

THE SYNERGY OF DIFFERENCE

Consumer needs are driving an increase
in cross-industry mergers and acquisitions



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Corporations have long scoured the familiar terrain of their own industries when looking to expand through mergers and acquisitions (M&As), but the past decade has seen a shift. The contemporary economic landscape of low interest rates, digital transformation, and the disintermediation of some value chains has emboldened a move toward cross-industry exploration.

Of the more than 100,000 global M&As between 2013 and 2023, 20% to 30% transgressed industries, indicating an evolving paradigm where traditional lines are blurring to forge value and operational efficiencies through strategic mergers. These deals are redrawing industry boundaries, strengthening cross-industry hubs that include related sectors, and creating new pathways linking sectors.

Cross-industry M&As are not new, although their share of transaction volume has varied over time depending on interest rates, technology shifts, and industry dynamics. What has changed is the prominence of customer needs in driving these deals. Oliver Wyman's Honeycomb analysis, a proprietary approach to evaluating industries based on consumer needs, reveals that a deep alignment of business strategies with consumer preferences is a significant motivating force behind cross-industry M&As.

While this shift is notable, whether this force represents a lasting evolution in the market remains to be seen. A prolonged return to higher interest rates might lessen companies' risk appetite, with management again seeking opportunities in the industries they know best.

But as cross-industry mergers reshape the competition and the marketplace, companies must judiciously select when and where to breach traditional boundaries to ensure the success of these ventures. Taking a nuanced approach that is grounded in the synergy of diverse industries and the dynamism of consumer preferences will set the stage for cross-industry M&As that lead to sustainable growth.

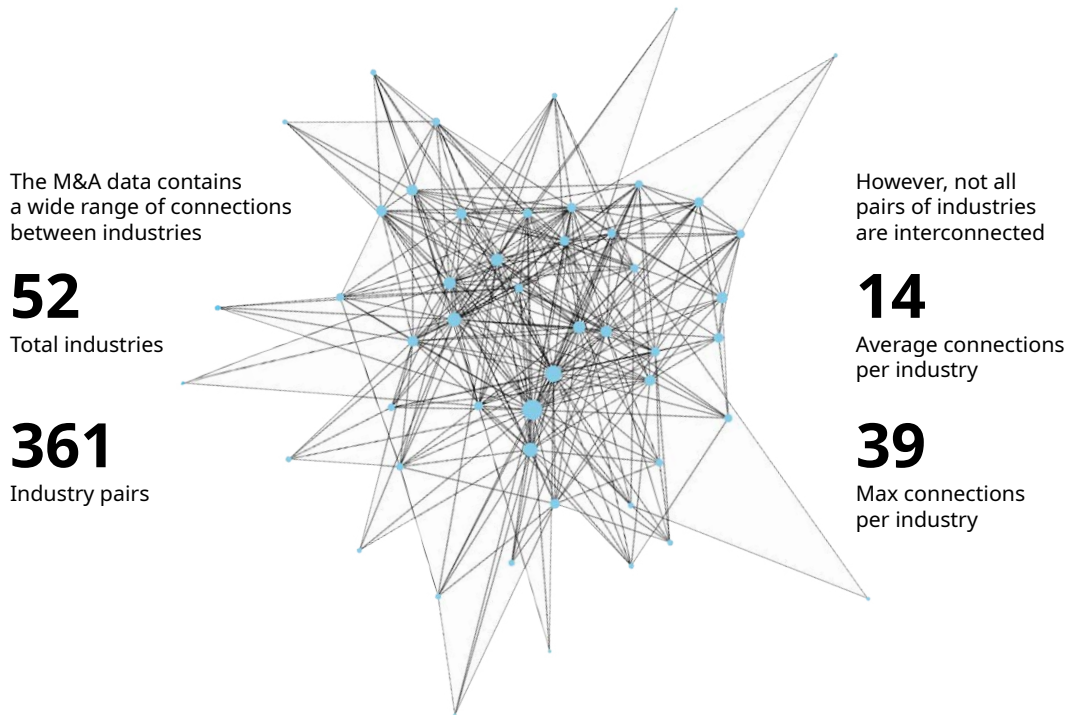
CROSS-INDUSTRY M&AS ARE DRIVING INNOVATION

M&As serve as a pivotal catalyst for innovation and industry convergence in this rapidly changing corporate landscape. The more than \$3 trillion in acquisitions in 2023 underscores the critical need to dissect the motivations driving these investments. These include the desire to consolidate market position or to optimize costs for enhanced performance, and, more transformative, to overhaul their business models and set a new strategic course toward growth and innovation.

To deepen our understanding of this shift, Oliver Wyman analyzed over 100,000 M&A deals from the last decade across industries — excluding transactions sponsored by private equity — including 194 subsectors for bidder and target companies. The purpose was to identify instances where businesses expanded beyond their specific industry and ventured into new markets.

Remarkably, 20% to 30% of these transactions were inter-industry, illustrating the fading of traditional demarcations and the confluence of distinct sectors. Mapping transactions onto a graph network, with nodes representing industries and edges denoting M&As, elucidated this connectivity. This network analysis unveiled key influences in the business landscape, highlighted M&A-active industries, identified clusters of interrelated sectors, and provided insights into sector-specific and inter-industry dynamics.

