

Global Powers of Consumer Products report offers hope

The 7th annual Global Powers of Consumer Products report issued by Deloitte Touche Tohmatsu (DTTL), shows a glimmer of hope, despite renewed market turbulence, as the world's 250 largest consumer products companies generated sales in excess of \$3.1 trillion in fiscal 2012 (which encompasses fiscal years ended through June 2013).

This resulted in an average company size of \$12.5 billion. The report provides an outlook for the global economy, an analysis of market capitalisation in the industry, a look at M&A activity in the consumer products sector, and a discussion of major trends affecting consumer products companies.

"The turbulence in the global economy took a toll on the growth prospects for consumer products companies. In both mature markets and export-dependent economies, the industry's overall rate of growth was much more subdued in 2012, compared with 2011 and 2010," said Dr Ira Kalish, the group's chief global economist. "On the other hand, it is reassuring to see that profitability strengthened, despite rising prices for raw materials. Of the 224 companies that disclosed their bottom-line net profits, only 19 operated at a loss in 2012."

Increased consumer M&A activity

Despite a fragile global economic recovery, the report found that well-funded investors have continued to seek merger and acquisition (M&A) opportunities that strengthen their strategic positions. In 2012, there were 1298 deals completed by consumer products companies, up from 1274 in 2011 and 1117 in 2010. For 2013, 1182 deals had been reported as of 22 February 2014.



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Deal activity was found to be stimulated by improved credit availability, low interest rates, rejuvenated capital markets, and, in some cases, companies' sizable cash reserves. Private equity has shown a renewed interest in consumer products. In one of the largest acquisitions in the food business, H J Heinz was taken private in June 2013 by Berkshire Hathaway and Brazilian investment firm 3G Capital, in a \$28 billion buyout. 3G and Berkshire are equal equity partners in Heinz.

"It is, perhaps, somewhat surprising that the volume of deals in the global consumer products industry has increased in recent years given the slow tempo of the global economy. However, as concerns over economic uncertainty begin to recede, 2014 is already shaping up to be a big year for M&A activity in the consumer products industry as companies look for growth either by expansion into new markets or by rationalizing their corporate portfolio," said Jack Ringquist, global consumer products lead, DTTL.

"The real challenge facing consumer product companies these days is to survive in a globally connected, consumer-driven world. In order to manage and grow profitably, companies must learn to meet consumer's demands from any part of the world, through any channel. New approaches that must be embraced include end-to-end global supply chains, virtual market entry, direct-to-consumer channels and more investment in consumer insights. A more connected consumer is a more powerful consumer and that is the frontier consumer products companies now face. "

Regional trends

The report measured year-over-year composite growth rates by region for fiscal year 2012, with Africa/Middle East (16.9%); posting the highest gains, followed by Latin America (16.8%) and Asia/Pacific (5.6%). Companies in this region—especially in Japan—were severely impacted by the March 2011, Great East Japan Earthquake, so a recovery in 2012 was to be expected. The North American region dropped to 4.0 percent. However, North American companies continued to enjoy robust profitability.

The 12.3 percent composite net profit margin in 2012 was up from an already-strong 10.4 percent result in 2011. Within Europe, French companies year-over-year growth (6.6 percent), outpaced their German (6.2 percent) and British (4.8 percent) counterparts.



Electronic products rebound

After a dismal year in 2011 for manufacturers of consumer electronics, 2012 saw the sector bounce back. A moderate recovery among the Japanese companies, following the disruption caused by the 2011 earthquake and tsunami, coupled with consumers' increasing desire for connected devices, pushed revenues up nearly 10 percent. Profits followed suit: the sector's composite net profit margin nearly tripled to 7.2 percent in 2012 from 2.6 percent in the prior year.

African viewpoint

Consumer product companies headquartered in Africa are notably absent in the Global Powers of Consumer Products Report. This is largely driven by many consumer product companies, with their origins in Africa, having moved their listings to European or US exchanges or due to the unfavourable hard currency exchange rates resulting in them not achieving the lower net sales threshold of US\$ 3000 million.

"It is also important to note that many of the multi-national consumer product companies highlighted in this report have a significant presence in Africa and derive meaningful revenues from their operations in the region. Given that the report defines and organises these companies by head office location, this is not necessarily apparent to the reader," said Clinton Houston, consumer products sector leader in the consumer business industry at Deloitte South Africa.

Deloitte South Africa will be releasing the African Powers of Consumer Products report later in the year to demonstrate the true potential of African Consumer Product companies.

Top 10 consumer products companies					
2012 net sales rank	Company name	Country of origin	Product sector	2012 net sales (US \$mil)	2012 net sales growth*
1	Samsung Electronics Co.	South Korea	Electronic Products	178,982	21.90%
2	Apple Inc.	US	Electronic Products	156,508	44.60%
3	Nestlé S.A. ¹	Switzerland	Food, Drink & Tobacco	98,372	10.20%
4	Panasonic Corporation	Japan	Electronic Products	88,367	-6.90%
5	The Procter & Gamble Company	US	Personal & Household Products	84,167	0.60%
6	Sony Corporation	Japan	Electronic Products	68,864	3.00%
7	Unilever Group	Netherlands and UK	Personal & Household Products	66,007	10.50%
8	PepsiCo, Inc.	US	Food, Drink & Tobacco	65,492	-1.50%
9	The Coca-Cola Company	US	Food, Drink & Tobacco	48,017	3.20%
10	LG Electronics Inc.	South Korea	Electronic Products	45,354	-6.10%

Source: Published company data

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