

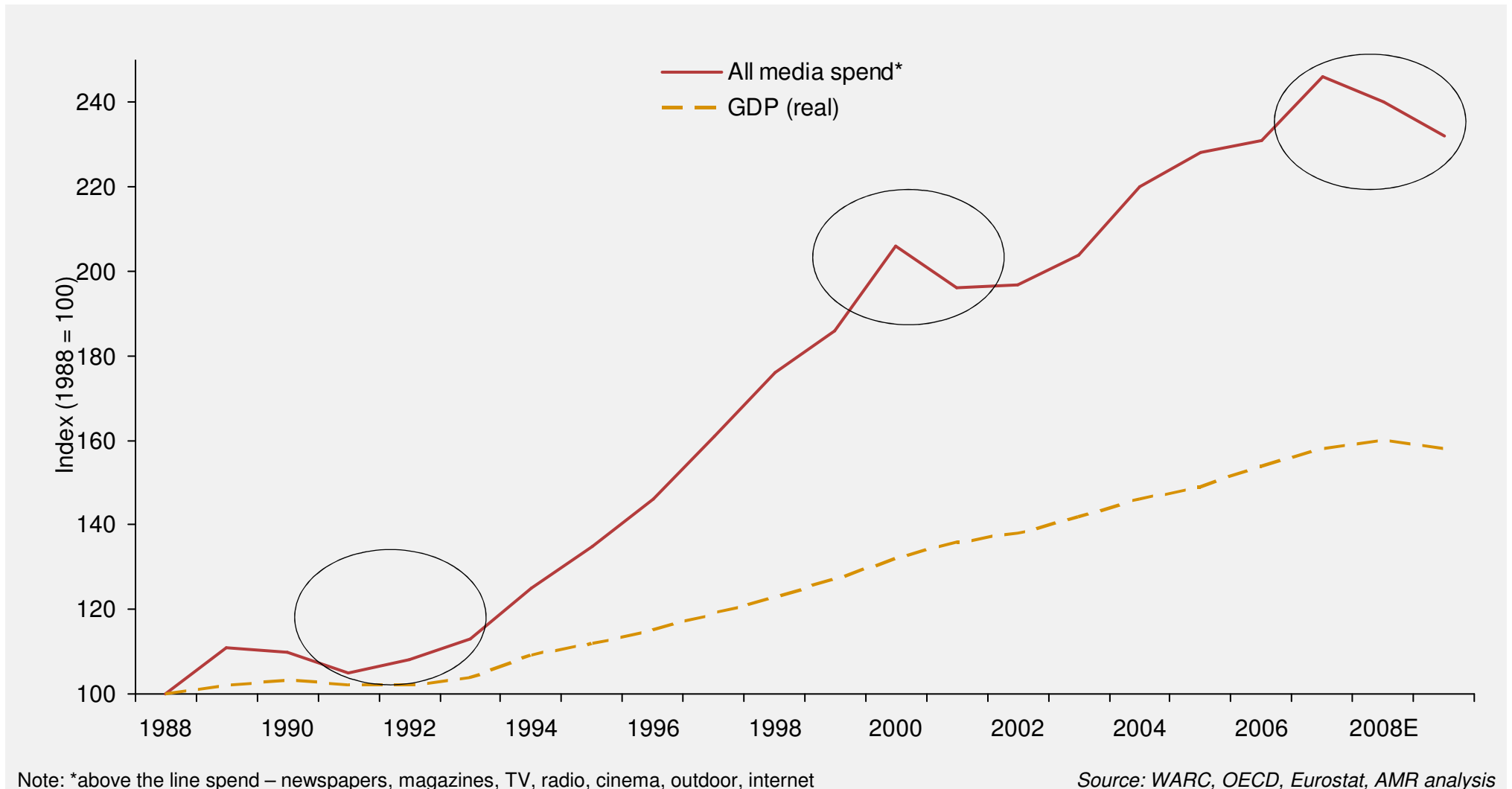


# The changing landscape – M&A and sector trends in marketing services

Jim Easton, Director

# Advertising spend is in its third cyclical decline in 20 years. We are (hopefully) heading towards the bottom

## Advertising expenditure and GDP, 1988-2009F



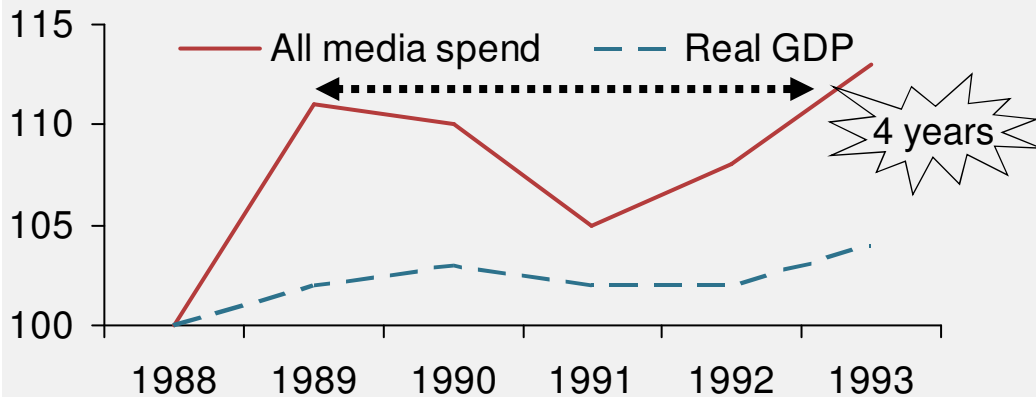
Note: \*above the line spend – newspapers, magazines, TV, radio, cinema, outdoor, internet

Source: WARC, OECD, Eurostat, AMR analysis

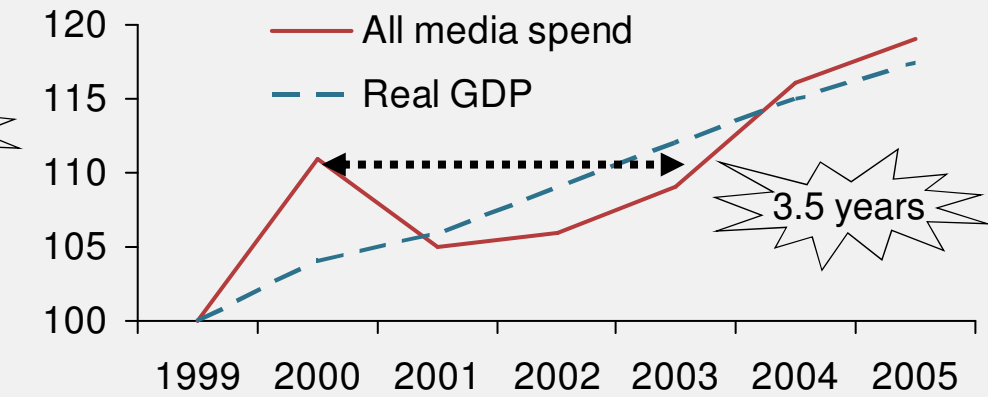
In previous downturns, adspend has taken three and a half to four years to recover to previous peaks; this time it may take longer

