

## **Mainstreaming Means Mergers and Acquisitions says AdMedia Partners Study**

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The rapid growth of search engine marketing over the past two years has firmly established the SEO and SEM sector as an important concern for the mainstream advertising industry. Lacking the long-term background and technical resources to properly serve the intense demand for search marketing from clients, the traditional ad agencies are starting to think about the search marketing industry.

A study released yesterday by Madison Ave. based [AdMedia Partners](#) suggests that advertiser interest, coupled with the changes in the way consumers perceive and receive advertising makes many search marketing firms tasty targets for acquisition or likely candidates for mergers.

"Search remains extremely hot as an acquisition category. If anything, demand might be stronger than before because traditional media companies within the larger game are realizing search is an incredibly important part of media," said [Seth Alpert](#), Managing Director of AdMedia Partners in an interview with StepForth, "They have to be planning and buying for clients but don't have internal knowledge or staff to do it."

As an investment banking and financial advisory firm focused on advertising and marketing, AdMedia Partners thrives on verifiable numbers. They conduct annual surveys of the advertising and publishing industries. This year's look at trends in 2006 shows that 79% of respondents, "... anticipate strong merger and acquisition activity in Internet marketing..."

The survey, "[Merger and Acquisition Prospects for Marketing Services and Internet Marketing Firms](#)", shows a shift in thinking in both the traditional advertising industry and the search marketing sector. Traditional ad agencies want to serve the search marketing needs of their clients while concurrently, many of the smaller firms providing search marketing services want to grow either through mergers or by being acquired by a larger entity.

The survey found that "54% of those who identify as prospective buyers expect to complete an acquisition during 2006, up from 51% last year." It goes on to note a much larger shift among those looking to get bought up by someone larger showing "42% of those who identify as prospective sellers expect to sell all or part of their business in 2006, vs. 25% who thought they would do so last year."

There is a lot of energy around mergers and acquisitions in the search sector right now. "Internet marketing works. Traditional forms are becoming more segregated or more subject to lack of attention span and concurrent disruptiveness of technology," said Alpert, "Right now, the buyers have cash, either because business is doing well or they have cash backed by private equity funds."

Search has proven to be the most disruptive form of online marketing for traditional publishers and ad agencies. It also presents a double edge sword. Witness the realignment announcement issued by the reigning titan of publishing, [Time Inc., early Tuesday](#). While search marketing has shown significant

impact on Time's bottom line, it has also opened up a number of opportunities for the media giant, particularly through its ownership of AOL and AOL's affiliations with Google.

Exploiting emerging opportunities is obviously on the minds of many marketers these days. One question asked if respondents were, "Considering Entering or Expanding their Presence in the Following Businesses". The survey listed eleven types of marketing, allowing respondents to answer yes to one or more of the options listed.

The results of this question are interesting in that over 90% of respondents said they did expect to expand into other forms of advertising. Nine out of ten firms think they need to do something new and most of that thinking is focused on search marketing. Sixty-nine percent of the advertising or publishing agencies surveyed say they intend to enter or expand in the search marketing sector in 2006.

As they enter the search sector, many of the larger firms intend to purchase or partner with established search engine marketing firms. 85% of respondents who identified as prospective buyers said they expected to approach a potential acquisition though only 54% of them expected their approach to result in a completed acquisition.

The potential buyers might be in for a pleasant surprise however as 79% of those that identify as prospective sellers expect to be approached though only 42% expect to be acquired.

Those thinking about purchasing a company are advised to act quickly. It is currently a buyer's market with 84% of respondents saying that, "... given the current climate, buyers should act now", but the pendulum appears to be swinging in favour of sellers. In last year's survey, 87% of respondents advised buyers to act swiftly.

This year, 52% of respondents say now is the time for sellers to act, a jump of 21% over 2005 and the most favourable response since the dot-com crash. Clearly, the balance is moving towards the search marketing sector. Search marketing knowledge is increasingly valuable on today's market.

Appreciation of search marketing talent is reflected in the median multiples used to create a reasonable estimate of the value of a company. Take the operating profit of a given company and multiply it by X and you have a general sense of what that company is worth.

Over the past three years, the median multiples of traditional ad agencies and other off-line marketing services have remained fairly constant, ranging between 5 and 7 times the operating profit of any given company. The value of Interactive Ad agencies is now estimated between 6 to 10 times their operating profits.

"There have been seminal events have changed business and public perception of the business of marketing online," said Alpert, discussing the impact of search on advertising. "An example of a negative event was the tech bubble bursting five years ago. Business is back in a very interesting way. Valuations are healthy (or crazy, depending on point of view) will continue for quite a while."

Predictably, the second greatest growth area is seen in Strategic Consulting, helping both ad agencies and advertisers figure out how to best spend advertising dollars. The marketing world is not getting any less confusing, on either side of the coin and neither the agencies or their clients can afford to make mistakes.

According to Alpert, there are a number of things buyers are looking for when examining a potential merger or acquisition.

- Great clients and the ability to retain those clients is one of the most important.
- Firms should have great skill sets as evidenced by results and what they can do for their clients.
- Sustained revenue growth and healthy profit margins make a company more attractive and increase valuations (however,)
- SEM is a scalable skill; smaller firms with great talent are of interest to potential buyers.
- Location is also an important factor as travel and meeting clients is often necessary.
- Lastly, proprietary techniques and technologies are important assets for sellers.

The survey establishes that Internet marketing is extremely important to the traditional advertising sector but it was unable to find a similar consensus on what form of marketing will see the greatest growth in 2006.

Search lead with 18% saying it will show the largest growth over the year but Pay per Performance, Interactive Media, Customer Relation Management and Lead Generation all polled well. The only actual consensus in growth shows what is not hot this year with none of the respondents suggesting Affiliate marketing will see any perceptible growth in 2006.

One of the respondents to the survey said, "Open media (podcasting, blogging, video blogging, etc.) has opened a world of opportunity... Think the Internet and World Wide Web in the early 1990's"

Within the search marketing industry, there is a lot of sustained optimism, (no pun intended), and has been for a number of years. Moving into the second half of the global decade, search and search marketing is more important each year. The sector is capturing an increasing share of the global advertising budget; enough to make the traditional ad agencies finally sit up and notice.

SEO and SEM shops take notice, not only is Madison Avenue looking to enter your sector, they are also looking at you.