Exhibit 1: Connections among deals from 2013 to 2023



Source: MergerMarket dataset of M&A deals

Next, hubs of activity were identified within the overall network creating groups of industries that exhibited high levels of M&A interactions among them. This analysis identified five primary hubs: Communication, Media, and Tech; Industrial Products and Services; Consumer Activities; Healthcare; and Energy and Utilities.

While these hubs conformed to traditional high-level industry classifications, they also reflected the grouping of industries based on actual M&A transaction volume over the past 10 years. For instance, companies in industries in the Communications, Media, and Tech hub, including everything from software companies to entertainment producers to telecoms, had high M&A transaction volume among them, which was expected given their apparent adjacencies. The same concept held true for industries within each hub.

It was unsurprising that companies in adjacent industries displayed high levels of M&A activity but viewing deals through the lens of five hubs made it possible to identify changes in their composition over time. As deals between different industry pairs changed, new patterns emerged. Those shifts in transactions between hubs created new activity centers, revealing how M&A activity has been reshaping industry classifications and relationships.

Looking at deals between companies in different hubs also exposed where businesses entered new markets. Some industry convergences represented an unsurprising affinity, such as real estate, financial services and transportation mergers driven primarily by market conditions and private equity investment, as well as the increased alignment between industrial products and services and energy and utilities.

However, a notable volume of deals occurred between activity hubs involving industries without well-known and established adjacencies. The fifteen industry pairs with the highest growth rate in M&A activity over the past 10 years all represented deals between industries located in different activity hubs, signaling the importance of M&A transactions between what appeared to be non-adjacent industries.

Companies have been using these M&A transactions to expand into non-adjacent industries between activity hubs, such as the pharmaceutical industry's integration with the technology and consumer goods sectors. This highlighted the strategic approach of companies seeking innovation and strategic growth beyond their immediate industry boundaries.

The fusion of healthcare and technology through Telix Pharmaceuticals' acquisition of Dedicaid was a standout example, with generative artificial intelligence expected to transform patient care and clinical decision-making. This trend continued with Oracle's integration with Cerner, merging tech expertise with healthcare to enhance delivery and outcomes, emphasizing the role of digital advancement in meeting consumer needs.

Exhibit 2: Hubs of activity



Communications, media and tech

- Hub for a wide range of tech-related services, from software development to professional services
- Strong integration of media, entertainment, and communication services
- Emphasis on technology infrastructure, including hardware, storage, and communication services



Industrial products and services

- Comprehensive approach to industrial processes, from manufacturing to engineering
- Backbone of critical infrastructure with a focus on resource extraction and management
- Integral part of the transportation and mobility sector with advanced technology integration



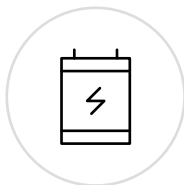
Consumer activities

- Consumer-centric focus with a strong emphasis on meeting consumer needs and preferences
- Active role in the hospitality and leisure sectors, providing experiences and services
- Well-structured retail and distribution network with a presence in real estate and development



Healthcare

- Focus on developing and providing innovative medical solutions
- Involved in a wide range of healthcare services, including medical facilities and specialized care
- Central hub for medical innovation, research, and development



Energy and utilities

- Primary focus on energy production and distribution, including renewable energy solutions
- Leading in sustainable and energy-efficient transportation solutions
- Comprehensive hub for energy services, spanning traditional and renewable sources

Source: Oliver Wyman data and analysis

CONSUMER NEEDS ARE A KEY FORCE BEHIND CROSS-INDUSTRY M&AS

Of the various forces behind cross-industry transactions, evolving consumer needs have a key role. The influence of consumer behavior on M&As is not just a theoretical concept but a tangible force reshaping the corporate landscape.

Oliver Wyman's Honeycomb analysis correlated the deal activity of 450 industry pairs with their alignment to shifting consumer needs. Drawing on over 260 purchase decisions from Oliver Wyman Forum's Global Consumer Sentiment Survey, industries were correlated with consumer needs, revealing potential growth avenues and closer ties between seemingly distant sectors.