### Advertising expenditure\* and GDP: three advertising recessions

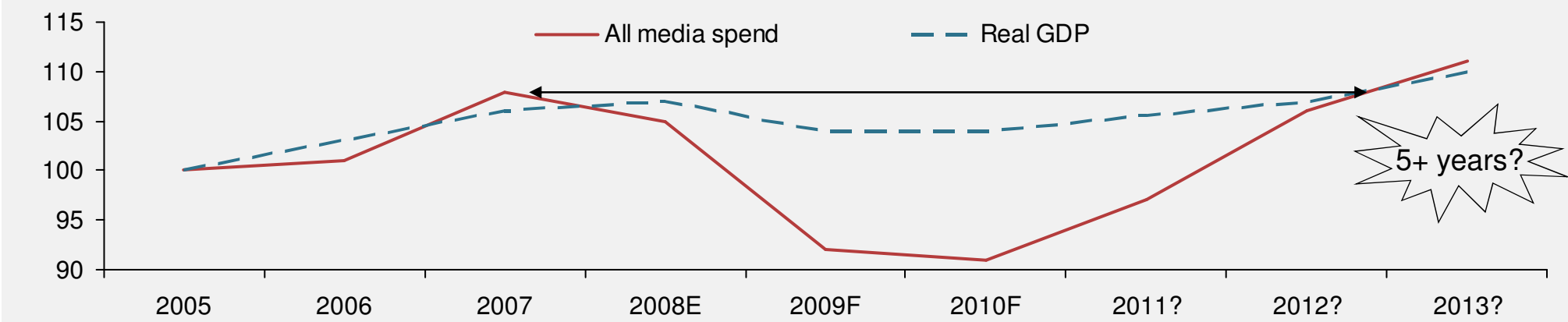
First advertising recession: 1988-1993



Second advertising recession: 1999-2003



Third advertising recession: 2005-2009F

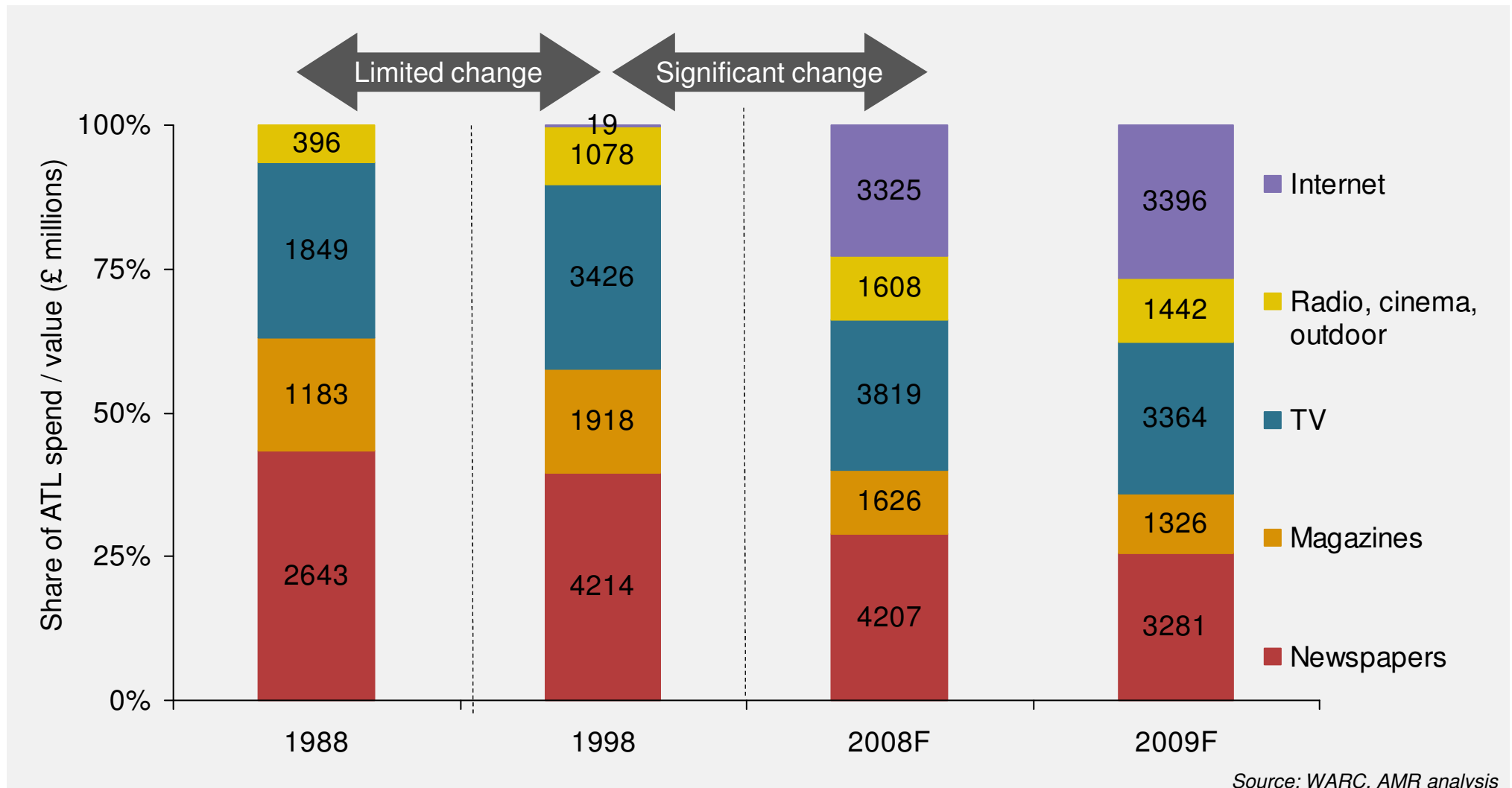


Note: \*above the line spend – print, TV, radio, cinema, outdoor, internet

Source: WARC, OECD, Eurostat, AMR analysis

The last ten years has seen a change in the media mix not seen since the advent of TV; this year, online will be the largest medium

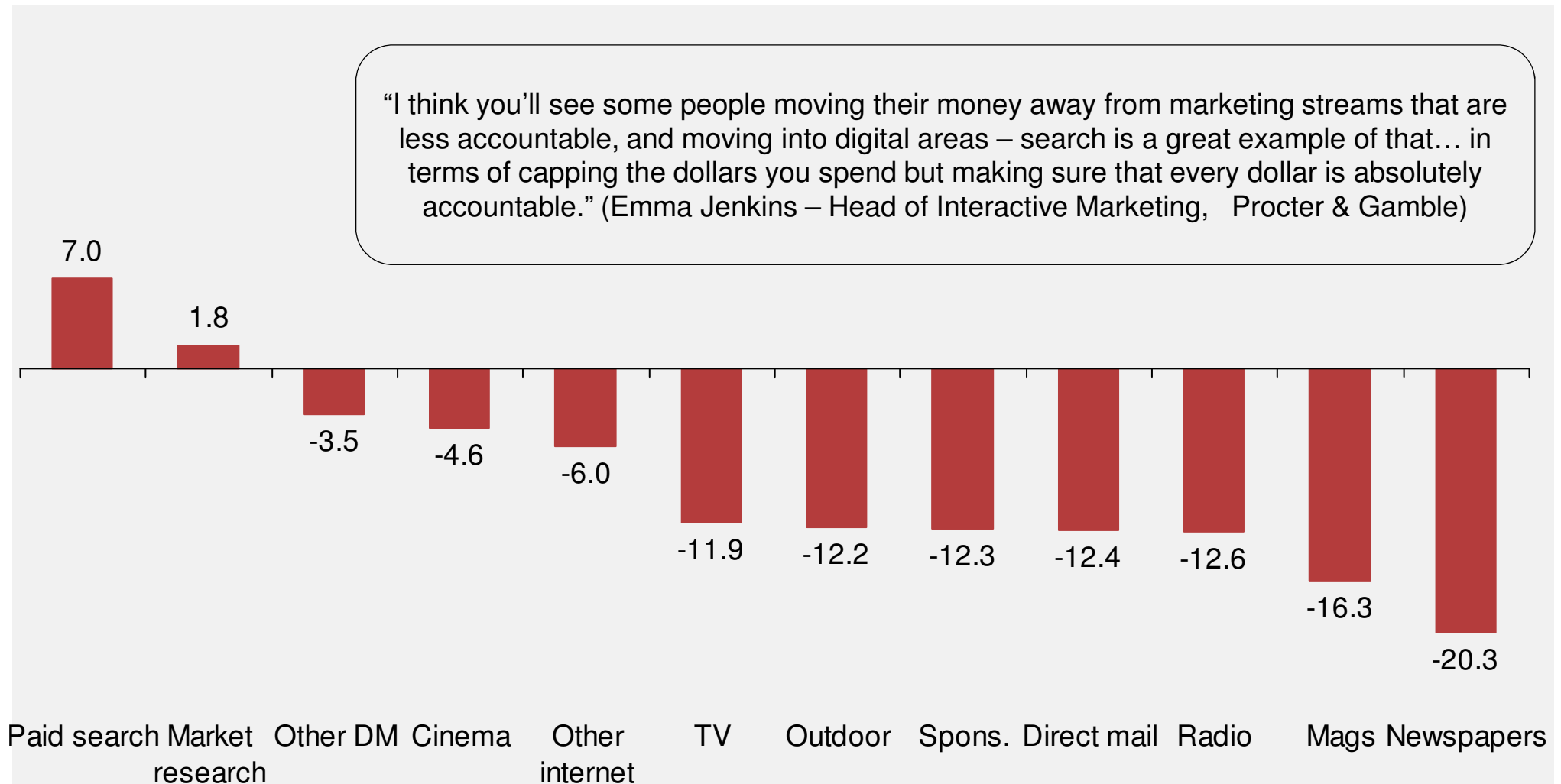
Above-the-line spend by channel: 1988, 1998, 2008 and 2009F



Source: WARC, AMR analysis

# Nearly all traditional areas of marketing spend are under pressure from a combination of cyclical pressure and structural change

UK adspend % change, 2009F vs 2008 (forecast as of July 2009)



