

iMedia Connection – 22nd December 2009

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Mergers and acquisitions: An uphill struggle



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The marcoms / digital media industry's outlook has started to stabilise relative to its worst fears earlier this year, but growth remains elusive. So what is likely to come of this change in outlook?

Cost cutting may continue where necessary, following some deep cuts already made. 10 per cent of industry jobs were lost in the U.S. between June 2008 and August 2009, according to Advertising Age's October report.

True innovation and transformation will be the result. More enlightened management and shareholders are realising the imperative to reshape conventional business models and to create and accelerate change for survival. Some developments that have caught my attention are:

- The explosion of more than 100,000 approved applications for Apple's i-phone
- Social networking continuing to grow exponentially. Facebook now has 300 million active users worldwide
- The success of Amazon Kindle and the proliferation of ebook readers
- News Corp avidly pursuing paid models for online content
- Crowdsourcing and augmented reality appearing in advertising campaigns
- Advertising agencies creating branded content divisions

These and other developments are likely to create a renewed focus on M and A to drive this innovation and transformation. Many companies are starting to come to terms with economic uncertainty as the new 'norm' while consolidators and investors are anxious to be well positioned for the new growth opportunities in an otherwise cloudy future for traditional media and marketing services business models. Recent observations include:

- Publicis is now positioned as being over 25 per cent digital -- a direct result of the Razorfish acquisition.
- Recognition by a major digital player of the need for joined up on- and off-line marketing strategy and implementation -- Sapient's acquisition of Nitro.
- A converging platform to address digital media content and advertising measurement -- Adobe's acquisition of Omniture.
- Mobile advertising and online video technologies continue to rapidly evolve -- Google's acquisitions of AdMob and On2.
- Online ad network consolidation accelerating -- High-media's acquisition of AdLINK Media and the acquisition of Unanimis by Orange.
- Social media software embraced in the marketing mix -- Alterian's acquisition of Techrigy.
- Brand building becoming more entwined with consumer data, analytics and insights -- Aeroplan's acquisition of Carlson Marketing.
- Return of private equity -- Mill Road Capital privatisation of Cossette.

Further evidence of renewed focus on M and A comes from some of the industry leaders:

'Given the strength of our balance sheet, I fully expect the company will be more active and you can expect more acquisition activity from us as we move forward,' said Omnicom CEO John Wren.

'Acquisitions are turned on again at Google and we are doing our normal manoeuvres, which is small companies. My estimate would be one-a-month acquisitions and these are largely in lieu of hiring,' said Google CEO Eric Schmidt.

In aggregate, despite the ongoing macroeconomic challenges and tight credit markets, the lift in M&A prospects has led to a stabilisation in valuation and multiples in 2009, with some upturn over the past several months. This is visible in the public markets.

It is interesting to note that the gap in valuation between the pure-play digital businesses and the more general (and increasingly integrated) marketing services firms converged significantly at the bottom of the market. And, while there is still a digital premium, the rebounds in valuations have been fairly proportionate across sectors. It will likely be the new factors around innovation beyond simply 'digital' that will differentiate the future winners versus losers.

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