Retail Acquisitions on the Rise

Buying and investing in startups is one step on the path to digital transformation

ARTICLE

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If it seems like there's been a flurry of retail acquisitions and partnerships recently, it's not your imagination. Due to slow organic growth, retail and consumer products companies are turning to often smaller, nimbler companies to boost digital innovation—from getting better consumer insights to cutting-edge logistics.

A new OC&C Strategy Consultants report found that the number of mergers and acquisitions among the top 50 consumer goods companies worldwide rose 45% in 2017, the highest increase in 15 years. A 5.7% jump in revenue growth across the sector was attributed to merger and acquisition activity, up from 0.5% in 2016. But organic revenues inched up just 2.6% last year.

In the US, mergers and acquisitions is an even bigger go-to tactic for growth. According to a CEO survey conducted in Q1 2018 by Forbes Insights for KPMG, mergers and acquisitions was one of the leading growth strategies, tied with alliances (23%). Worldwide, 16% of CEOs cited mergers and acquisitions.

Acquisitions can fuel many different goals beyond simply buying up the competition. Here are four strategies that are especially relevant to retailers:

Getting closer to the consumer. Meal kit subscription companies have been a favorite acquisition and partnership target for food retailers and brands. Albertsons and The Kroger Co. bought Plated and Home Chef, respectively, while Unilever invested in Sun Basket and Blue Apron partnered with Costco. The retailers get access to shopping behavior and demographic data, not to mention subscription model expertise.

Improving operational efficiency. Omnichannel fulfillment options aren't necessarily traditional retailers' core area of expertise. Target acquired Shipt to get up to speed on same-day delivery, and Kroger invested in Ocado to get access to the UK-based company's warehouse automation know-how. Nordstrom bought BevyUp, a mobile app that will likely be integrated into a clienteling tool for sales associates to share style boards and product recommendations.

Expanding product categories. Amazon is the master of moving into verticals that would seem unimaginable for an online retailer a decade ago. Buying Whole Foods Market to gain a competitive edge in groceries and establish a brick-and-mortar presence was a major move last year. And Amazon is now pushing into the pharmaceutical space with its acquisition of PillPack in June.

Capturing new customers. This was very much the goal when Walmart bought Jet.com in 2016. Newer, less splashy investments include Ace Hardware taking a majority share in The Grommet, a digital commerce platform for makers to market and sell goods. Ace Hardware summed up its deal by saying it would bring "locally relevant, innovative products to Main Street America."

What this all comes down to is the desire for digital transformation, the buzzy business concept du jour. Fully 78% of the CEOs in the KPMG survey viewed their investments in digital transformation as strategic rather than tactical.

These CEOs were also fairly confident. Nearly all (98%) said they saw digital disruption as more of an opportunity than a threat, and 91% thought they had the ability to lead a company through radical transformation.