Source: IAB, AMR analysis

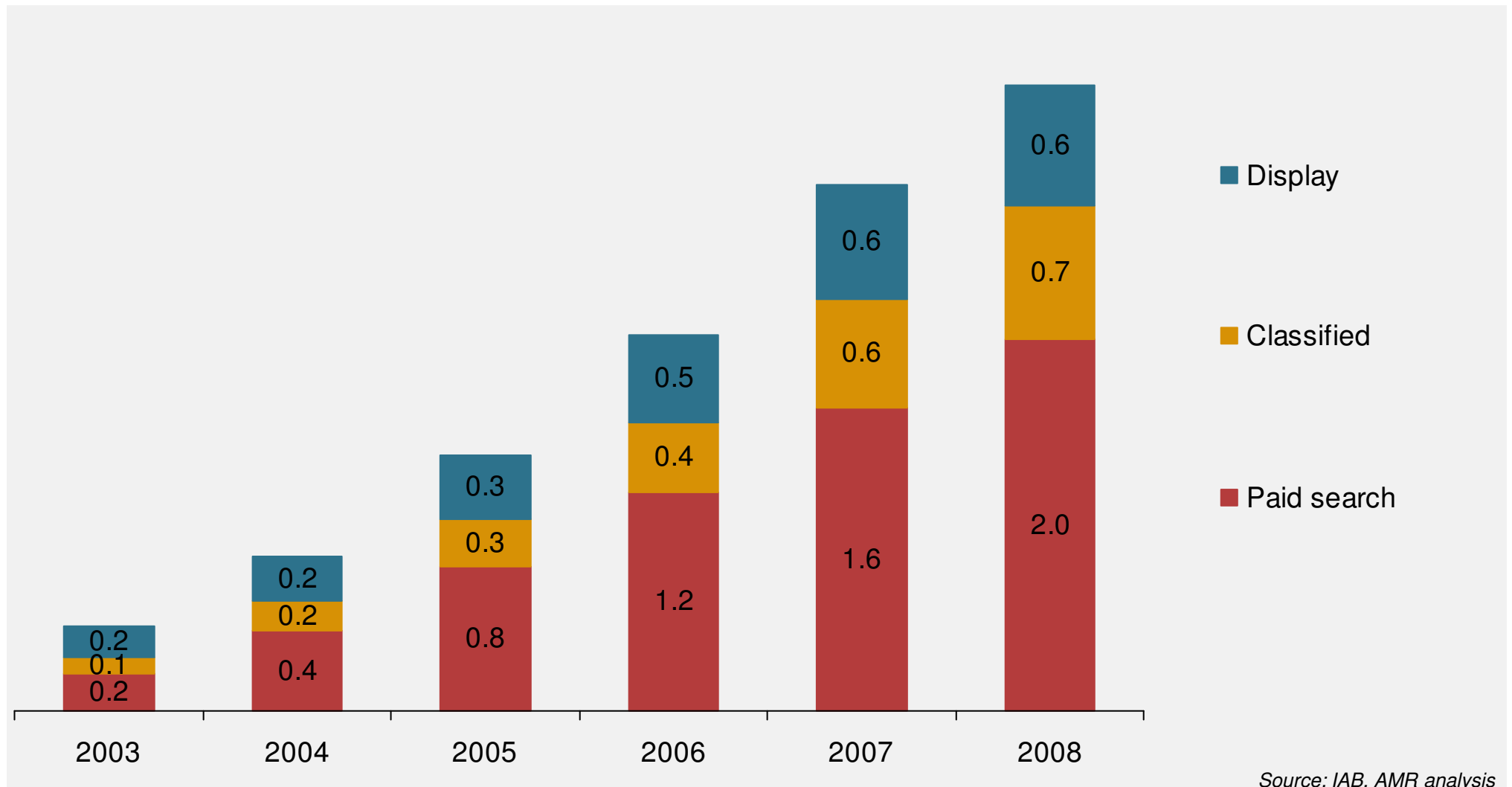
# Marketing communications typically have one of three objectives; the internet ad models are most used for generating leads

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Activity	Traditional approach	Online approach	Outcome
Brand building	TV, outdoor, press advertising, PR, Sponsorship	Branding possible online but digital models are not there. Video is still nascent	Traditional media remains the winner until online advertising models emerge, but non-brand building advertising is vulnerable
Generating leads	Direct mail, telemarketing, leaflets, other direct response	Email marketing, search, affiliate networks, shopping comparison	Digital has the opportunity to be a clear winner in terms of cost effectiveness
Customer retention	Direct mail, customer magazines, telemarketing	Email marketing	Still value in both offline and online retention activity

Growth in online advertising is primarily driven by paid search which is predominantly a lead generation tool; online display is still small