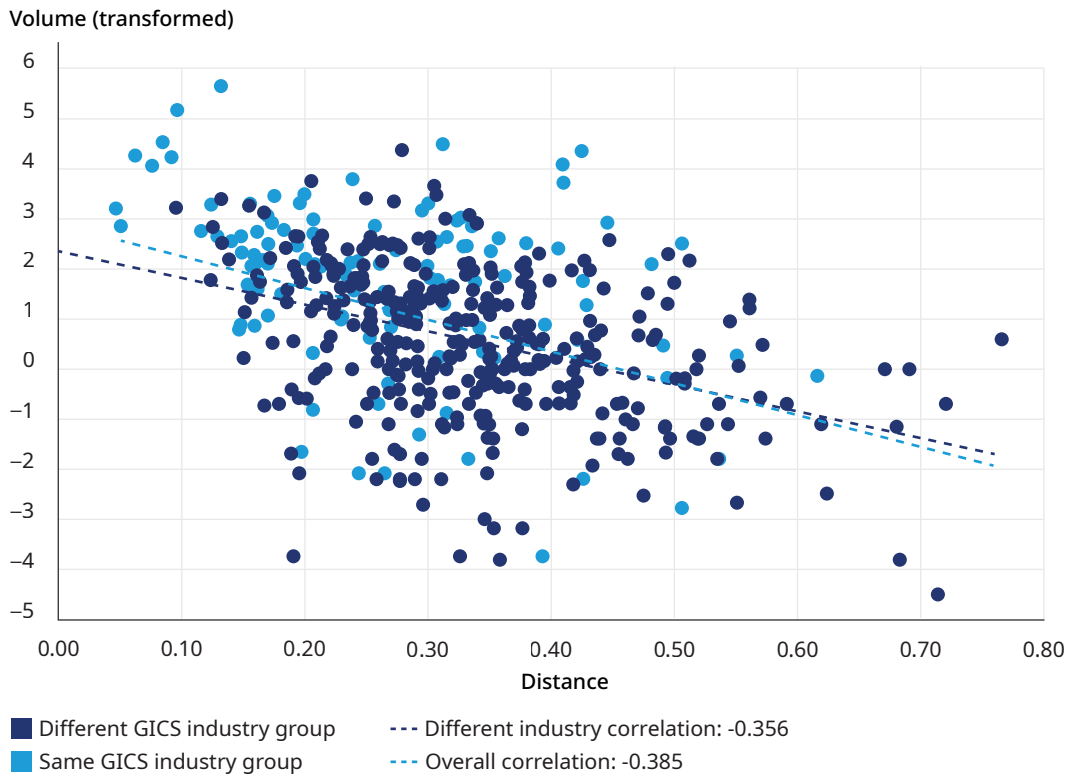
The analysis of these purchase decisions uncovered an ecology of human needs encompassing 17 different needs in three categories — self-actualization, esteem and belonging, and health and safety. From those three primary areas, we created a “needs wheel” that revealed the motivations behind commercial transactions.

The findings painted a vivid picture of the current market dynamics, uncovering a significant correlation between the convergence of consumer needs and increased M&A activity. This trend extended beyond similar industries. While it was expected to see M&A activity in industries with shared consumer bases, the most groundbreaking insights emerged from unexpected pairings. The analysis revealed a striking pattern: industries with similar needs profiles demonstrated higher rates of cross-industry M&A activity. This finding emphasized the significance of aligning business strategies with consumer needs, even when those needs extend across different industry domains.

These unconventional collaborations — often supported by corporate venture capital (CVC) — not only challenge industry norms but also signified the search for new frontiers of growth. By exploring the convergence of consumer needs across diverse industries, companies can unlock innovative opportunities and drive transformative growth through strategic M&A initiatives. Understanding and responding to consumer needs becomes a cornerstone of a deal's success.

Exhibit 3: Industry pairs by volume and distance between needs wheels

Deals between July 2021 and July 2023



Source: Oliver Wyman data and analysis

A prime example of this alignment is the unexpected convergence between the Luxury Goods and Biotechnology sectors. Initially, these industries appear to be worlds apart. However, a deeper, consumer-focused analysis reveals a surprising similarity in their underlying consumer needs, particularly in areas of exclusivity, innovation, and sustainability.

Luxury brand Stella McCartney’s investment in Protein Evolution illustrates this phenomenon. The fashion industry, which still relies heavily on fossil-based raw materials and has low recycling rates, is a significant carbon emitter. Protein Evolution holds a patent for a biotech process that enables the recycling of clothes fibers, thereby reducing the environmental impact of production. Just as a biotech sector is developing solutions to minimize environmental impact, the fashion industry is also under consumer pressure to become more sustainable. Despite being two completely different industries, they share the same consumer demand and can benefit from partnerships or associations.

Solvay SA's strategic move to strengthen bio-based solutions for agricultural customers through the acquisition of Bayer's global coatings business is another example of industry alignment. This collaboration between the chemical and agricultural sectors reflects the increasing consumer demand for healthy food and the integration of technology in agriculture. Despite operating in different segments, both companies are responding to a shared consumer desire for more sustainable and natural products. By combining their expertise, Solvay and Bayer aim to drive innovation and sustainability in the agricultural sector, delivering transformative solutions that meet evolving customer needs.

ALIGNING CONSUMER NEEDS AND M&A STRATEGY FOR GROWTH

The future of M&As will be informed by the intricate and evolving tapestry of consumer needs. Companies that align their expansion strategy with shifting consumer behavior not only diversify risk but also secured access to novel technologies and insights, propelling them beyond conventional industry confines towards sustainable growth and innovation.

This evolution signifies a transformative business era where the changing needs of consumers dissolve traditional industry boundaries. As those lines continue to blur, the most successful companies will be those who adapt, innovate, and, most importantly, listen to what consumers truly need.

Oliver Wyman is a global leader in management consulting. With offices in more than 70 cities across 30 countries, Oliver Wyman combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation. The firm has 7,000 professionals around the world who work with clients to optimize their business, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities.

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