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News Analysis

The rush is on to snap up direct marketing businesses as the new groups take on the big five holding companies. But, as one group has found, integrating disparate disciplines is not so simple

Why 'best in class' networks don't come cheap

Charlie McKelvey

WKS Results' obviously had the inside track when it recently predicted that 2007 would prove a boom year for merger and acquisition (M&A) activity in the interactive and direct marketing sectors (*PM* June 18).

With more than 100 media companies on AIM, and a market capitalisation of £2.8bn – 5.6 per cent of the index's value – it is perhaps not surprising that there is a constant need for new deals.

Not that long ago, the big five marketing services holding companies – Publicis, Omnicom, WPP, IPG and Havas – would have been the ones writing the cheques. These days, however, the new breed of holding company appears to be driving the M&A boom.

The latest agency to fall for the charms of the so-called consolidators is financial services specialist CCHM:Ping, which sold a majority stake to Cello Group for almost £1m.

Having floated in October 2004 following the purchase of three marketing services businesses, this is the company's ninth acquisition.

Cello has bought a 76 per cent stake in Hill Murray Group, the holding company of CCHM:Ping, for £950,000. Cello, whose agency portfolio includes Farm Communications, has the option to buy the remaining 24 per cent between 2008 and 2011 for a maximum total of £5.3m in cash, loan notes and shares.

Cello chairman Kevin Steeds says: "CCHM:Ping will complement our existing business and give us more depth in the financial services sector."

The agency fits well with Cello's other acquisitions of the Leith Agency, Target Direct and Navigator Responsive Advertising, and gives it a foothold in London.

CCHM:Ping chairman Lucien Camp explains the rationale behind the move: "We talked to about half a dozen companies, and they all offered roughly the same deal, but we wanted to ensure we didn't get lost in a big group."

"I have worked for one of the big five (while at DMB&B) and if you are a small to medium sized agency you can often feel like a dinghy in the path of an oil tanker – you know you are

going to get swallowed up in the wake. With Cello we got the sense that that would not happen. The fit seemed just right, and it has enabled us to carry on business as usual."

And it is this point which seems to appeal to more and more agencies. It was certainly the main motivation for TMW when it sold to Creston last year, with business development director Richard Marshall saying: "Creston offers the best of both worlds for us. There was no other deal that would have enabled us to preserve the integrity of TMW. We are no longer technically independent, but, in terms of our culture, we remain the same."

In recent times, the likes of Creston, Cello and Media Square have been joined by two new groups headed up by former admen: Cagney, spearheaded by one-time Ogilvy chief Paul Simons, and Digital Marketing Group (DMG) run by ex-McCann Erickson boss Ben Langdon.

Both are busy building businesses which they believe will offer 'best in class' across a number of disciplines.

Last week, DMG bought two digital agencies Graphico and Hyperlaunch (precisionmarketing.co.uk) to add to Jaywing, Cheeze, Inbox Digital, Dig for Fire and HSM.

Meanwhile, earlier this year, Cagney purchased data specialist Tree London from Archibald Ingall Stretton (*PM* January 27) to add to promotional marketing specialist Cubo, brand consultancy Brand Aid, PR business The Media Foundry and ad agency Chick Smith Trotter. To complete the set it now needs a direct marketing agency, although as Keith Hunt, managing partner at Results International, explains competition is rife.

"Direct marketing is a very hot sector at the moment. A lot of businesses are being courted, and specialist agencies have a stronger allure. That's why the likes of CCHM:Ping, with its financial expertise, and White Water, with its charity background, have been snapped up."

Of course, this is welcome news for the independent, like Rapier Partners, Andrews Aldridge, Chemists Communications Group and Meteorite, whose bosses will no doubt

The City

Direct marketing businesses are being heavily courted by new consolidators as they seek to build 'best of breed' groups



never have to pay for lunch again.

But Media Square, for one, has discovered that integrating disparate businesses is not quite as easy as it may seem. Roger Parry has recently been parachuted in as executive chairman, replacing chief executive Jeremy Middleton, after it reported £3.2m annual loss.

The group, which warned that current trading 'remains relatively slow', admitted it

had poorly executed its strategy of integrating the various businesses it has acquired over the past four years, particularly in its UK marketing services division, which includes CMW, Dynamo and Coutts Retail Communications.

Even former boss Kelvin Mackenzie has had his say, claiming Parry has too many other commitments. He has called on him to stand down, resign his other positions

or appoint a full-time chief executive. The *ex-Sun* editor retains a 1 per cent share of the business.

But this highly public spat just goes to show what is at stake in the market – not only for shareholders, but for the directors of the companies they acquire. After all, with most deals including an earn-out based on future performance, failure to meet targets can hit everyone in the pocket.

The Facts

The lowdown on the new breed of holding companies

Creston

Acquisitions to date Marketing Sciences, The Real Adventure, EMO Group, Nelson Bostock Communications, CML Research, and Delaney Lund Knox Warren & Partners

Media Square

Acquisitions to date Fourninety, FI Direct, Brand New Media, LeFevre Communications, Banc, PrePrint Imaging, Hudson Advertising & Marketing, Marketplace Design, IAS Group, CMW, Arnold Interactive, and Coutts Holdings

Cello Group

Acquisitions to date The Leith Agency, Target Direct, Insight Medical Research, Navigator Responsive Advertising, and CCHM:Ping

Cagney

Acquisitions to date Cubo, Brand Aid, The Media Foundry, Chick Smith Trotter, and Tree London

Digital Media Group

Acquisitions to date Graphico, Hyperlaunch, Jaywing, Cheeze, Inbox Digital, Dig for Fire and HSM