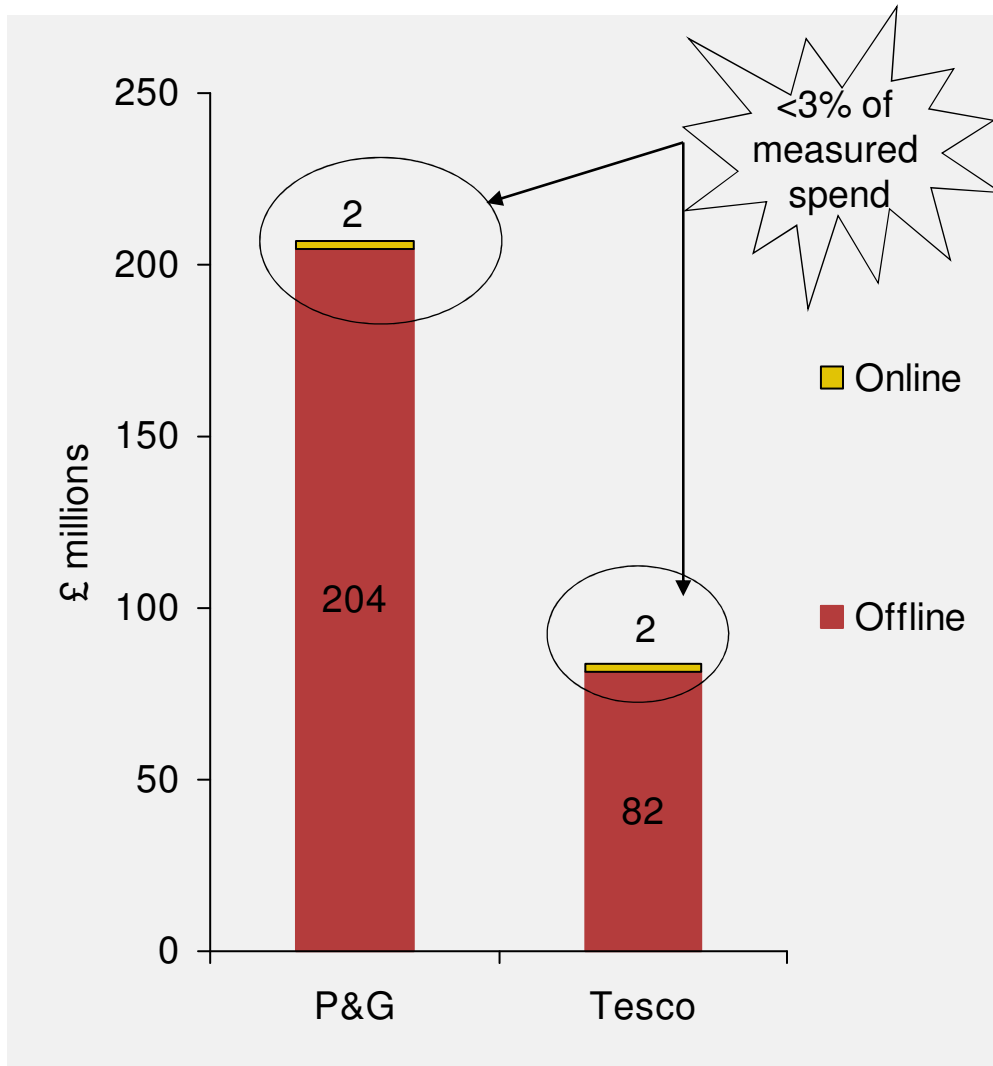
UK online adspend: 2003 to 2008, £bn



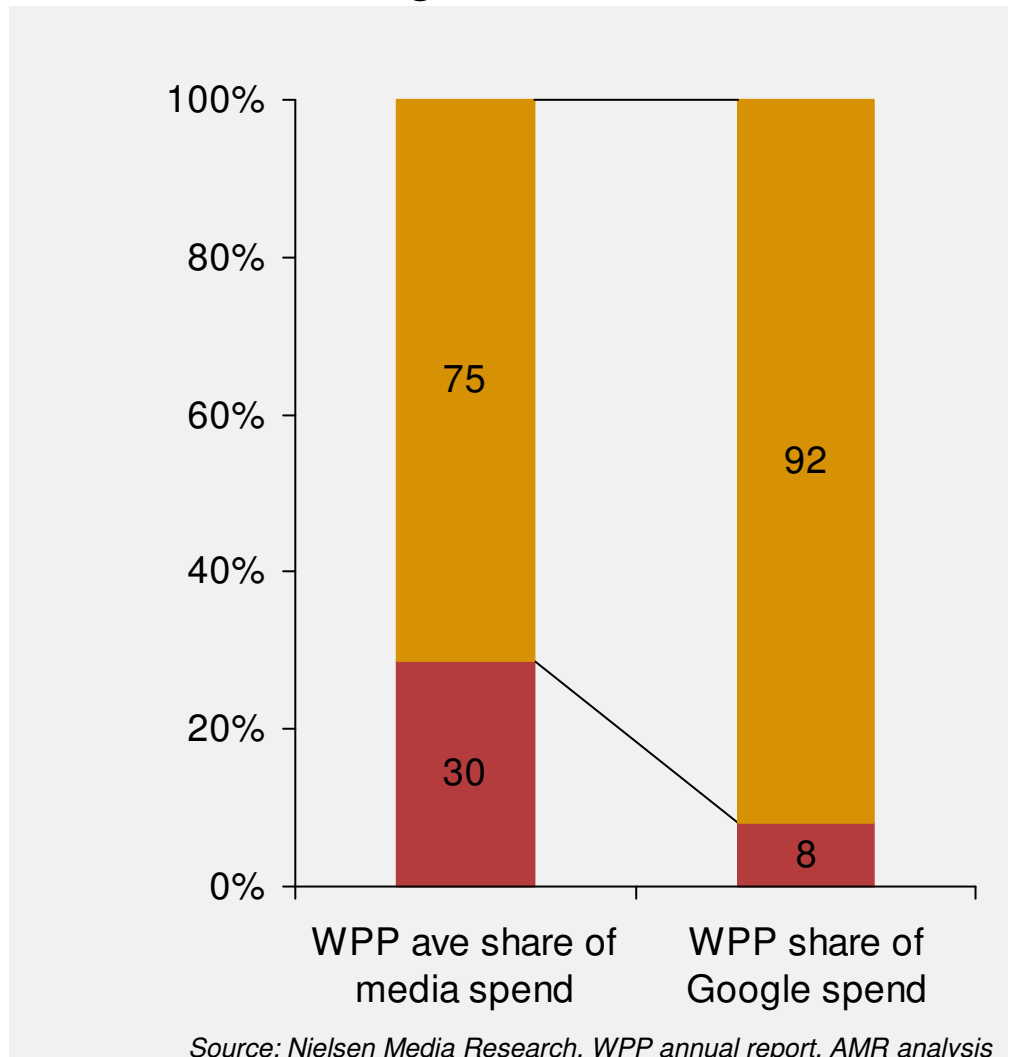
Source: IAB, AMR analysis

# But, big FMCG advertisers are still spending less money online and the big agencies are not placing huge spend on Google

## Total UK adspend for P&G and Tesco, 2008

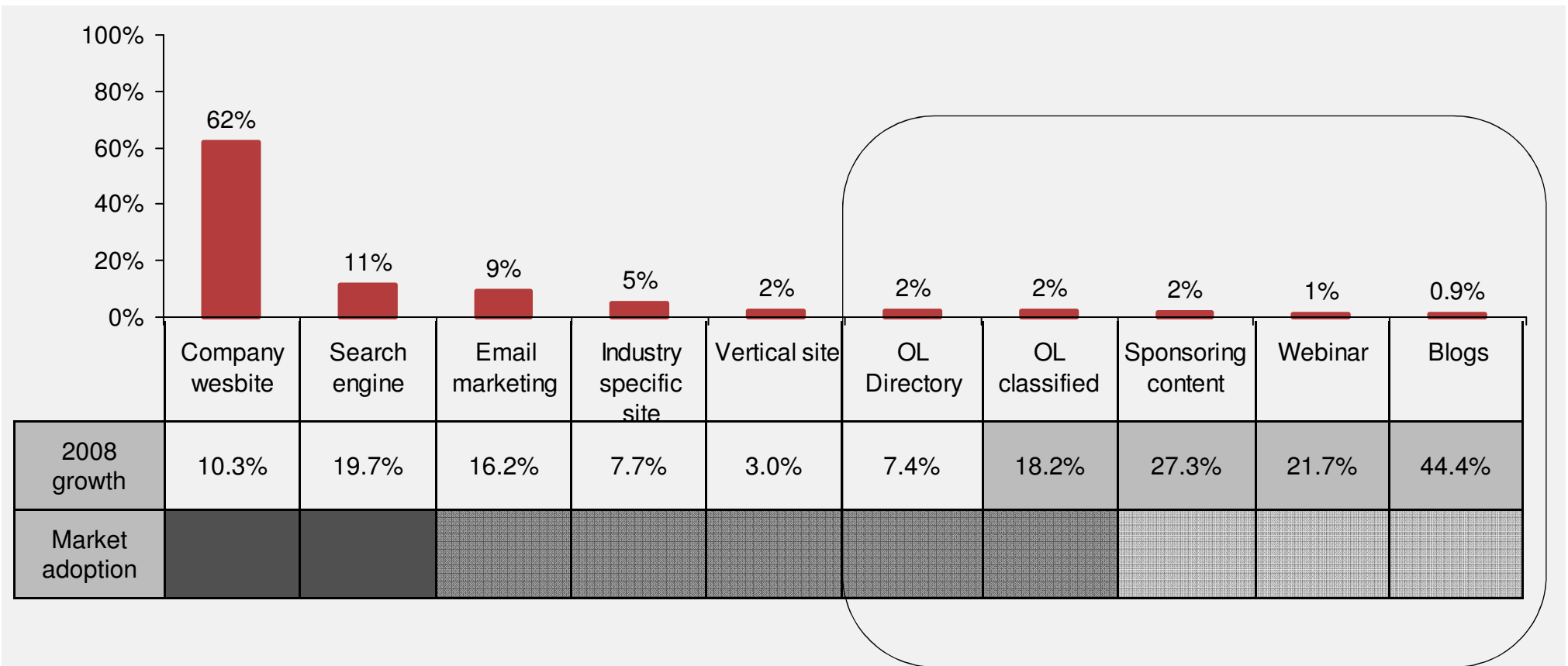


## WPP share of ATL media spend vs share of Google revenues



# In fact, the bulk of online spend is on companies' own websites and SEO; other models are still at very early stages

**Allocation of B2B online marketing spend, 2008\***



Existing adoption rates



High, model established



Moderate, becoming accepted



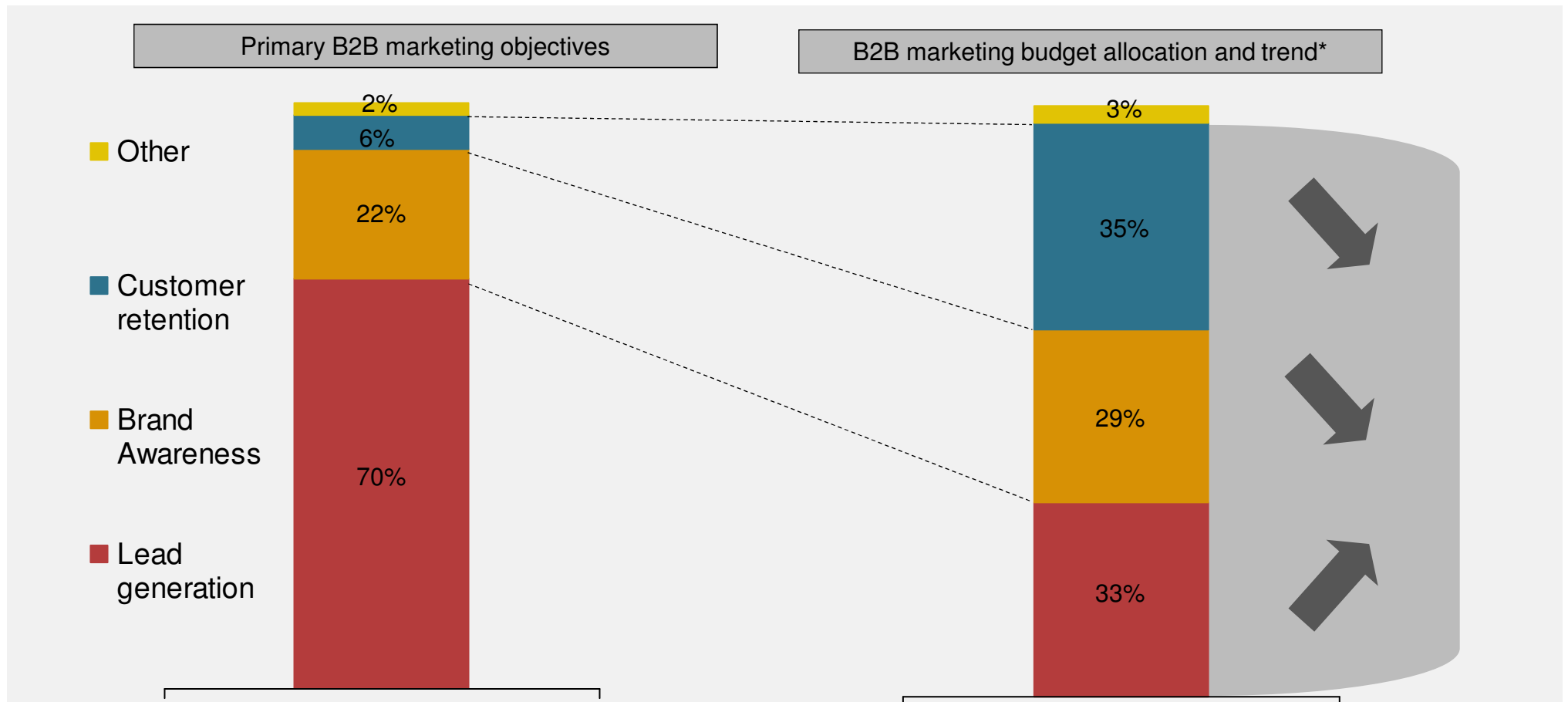
Low, emerging but uncertainty on market penetration

