manufacturers are eager to take advantage of new trends and the growing consumer obsession with the quality of the food they eat. Healthy snacks, plant proteins, clean labels, exotic taste experiences, neuro-nutrition, and socially mindful companies are all top-of-mind topics for today’s shoppers, especially millennials. Consumers now prioritize locally grown foods, sustainable farming, and organic and non-GMO foods, and are quite willing to read labels and research the origins of their meals, whether it be prepared in a four-star vegan restaurant or picked off the shelf of a corner convenience mart.

However, some trends are short-lived. For example, kale is old news. Edible seaweed is now the new healthy sensation along with Omega-3s, antioxidants, probiotics, and even floral-based flavorings like jasmine, rose, and juniper. Pumpkin is being replaced by fig and pomegranate. Unicorn coloring is now a reality. Poke-bowl restaurants are popping up across the US, as are vertical farms, craft breweries, online sources for meal kits, and grocery stores which offer home-delivery and put your perishables in the refrigerator for you.

Unfortunately, the classic brands, the ones that were once the backbone of the food industry, are struggling to find their footing in this changing market. Many of these household food and beverage names have been bundled into offerings and shuffled among buyers and equity investors.

Even the Pillsbury Doughboy is vulnerable to shifting trends. The giggly, lovable mascot recently waved goodbye to J.M. Smucker Co, as Brynwood Partners announced it would acquire the Pillsbury brand, Hungry Jack®, Martha White®, and others, for $375 million. Only a decade earlier, Smucker was buying Pillsbury as part of its acquisition of International Multifoods Corp. As consumers focus more on healthy options, packaged convenience and taste-startling flavors, the so-called "center of the store" aisles, are being skipped, and consequently many of the brands associated with them are suffering.

To overcome this, many large food and beverage companies are acquiring brands with a fresher image. According to **Mergermarket's Global M&A Report**, 2017 was a record-breaking year for deals in the consumer segment, with transactions reaching a combined worth of $149.8 billion. In the US, merger and acquisition activity in the food and beverage segment saw a five-year high for number of deals with 195 transactions worth a total of $50.8 billion. Globally, activity was also high, with 856 transactions worth a total of $142.4 billion USD, also a five-year high. The US accounted for 22.8% of global deals, its highest share in the last five years. As of now, 2018 appears to be on a similar trajectory.

## Agility required

Food companies know they must be quick to seize market share in new arenas—or risk being shut out. More and more startups are breaking into the industry as artisan foods, craft beers, and one-of-a-kind restaurants cater to providing patrons with Instagram-worthy meals. E-commerce also allows small companies to reach consumers with a variety of dietary restraints, from gluten-free to low-carb.

The food and beverage industry has become an intricate mosaic of highly specialized products responding to micro-interests. This means new thinking is required from research and development; acceptance of change must come from the C-suite, and operational-level agility must be embedded in processes. For instance, robotics can be easily re-programmed to packaging machinery which can be reconfigured to accommodate family-size containers or snack-and-go portions.

Beyond the production floor, flexible supply chain conduits are also a must-have. Manufacturers must be able to source a wide variety of raw resources, including branching into some areas which may have previously been uncharted zones, such as neuro-nutrition and meat substitutes.

## M&A is the fast-track to realignment

Food and beverage companies turn to M&A activities as a shortcut to realign their product portfolio, change their brand image, or branch into new markets. UK-based Reckitt Benckiser Group® invested $17.8 billion USD in US-based Mead Johnson & Company as a way to get into the infant formula market.

Similarly, Kellogg® bought Chicago Bar Company from a two-person start-up for **$600 million**, moving into the fruit and nut energy bars market. **Campbell's Soup** purchased Pacific Foods™ of Oregon last summer to move into more organic food offerings. Campbell has been particularly aggressive in using M&As to expand its nutritional offerings, buying four companies since 2012, including Bolthouse Farms®, which is well-known for carrot juice and smoothies. It also purchased, **Plum** Organics®, the baby food maker, in order to move into the children's market, and **Garden Fresh Gourmet**®, producer of hummus and salsa, to move into healthy snacks.

## Don't skip building the necessary foundation

While we may look at these M&A activities, as an example of how to shortcut branching into new directions, the fact is that while some of these acquisitions have been successful, others have been unable to truly turn the tide. Although some of this may be attributed to the actual products and brands, we need to look below the surface of such deals.

Those who succeed are able to quickly integrate their new businesses and leverage data and learnings across the enterprise. A flexible, expanded IT infrastructure was likely in the background—a prerequisite for creating a new expanded view. Visibility is a critical part of merging companies, creating new business units, and establishing new branches or divisions. This is the only way to analyze total return on investment (ROI) and evaluate the long-term impact of integrating the new with the old.

Acquiring a startup is only a quick-fix and much like outsourcing R&D, it provides instant access to new markets, but is that enough? No. Separate systems need to be integrated, eliminating bottlenecks in communication and creating economies of scale that can be derived from different business units collaborating on common issues.

## Solutions that support expansion

Many food and beverage-specific IT solutions are available to support a manufacturer's growth agenda. For example, product lifecycle management (PLM) solutions are a valuable tool that help food manufacturers streamline the product development process.

PLM solutions, make it easier to manage the launch of new product offerings, including documenting regulation compliance and creating labels that meet new clean label requirements. In the case of M&A, PLM also can play a key role in eliminating duplicate raw materials and optimizing formulas across the new business.

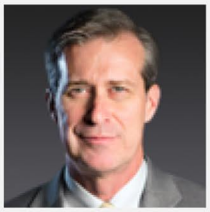
Enterprise resource planning (ERP) software contains modern digital features, such as collaboration tools, artificial intelligence (AI), and predictive analytics, and also speeds processes and responsiveness both internally and externally. Supply chain partners need to be part of the extended network with real-time visibility into inventory, availability and transportation status.

For most companies, deploying IT solutions in the cloud provides an easy, fast method for standing up new divisions or business units quickly. Since there is no need to research, purchase, and set up servers and security, the IT team can focus on more productive uses of time. Transitioning to a solution that is free of cumbersome modifications also makes ongoing upgrades easy. The company can expand (or contract) as needed, adding storage and applications, while retaining flexibility.

Technology also supports tactics for aligning with customers, from online portals for consumer input, to ecommerce for direct sales. Even tools for monitoring social media helps manufacturers understand the mindset of consumers and their preferences. Social tools monitor emotional responses, data about purchases trends, demographics, and shifting buying cycles, giving product development professionals valuable insights into emerging trends. Predictive analytics and AI enhance these windows to the future even further.

## Final takeaway

Eager for growth, food and beverage companies have been turning to M&A as a way to shortcut their move into new markets. Buying a company may be faster than developing a new product from the ground-up. However, M&A must also be supported by software which will help integrate cross-functional data and provide visibility across business units for one unified view. For companies that prefer to rely on their own expansion and R&D tactics, software will support those efforts, giving companies the tools to streamline and expedite new launches. Both methods will help food manufacturers give consumers the tastes they crave—while keeping some sweet profits for themselves.



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