Are Consumer Goods Companies Ready for a M&A Rebound in 2025?

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The consumer-packaged goods (CPG) sector has been in a holding pattern for the past couple of years, with merger and acquisition (M&A) activity taking a backseat due to economic jitters and interest rate hikes. As 2025 unfolds, however, the stage is set for a dramatic comeback. With the U.S. presidential election settled and interest rates expected to ease, a surge in dealmaking is likely on the horizon. Companies that prepare now, by fine-tuning their strategies and building the right capabilities, will be ready to grab the opportunities ahead. The one big question remains: Are consumer products companies ready to pounce?

Companies that are best positioned to quickly strike and have aligned their strategies to the current market have the greatest chance of successfully finding and sealing a deal this year. With a comprehensive understanding of the prevailing political landscape and market trends, leveraging crucial advisory team expertise, and following the six key preparations for success below, A&M takes a look at how organizations can seize these opportunities and gain a competitive edge in their sector.

What Is the Current State of CPG M&A?

M&A activity in the consumer products sector has been sluggish, with deal volumes dropping 22 percent and values decreasing 4 percent from the first half of 2023 to the first half of 2024.[1] Yet, the back half of 2023 wasn't entirely quiet, thanks to some blockbuster deals like J.M. Smucker's purchase of Hostess Brands and The Campbell's Soup Company integrating Sovos Brands into its portfolio.[2],[3] The Mars-Kellanova merger also still remains on the table, indicating continued interest in strategic consolidation.

While recent regulatory setbacks leading to the termination of Tapestry's proposed acquisition of Capri Holdings for $8.5 billion and the recent collapse of the $25 billion Kroger-Albertson's merger may discourage some activity,[4],[5] these moves suggest that while the overall pace has slowed, the appetite for strategic acquisitions is still there, setting the stage for a potential rebound.

Consumer trends are also driving M&A priorities in the consumer products sector, with companies seeking acquisitions that align with growing demand for health-conscious, premium, and sustainable brands. Alongside portfolio expansion, businesses are targeting acquisitions that enhance operational efficiency and technological capabilities, such as digital engagement and data analytics, to better understand and serve customers. By focusing on these areas, companies aim to meet evolving consumer preferences while positioning for long-term growth and success.

What Will Be the Impact of Trump's Tax and Tariff Policies?

The Trump administration is expected to bring significant changes to tax and trade policies, which could have profound implications for the CPG M&A landscape. With a focus on extending the Tax Cuts and Jobs Act (TCJA) and potentially lowering corporate tax rates further, companies might find themselves with increased after-tax cash flows, encouraging more aggressive acquisition strategies. However, Trump's proposed tariffs, particularly on imports from China, Mexico and Canada could increase costs for consumer goods companies, potentially squeezing margins and complicating cross-border deals.[6]

The appointment of Scott Bessent as Treasury Secretary, known for his pro-tariff stance, suggests a continuation of these policies, which could lead to increased costs for imported goods and challenges to supply chains. Companies will need to navigate these changes carefully, balancing the benefits of tax cuts with the potential downsides of increased tariffs.

How Andrew Ferguson's FTC Leadership May Affect Deals

Andrew Ferguson, the incoming Federal Trade Commission chair, is expected to take a more business-friendly approach to mergers and outside investments since he’s known for his pro-innovation stance. Ferguson has pledged to reverse the aggressive antitrust policies of his predecessor, Lina Khan, and is likely to foster a more favorable environment for corporate M&A, which may lead to a lowering of regulatory hurdles and could make it easier for companies to pursue strategic deals without the fear of excessive scrutiny. This shift could be particularly beneficial for the consumer products sector, where consolidation and strategic acquisitions are key to maintaining competitive advantage.[7]

A Chain Reaction of Divestitures

The potential divestitures from major blockbuster mergers could set off a domino effect across the CPG sector. As these non-core brands hit the market, larger companies might seize the opportunity to reshuffle their own portfolios, which could lead to a wave of brand or even category divestitures as companies look to streamline operations and focus on their most profitable and strategic assets.