Note: \* Graph will not total 100 as other category of wireless and other informational site are excluded

Source: Outsell research, AMR analysis

# Structural change will continue as it appears that there is an imbalance in where marketing spend is being allocated

## Benchmark of marketers' need to budget allocation, 2008

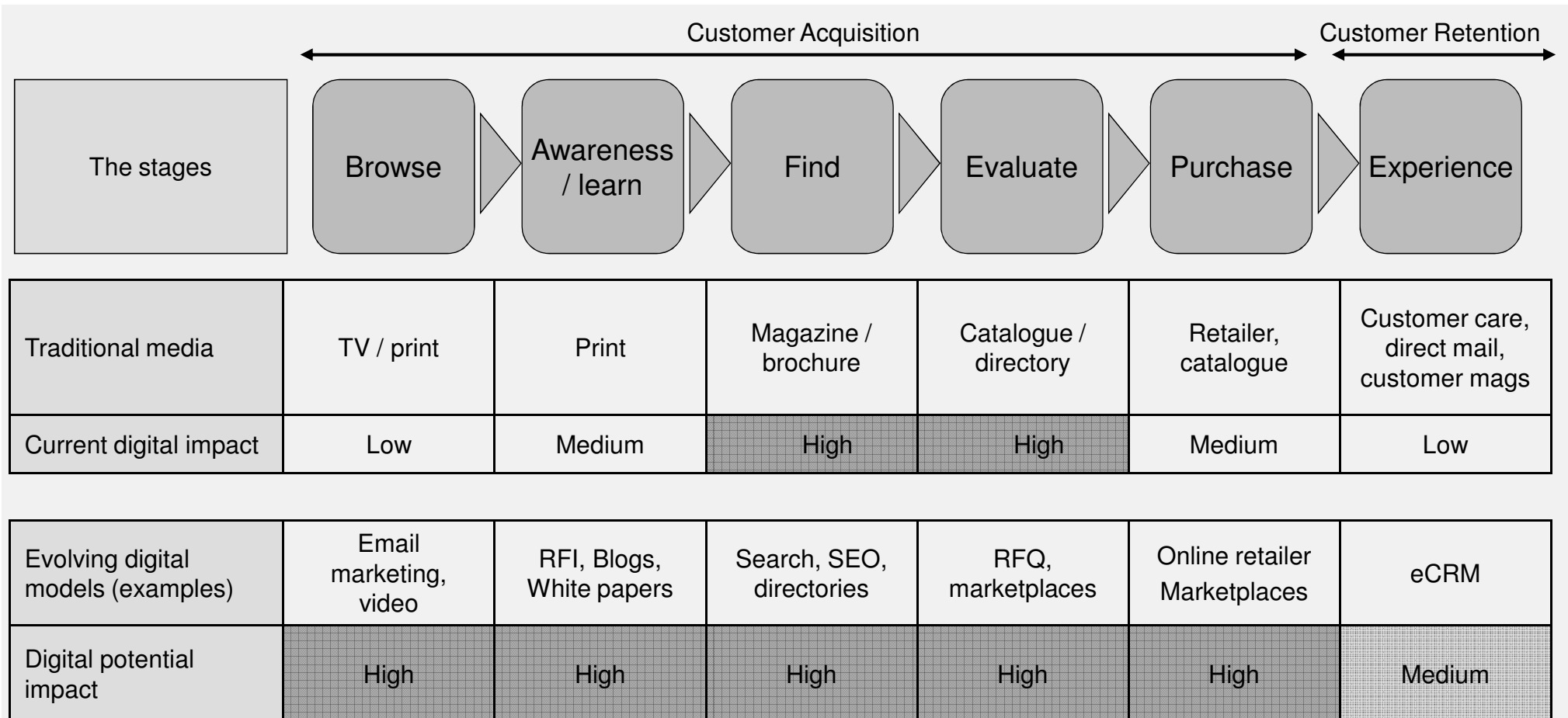


Note: \* Arrows indicate declining or falling share of budget allocation

Source: eMarketer, Marketing Sherpa, Outsell

And digital platforms will continue to grow share as they enable marketers to reach their targets in more stages of the buying process

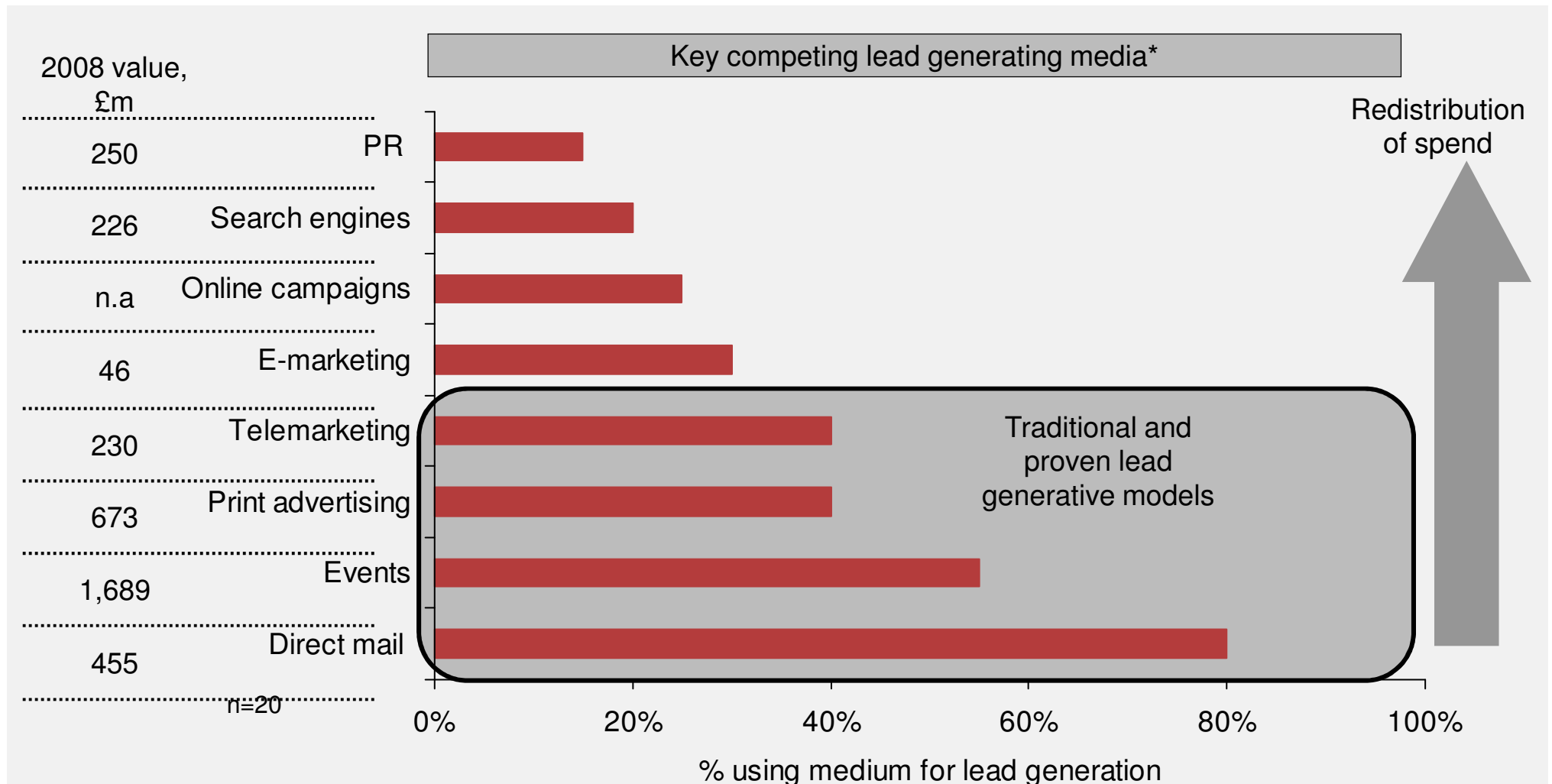
### Changing marketing levers



Source: AMR Analysis

# Lead generative spend is still concentrated on the traditional forms of direct marketing; this is likely to continue to change

