

# The Drum – May 2008

## 20 NEWS ANALYSIS

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### CAUSING RIPPLES

The acquisition of Liverpool-based digital agency Rippleffect raised a few eyebrows. But this surprise was not based on the agency's performance – far from it. The intrigue comes in the form of the buyer: Trinity Mirror. So what on earth is a newspaper publisher going to do with a digital agency?

This time last month publishing giant Trinity Mirror announced its acquisition of Liverpool and Manchester-based digital agency Rippleffect, in a deal that could be worth close to £6m.

It was met with a mixture of shock, intrigue and a smattering of jealousy, as the industry came to terms with one of the most unexpected deals for some time.

Not because Rippleffect wasn't ripe for acquisition – a brief glimpse at its recent new business successes would put pay that – but because, unlike most deals involving the acquisition of a specialist agency, this one had not come from a marketing communications group or network.

Rippleffect's rich sports pedigree, along with leisure and retail, are said to have been key to the deal occurring.

The agency was formed in 1999 by managing director Ben Hatton with the backing of his father and former politician Derek Hatton and now has upwards of 40 staff and clients that include football clubs Everton, Celtic and Fulham; gym brand Total Fitness; and corporate firms such as Mercedes Benz and Littlewoods. In addition, The Drum broke the news last month that Rippleffect had been appointed to a three-year contract to manage the website of Arsenal FC.

For Trinity Mirror, it's thought the opportunity to complement its own Sport Media business, which publishes a range of specialist sports titles including the matchday programmes of Liverpool and Everton football clubs, was a key factor in the approach.

Speaking at the time of the deal, Trinity Mirror CEO Sly Bailey said the acquisition "brings together Trinity Mirror's specialist sports publications and Rippleffect's specialist sports web development under one roof enabling us to substantially grow our revenues in this important sector."

#### MORE QUESTIONS

The most apparent thing about the deal, however, is that it appears to have left people with more questions than answers.

Having not been involved in the deal, Results International's senior consultant Tony Walford is as curious as anyone about what happens next particularly with the Rippleffect brand.

"The thing that is interesting about the deal is that it looks as if Trinity Mirror has bought a function rather than a stand alone business. It will be interesting to



Rippleffect's managing director says that it is business as usual at the agency

see what happens in terms of Rippleffect's brand."

Walford also notes the significance of a media organisation buying a digital agency. "It would appear on the face of it to be quite unusual," he says, "we would be interested as to whether Trinity Mirror's objective is to keep Rippleffect as a separate agency delivering services to clients, or whether the key driver of the acquisition is to acquire a function of web design."

Answers so far have not been the most forthcoming. Hatton says it's business as usual for now, but appears to be leaving the dust to settle before any dramatic changes – if any – are announced. Trinity Mirror spokespeople were also unavailable at the time of going to press, leaving Walford, like the rest of us, guessing what will happen next.

"My gut feel," says Walford, "is that Trinity Mirror has bought a function and they want to move more into the online space as they realise its power. The acquisition of Rippleffect is a good fit in terms of what they do, especially relating to sports."

"Either way, it looks as though Trinity Mirror wants to increase its online capability alongside its press capability. The question for me would be what is going to happen to the Rippleffect brand."

Rose Lewis of Pembroke Partners is equally as intrigued about the deal, but acknowledges that it's

not the first of its kind.

"It's an interesting move for a publisher," she says, "but Trinity Mirror isn't the first to move into digital in this way. Reuters and News International have both invested in the digital arena, but that is going back a bit. In fact, it's quite an old school acquisition. But perhaps that's to be expected from an old school publisher."

"For Rippleffect, it allows for them to accelerate its growth more than it perhaps would have been able to and being part of a publishing firm will undoubtedly present some interesting opportunities."

Undoubtedly, one of the biggest talking points has been the price. At £5.8m – the first £3.2m upfront and a further £2.6m dependent upon "specified operating targets" over the next three years – it's not difficult to see why eyebrows have been raised. Not least of all because, between them, Derek and Ben Hatton owned 80 percent of the agency.

#### VERY PRODUCTIVE

So what do the experts make of the price?

After number crunching out loud, Lewis suggests Trinity Mirror may have over-valued the agency by about 10 percent, although she is quick to point out that without being involved in the deal, the price is difficult to comment on. "I did, however, notice they've announced that sales are expected to hit around £3m, which means the agency must be very productive. You can see the attraction if this is the case."

Over the last two years the marketing industry has been home to several big money deals, mostly involving marketing communications groups and networks, but Lewis believes that, while scarce, "lateral deals" are worth considering by agencies looking to sell up.

"Inevitably, most agencies look to more conventional deals with another agency or agency buying group because they're seen as a safe bet – particularly from a culture point of view."

"The kind of lateral deal we're talking about here with Rippleffect and Trinity Mirror only comes about occasionally in the marketing industry. But if the selling agency is smart enough to attract a big player, like in this case, then it must be doing something right."

"If agencies, especially digital agencies, are willing to look on a wider scale when it comes to being acquired, it could be very lucrative for those involved."