Such a reshuffling could create a flurry of M&A activity, with companies eager to acquire brands that align with their growth strategies or fill gaps in their product offerings. This environment could foster a dynamic marketplace where agility and strategic foresight become key competitive advantages. Moreover, this wave of divestitures is likely to draw in private equity firms and smaller private businesses, all eager to capitalize on the availability of valuable brands and a frothy deal market. Their participation could further fuel the M&A frenzy, creating a competitive landscape ripe with opportunities for those ready to act swiftly before valuations jump too high.

First Movers Have the Advantage & How to Prepare for the Surge

In the M&A game, it's a zero-sum contest where the stakes are high. The goal is to win the deal at the right valuation or exit the process swiftly. There are no prizes for finishing second — only the cost of distracting your business and churning up valuable resources. Companies that jump in early and decisively can secure strategic assets before the market becomes saturated with competitors and private equity players.

To come out on top in the upcoming M&A frenzy, CPG companies need to prepare now. This requires taking a hard look at past deals, ensuring their teams are up to speed, and aligning their strategies with current consumer trends. Having a clear M&A strategy, a well established & refined due diligence process, and a focus on value creation throughout the deal lifecycle and appropriate capital allocation in place will prepare first movers to move swiftly & pounce on opportunities.

Partnering with the right third-party experts is crucial as they can provide insights into the latest risks and opportunities and help companies craft a winning deal model. They also bring knowledge of the latest tools, technologies and capabilities, which can be leveraged to create a strategic advantage over the competition. This collaboration can sharpen decision making and execution, setting companies up to outpace the competition.

Six Keys to Success

As we wade further into 2025, the consumer products sector is on the brink of a major M&A revival. Companies that prepare now, by fine-tuning their strategies and building the right capabilities, will be ready to grab the opportunities ahead.

1. **Establish a clear M&A strategy** — Successful acquirers have a clear M&A strategy that is known and agreed within the C-suite. Whether a tuck-in or bolt-on acquisition to an existing business unit or potential for large transformative deals, executives need to be aligned to the M&A capital allocation strategy and resulting pursuits or properly screened acquisition candidates.

2. **Sharpen an integrated due diligence process** — Companies need a holistic M&A due diligence process that considers all functions throughout the organization. Key functional leaders need to be brought in at the appropriate time to ensure operations and value creation are properly considered in all financial models. Properly executing the due diligence phase will set the organization up for sign-to-close and post-close success.
3. **Ensure the integration plan aligns to the deal model** – Too often, after a deal is announced and closed the broader business leaders are involved to drive the integration having not been a part of the diligence or deal valuation. This can lead to new integration activities and priorities that were never part of the business case and can ultimately delay or derail the ability to achieve the results that were committed to the Board.
4. **Move quickly to lock in favorable deals and gain a competitive edge** — History shows that early movers have better outcomes, which may result in leapfrogging the competition in a process, yield better returns or simply be able to fast-track a “go” or “no-go” decision.
5. **Steadfast focus on value creation** — Commit to providing a relentless focus on value throughout the deal lifecycle and be willing to pivot away from activities that don’t drive value when conditions change.
6. **Actively manage the portfolio** – remember that shareholder value can be created both by strategic acquisitions and the timely divesting of noncore assets. Leadership should be continually re-evaluating the combined portfolio of businesses and brands to determine the long-term value they bring to shareholders.

The Time to Act Is Now

Partnering with savvy third-party experts can give them the edge they need to navigate the M&A maze. The time to act is now, as those who move first and harness comprehensive expertise will likely land the best deals and deliver the biggest payoffs for their shareholders.

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[1]Global M&A trends in consumer markets: 2024 mid-year outlook | PwC

[2]J.M. Smucker to buy Twinkies maker Hostess Brands in $5.6 billion deal | Reuters

[3]Campbell Soup a ‘compelling story’ after closing $2.7B Sovos deal | Food Dive

[4]Tapestry, Inc. Announces Termination of Merger Agreement With Capri Holdings Limited | Business Wire

[5]Kroger and Albertsons are spending billions on stock buybacks after their blocked merger

[6]Trump ups the ante on tariffs, vowing massive taxes on goods from Mexico, Canada and China on Day 1 | CNN Politics

[7] https://www.nytimes.com/2024/12/11/business/dealbook/ftc-trump-ferguson-khan.html

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