Comparison of competing media for B2B lead generation, 2008\*

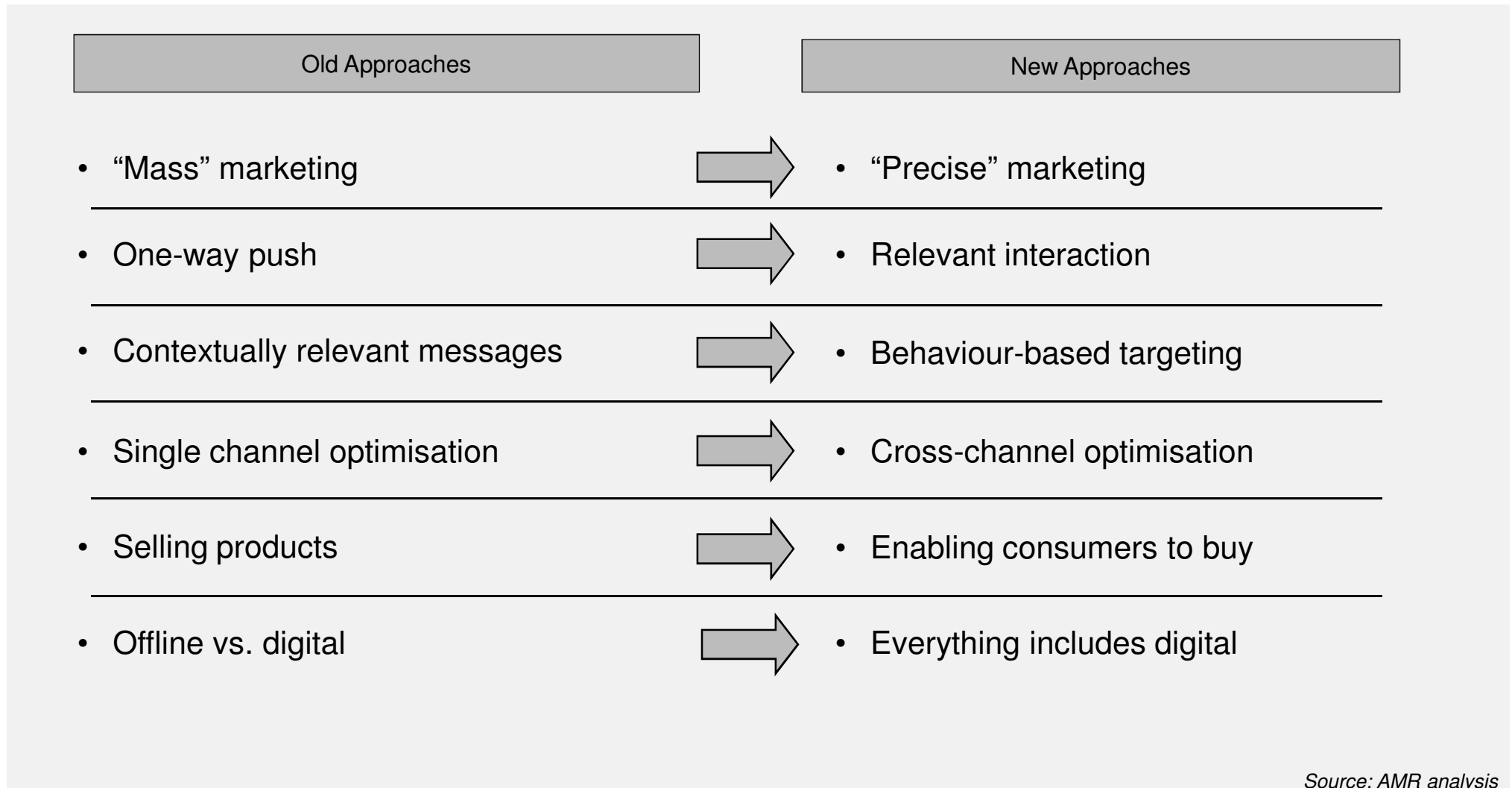


Note: \* based on discussions with B2B marketers

Source: AMR interviews and analysis

# Whatever the winning models, it is clear that there are major shifts in approaches to marketing services

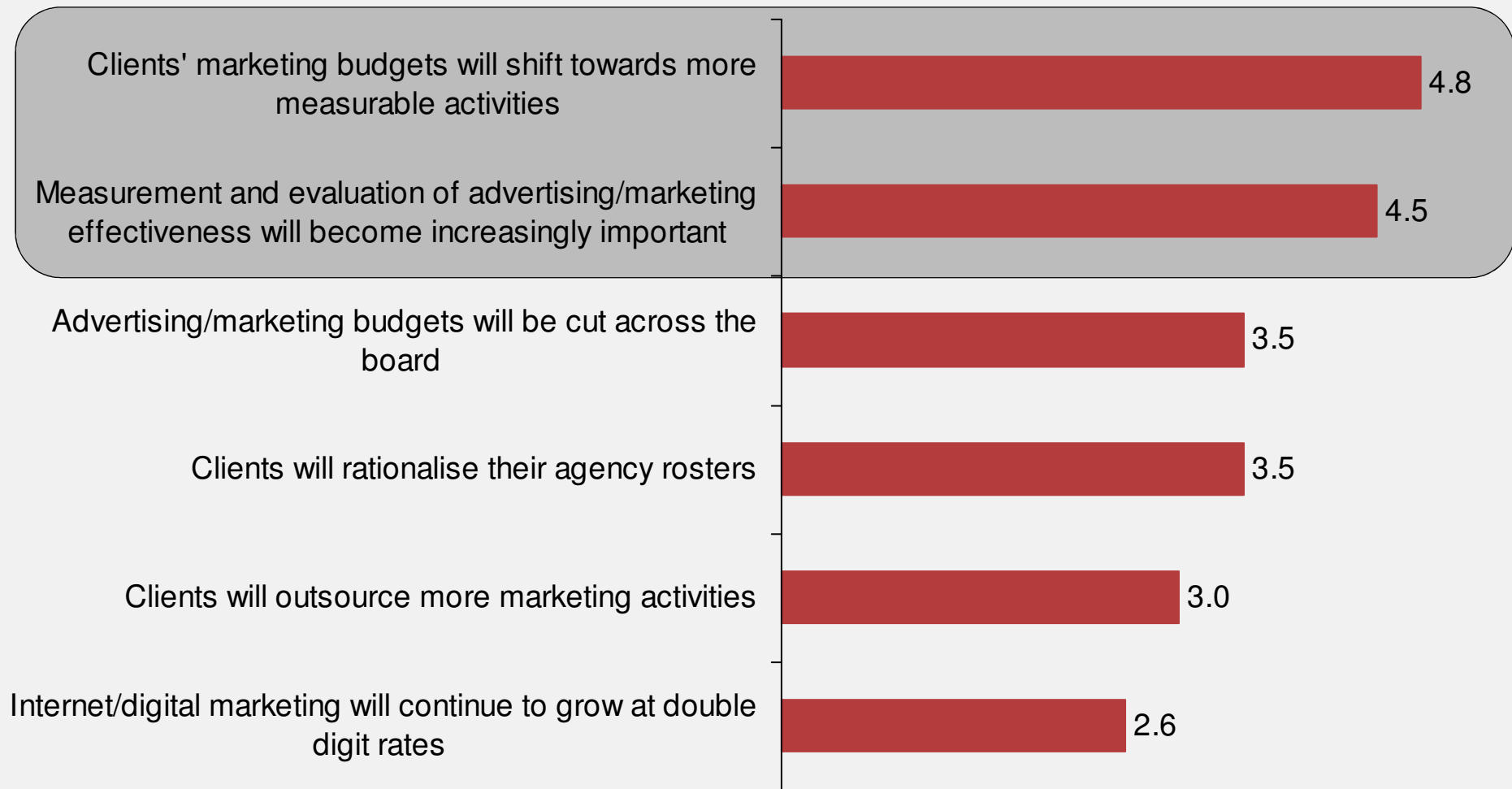
## Overview of changes in marketing services



