# HOW TO APPROACH M&A INTEGRATION TO CREATE A SUSTAINABLE ADVANTAGE

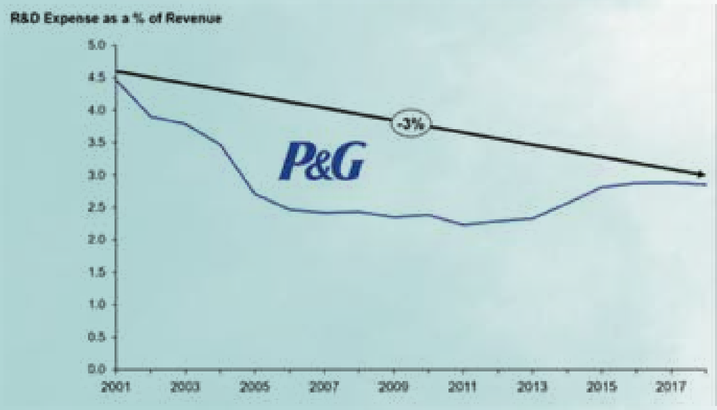
Consumer products companies are in the midst of dramatic transformations. They are striving to innovate at the pace of changing consumer preferences, understand which behaviors will sustain post-pandemic, and create value for consumers beyond the products they sell.

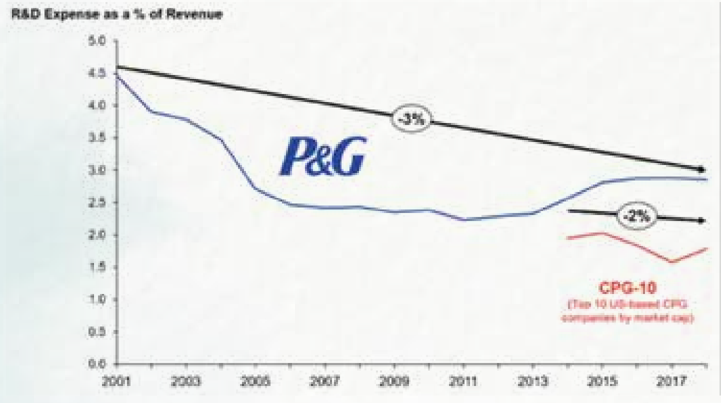
Product innovation has increasingly been a challenge for incumbent CPG leaders. Research shows that R&D spending in large companies and the number of new products that result have been declining for decades. To fill the gap, CPG companies have increasingly relied on acquisitions to add new products to their portfolio and gain access to growing markets.

As a result, post-merger integration has become a critical means to create value. No longer is integration simply about creating synergies, but instead an opportunity to deliver for the consumer, ignite the innovation engine, and transform the acquiring company. Winning companies have three critical enablers in place to achieve this – the right mindset, the right team, and the right playbook.

## Big Problems in CPG: An Innovation Crisis

Product innovation (R&D) spending for most CPG companies lags significantly behind other industries. Analysis shows that large CPG companies today allocate between 1 and 3 percent of their annual revenue to R&D spending. This small portion is also split among several competing interests. The lion's share is often allocated to renovation of existing product lines or line extensions, as opposed to greenfield product innovation.




Looking back over the decades in CPG tells a tale of shifting corporate focus and diminishing investment in R&D. Consider the example of Proctor & Gamble in Figure 1.1 R&D spending has been halved as a percent of revenue, amidst a 60% increase in sales over the same period.

Figure 2, focusing on the last 5 years and adding the top 10 US-based CPG companies measured by market cap, tells a similar story of continued reduction in innovation spending as a percent of revenue.[2]

There are many reasons for this continuing trend. Reduced R&D productivity resulting in fewer novel products has shifted focus away from internal innovation. In a world where the corporate focus is on shareholder return, the best bang for your buck has not been found in R&D.

Yet the industry relies on new products and new ideas to surprise and delight their consumers. Consumer loyalty is harder than ever to gain and maintain. In this context, companies have turned to M&A to achieve their goals.

## Innovation through Acquisition

Over the same period, CPG companies have significantly increased their spending on acquisitions.[3] [4] It has become the accepted vehicle to acquire new products, new markets, and new consumers. Increasingly, it's become an expectation for large companies. The modern venture capital ecosystem is set up to fund startups that more nimbly follow changing consumer behaviors. Numerous companies have set up their own accelerators and incubation labs to fund and track work in white spaces.[5]

If buying a company is the modern means to bringing new products to market, then integrating the company in the right way, as fast as possible is the essential activity for large CPG companies. Our research has shown three factors critical to achieving these business goals through M&A. The right M&A mindset, the right integration team, and the right M&A playbook.

## Creating the Guiding M&A Mindset

After an acquisition deal is closed, its tempting to jump straight to the most effective plan to create standardization. The urge to bring the newly acquired business into the norms and standard ways of doing business for the acquirer is strong.

