

# Consumer

With the UK facing increasing inflationary pressure and buyers shifting towards environmentally responsible retailers, many players within the sector have had to seek innovative responses to the challenges that the industry now faces.

As the landscape of the consumer sector adapts to these external conditions, the M&A market is poised for opportunistic acquirers to increase their reach across consumer groups and areas.



## Consumer Overview

Accounting for over 60% of the world's Gross Domestic Product (GDP), the consumer industry is multi-faceted, dealing with the **production, marketing, and sale of goods and services** to individual customers or households. The industry comprises of a plethora of sub-sectors, including retail, food and beverage, personal care, household products, apparel, and footwear to name but a few.

This report aims to provide an overview of the current state and outlook of the consumer sector, including key trends, challenges, and opportunities. It will also take a 'deep-dive' into the rapidly growing 'luxury' section of the industry.

## The Rise of E-Commerce

The consumer industry faced significant challenges throughout the COVID-19 pandemic. The outbreak of the virus in conjunction with subsequent lockdowns

and social distancing measures disrupted global supply chains, reduced consumer spending, and forced many businesses to close or downsize. However, this crisis has also accelerated some existing trends and created new opportunities for innovation and growth.

One of the most significant trends in the consumer industry resulting from COVID-19 was the significant shift towards online and digital trading channels. With many physical stores closed due to lockdown measures, online shopping had become the only option for many consumers, leading to a surge in demand for online retailers.

The Office for National Statistics reported that the proportion of total UK retail sales conducted online has grown from 19.1% in February 2020 to 25.5% in March 2023 (peaking at 37.8% in February 2021, during the height of lockdown in the UK), as seen in figure 1. This trend is expected to continue, with e-commerce projected to grow at a compound annual growth rate (CAGR) of 11.34% from 2023 to 2027.

## Internet sales as a percentage of total retail sales



Figure 1. Internet sales as a percentage of total retail sales (ONS, 2023)

## Market Structure – Luxury Goods

The conceptual key to the luxury goods market has always been the premise of exclusivity. This exclusivity has historically been maintained mainly by a high price point, but also by the conscious limiting of product availability to consumers. Luxury Goods encompass highly exclusive personal items including apparel, footwear and leather accessories, eyewear, as well as watches, jewellery, and cosmetics.

The UK luxury goods market is expected to be worth £16.38bn in 2023, growing annually by 2.49% (CAGR 2023-2028). Within this, luxury fashion continues to make up the largest proportion, and is forecast to grow from £5.92bn to £8.67bn by 2028.

### Luxury Goods Revenue

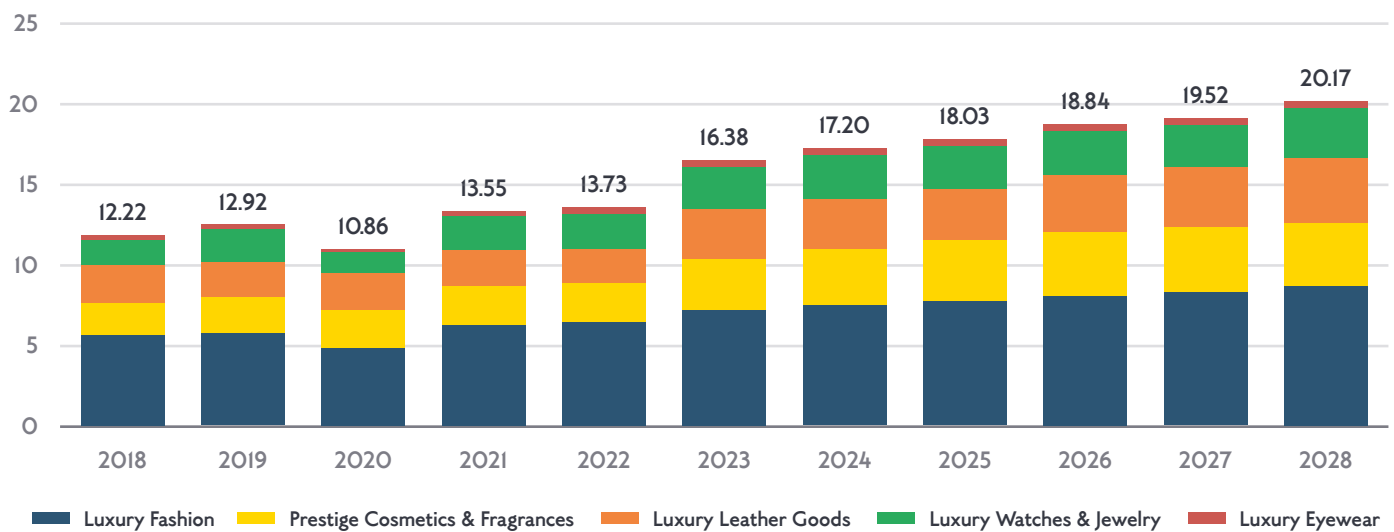


Figure II. Luxury Goods Revenue by Segment (Statista, 2023)