Source: AMR analysis

# And our panel agrees that measurability and evaluation are the watchwords

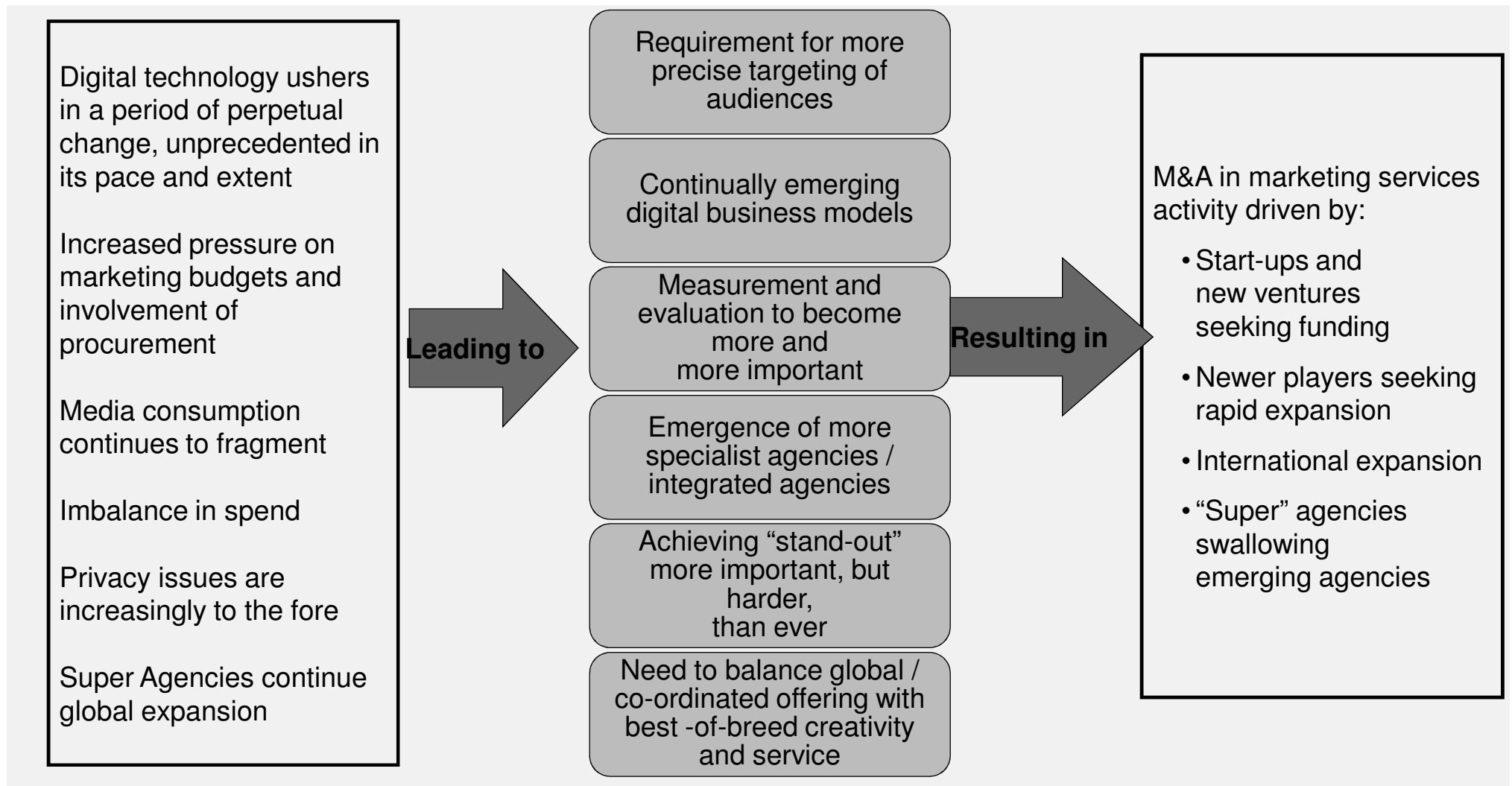
To what extent do you agree with these statements (5 = agree absolutely, 1= disagree completely)?



Source: AMR / Livingstone interviews

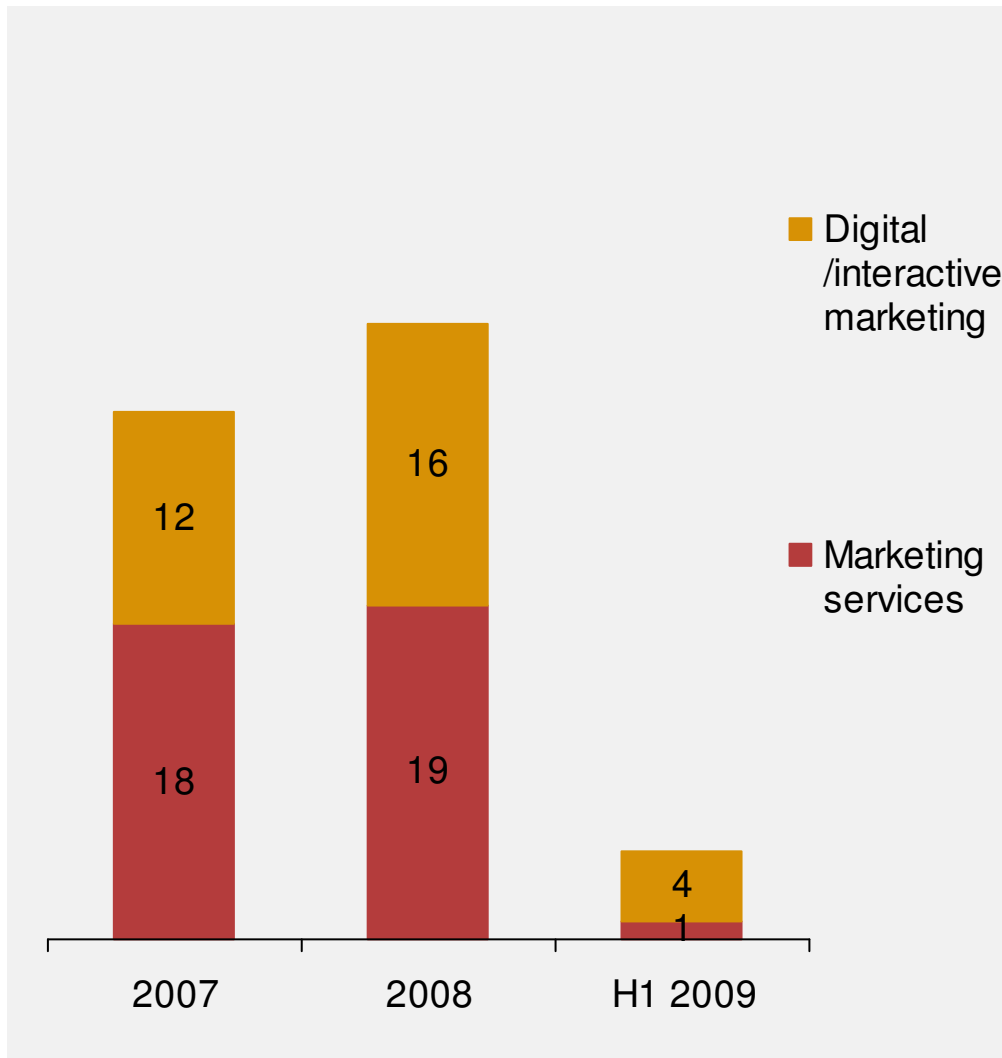
# So media, and by extension, marketing services, is going through unprecedented change; this will drive M&A activity...