While the creation of synergies is a critical part to every deal, companies that are highly effective pause to consider the strategic opportunities that the acquisition has on the way they do business. They charge the team not just with integrating the companies, but also to answer the question - how can this business be additive to each of our business functions?

This mindset shift sends the team down a path to new opportunities beyond the assets that were acquired. The table below provides several examples of questions that can generate insights by ensuring the team has the right mindset throughout integration.

| BUSINESS FUNCTION | LEARNING LENS |
| --- | --- |
| **R&D** | How can I learn from the acquired company to catalyze new ways of thinking across R&D? Are there novel methods for incubation they use? How do they stay in front of shifting consumer sentiment? How do they reduce time to launch? |
| **MARKETING** | How can I learn from the acquired company to increase agility, creativity, and scrappiness in my marketing efforts? What relationships do they have that we can expand upon? What are their most effective marketing vehicles and where can we learn from this outside these brands? |
| **SALES** | How can I learn from the acquired company to re-define my retailer relationships? Where does this company have superior relationships that we can learn from and leverage? How can we learn from the ways this company has demonstrated commitment to growing retailer share of wallet? |
| **SUPPLY CHAIN** | How has this company balanced agility and cost? What unique advantages does their supply network provide these brands? What relationships or partnerships might we be able to leverage elsewhere? What do they do to ensure availability in critical channels? |
| **IT** | How does the company utilize data to make decisions? Where and how do they capture first-party consumer data and what can we learn from that philosophy? Can we learn from their IT architecture to help simplify our footprint? Can we learn from how they manage technology projects? |
| **LEADERSHIP** | What can we learn from this company to increase our organization's agility? What can we learn from how they make decisions? If the company was in our market, what did we miss in terms of product-market fit? How does this company augment our way of thinking about where the market is going? |

# Creating the Right M&A Team

There are multiple schools of thought on the right team structure to execute integration. On one end of the spectrum there are highly specialized teams that create repeatable processes to drive efficiency and reduce the time to realize synergies. On the other end of the spectrum, there are very few dedicated resources and there is an expectation that large groups within the organization participate in the integration in addition to their day job. The best model lives somewhere in the middle. We tend to see the best outcomes when there are large numbers of general employees involved in the integration with specialized resources managing the project.

Over-specialization, or creating a large team of employees whose sole focus in integration often creates knowledge-gaps as specialists rapidly become disconnected with the norms of running the business within each function. It also relies on a steady stream of integrations to make financial sense, putting undue pressure on deal making. Perhaps most impactful, without team members that run the business today central to the integration, it reduces the chance that new ideas and ways of working are found and instilled elsewhere in the business. What is gained in time to synergy can be lost in opportunity cost.

Over-generalization can also have its own problems. If there are no specialized resources, there is certainly an opportunity to move faster with some specialization and standardization. The critical piece is that leadership create the expectation that time is dedicated by generalists for integration. This must be inserted into KPIs for key roles, variable compensation plans, and job descriptions for future hiring.

The optimal organization of teams is often to have a specialist project management layer between executive leadership and team leaders. More specialized expertise in managing large cross-functional projects is critical to keeping everyone organized and balancing speed and learning. Team leads should be experienced in participating in integrations, but still have a day job. Workstream leaders are the most likely layer to notice opportunities from the acquired company to apply elsewhere.

# Creating the Right M&A Playbook

It’s easy to get caught up in the deal or the heat to complete an integration. A well-built M&A playbook will help to ensure that you create efficiency without giving up the opportunities to apply new learnings from the acquired team to the business. The best playbook is made up of both assets and processes. It includes templates and examples. Importantly it considers lessons learned through past acquisitions and is curated over time to become more useful.

Establishing preparation and execution processes gives teams a jump on integration efficiency. It can help ensure that learnings gathered through due diligence are effectively shared and the implications built into the integration plan. It should help to ensure the right teams are activated at the right time to begin learning about the business and considering what it will mean for their function to integrate it. It should also include structured requirements to consider how the acquired company can improve each function.

In terms of templates, the playbook should save the team time defining how they communicate, make decisions, and report progress. Having pre-baked templates that have been agreed on help to ensure that leadership stays focused on the strategic opportunities in front of the joint business, as opposed to the minutia of the day-to-day integration progress.

Over time, this playbook should be filled with examples from the past. While no two acquisitions are the same, curating a library of examples gives team members better perspective and helps teams make use of what they've done in the past.

## In conclusion – M&A Integration Excellence

Excellence in M&A integration is important for any company engaging in it. The definition of success cannot solely be defined as achieving synergy targets. The acquisition should leave the acquiring company better off – not just in terms of products and market opportunities – but with learnings that serve to transform each function. CPG operators can help ensure these wins by instilling the right mindset, installing the right team, and instituting the right playbook.