### Significant Market Players

At the time of writing this report, the most valuable luxury brand globally is Louis Vuitton, part of the LVMH family. The French luxury giant, which recently became the first European company worth over \$500bn, acquired American jeweller Tiffany in January 2021, further expanding its portfolio coverage into the jewellery sector, and adding a household name to a

brand line-up already home to Fendi, Louis Vuitton and Veve Clicquot champagne.

In the UK, luxury brands with a well-established online presence have continued to perform well with consumers in line with the increasing uptake of e-commerce – as can be seen in Figure III – showing the largest luxury retail brands in the UK based on popularity and positive image.

### Popularity of Luxury Brands



Figure III. Luxury Goods Brands Ranked on UK-based Popularity (YouGov, 2022)



## Industry Trends

### Sustainability

Sustainability has become an increasingly important consideration for global consumers, with IBM reporting that 80% of consumers considered sustainability to be a significant factor when making decisions surrounding the purchase of products. In addition to this, research from Deloitte found that one third of UK consumers have stopped purchasing certain brands and products due to concerns regarding the brands' ethics or sustainable nature.

In attempts to capitalise upon this shift in focus, businesses are likely to take the time to re-evaluate their portfolios and position on environmental issues to align their offerings and values with increasingly conscientious consumers.

### Increased uptake of Social Commerce

Social media networks are now a common marketing tool for many retailers, with content sharing platforms

like 'TikTok' being integrated into the sales and marketing strategies of media-savvy businesses in efforts to attract new customers through short, punchy content and advertisements. TikTok has recently released 'TikTok Shopping' to allow vendors to integrate their product catalogues directly into the app.

Research conducted by multinational e-commerce company Shopify suggests that social media platforms bear a lot of weight when influencing users, with 70% of UK shoppers having already purchasing through social media, and 79% of those who hadn't, said that they are very likely to in the future. This data is only further supported by the hashtag #TikTokMadeMeBuyIt having over 46 billion views to date.

### Deal Activity

As displayed in Figure IV, 263 consumer M&A transactions were completed in the UK in 2022, with relatively steady deal flow quarter-on-quarter.



Figure IV. Deal Count by Business Status (Pitchbook, 2023)





M&A activity in recent months has been driven by companies focussing on better-for-you products in line with consumers desire for sustainability, as well as larger organisations looking to expand their brand portfolios and diversify their offering to meet changing consumer preferences. Struggling high-street vendors have also presented attractive distressed acquisition targets, with many larger, more stable operators adding famous retail brands to their online portfolios. Some recent headline deals are as follows:

**Matches Fashion**, a luxury brands online retailer, received a £60m investment from London-based private equity firm Apax Partners at the end of January 2023 as part of a growth plan that included the appointment of ex-ASOS head, Nick Beighton, as CEO. Mike Ashley's **Fraser's Group** acquired a string of 15 fashion brands from sports and leisurewear retailer **JD Sports Fashion** at the end of 2022 for £47.5m, leaving JD Sports free to pursue expansion in its core sports offering, while Fraser's Group benefit from the addition of a plethora of premium brands into its already burgeoning fashion portfolio.

At the heart of the high street, retailer **Next** has had a busy few months, acquiring the distressed **Made.com** and **Joules** in late 2022, and announcing the acquisition of floral fashion brand **Cath Kidston** for £8.5m this March.

### Outlook

The UK Consumer Industry continues to face an economy confronting stubborn inflationary pressures, increasingly tight monetary policy, and the challenge of enticing an increasingly online, environmentally conscious generation of consumers. Retailers that are quick to adapt to these changing circumstances and preferences are likely to see significant growth in the long run.

As the complexion of the industry continues to evolve, opportunities for M&A are expected to be plentiful, with well-established industry players looking to expand their brand portfolios or reach new customer groups.



## CONTACT US



**Deval Patel**

**PARTNER**

+44 (0)20 7299 1456  
dpatel@geraldedelman.com

MEET DEVAL



**Sonal Shah**

**PARTNER**

+44 (0)20 7299 1409  
scshah@geraldedelman.com

MEET SONAL



Contact Us

73 Cornhill, London, EC3V 3QQ +44 (0)20 7299 1400 hello@geraldedelman.com