## Key trends in marketing services

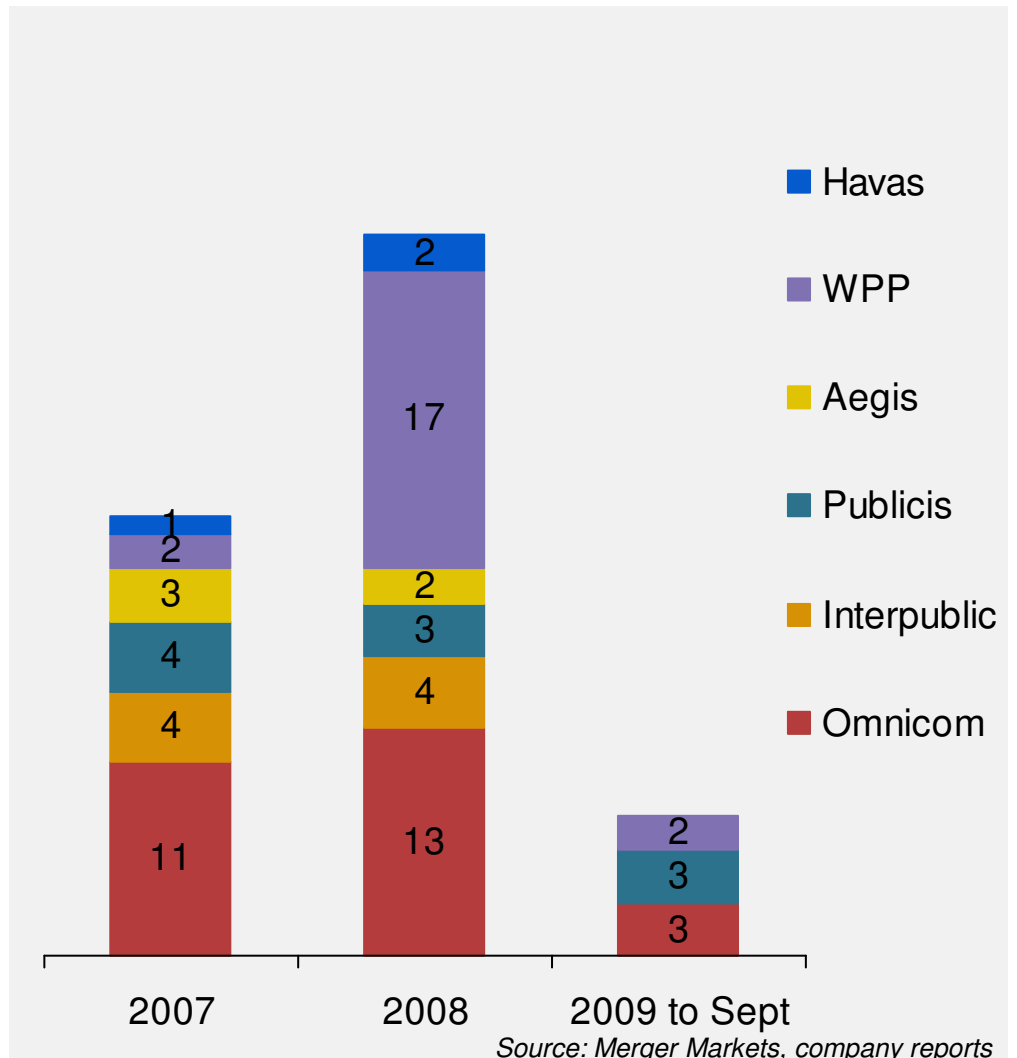


...but not quite yet

### UK deals in marketing services



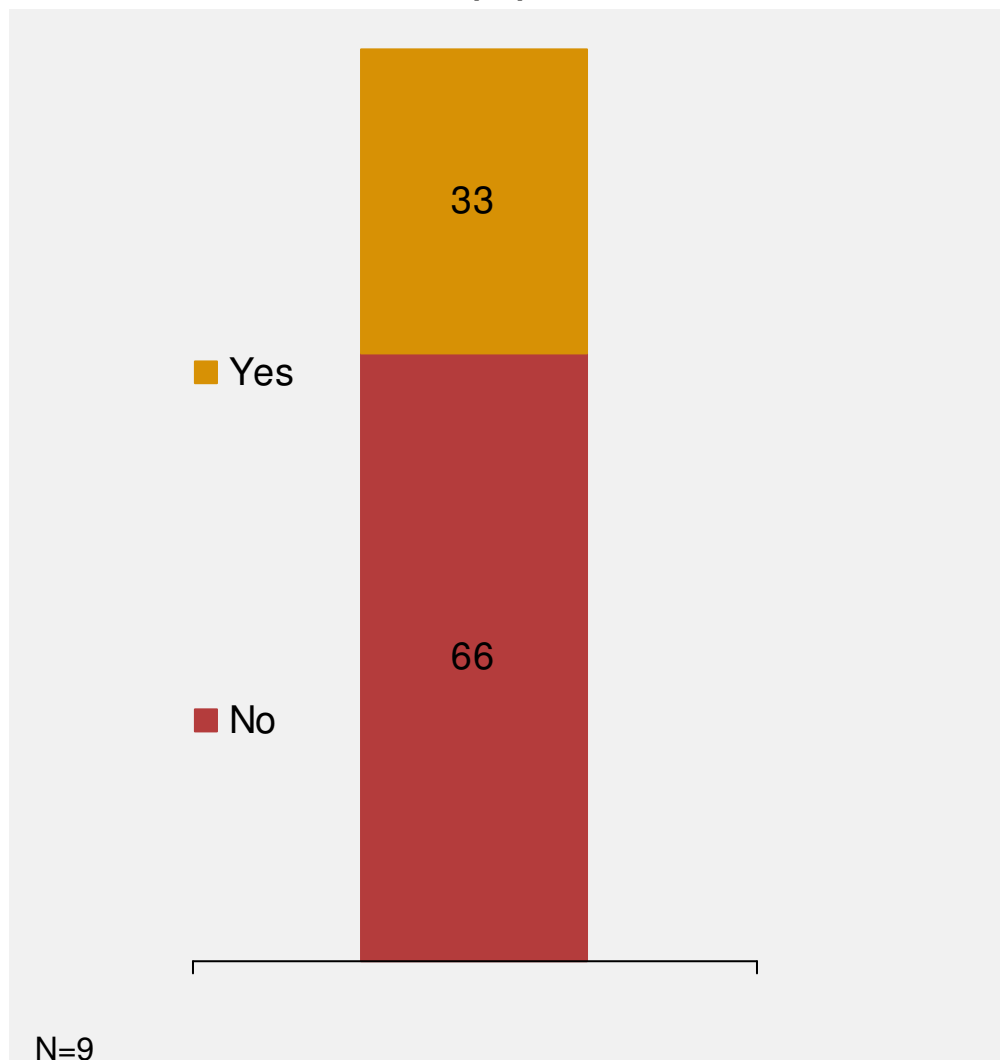
### Acquisitions by the Super Agencies



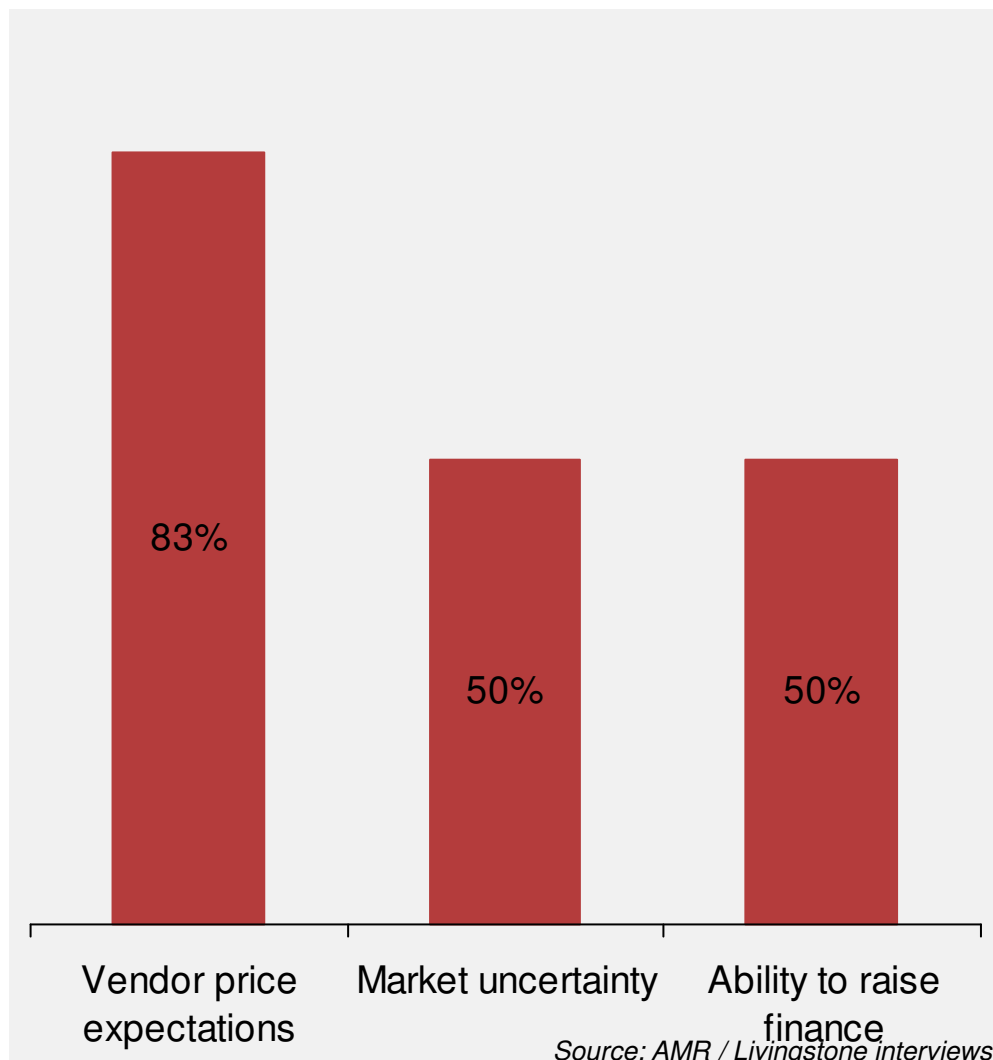
Source: Merger Markets, company reports

# Our panel has mostly found deals difficult due to price expectations, market conditions and the scarcity of finance

Have you found deals recently easy to complete (%)?



What are the main reasons (%)?

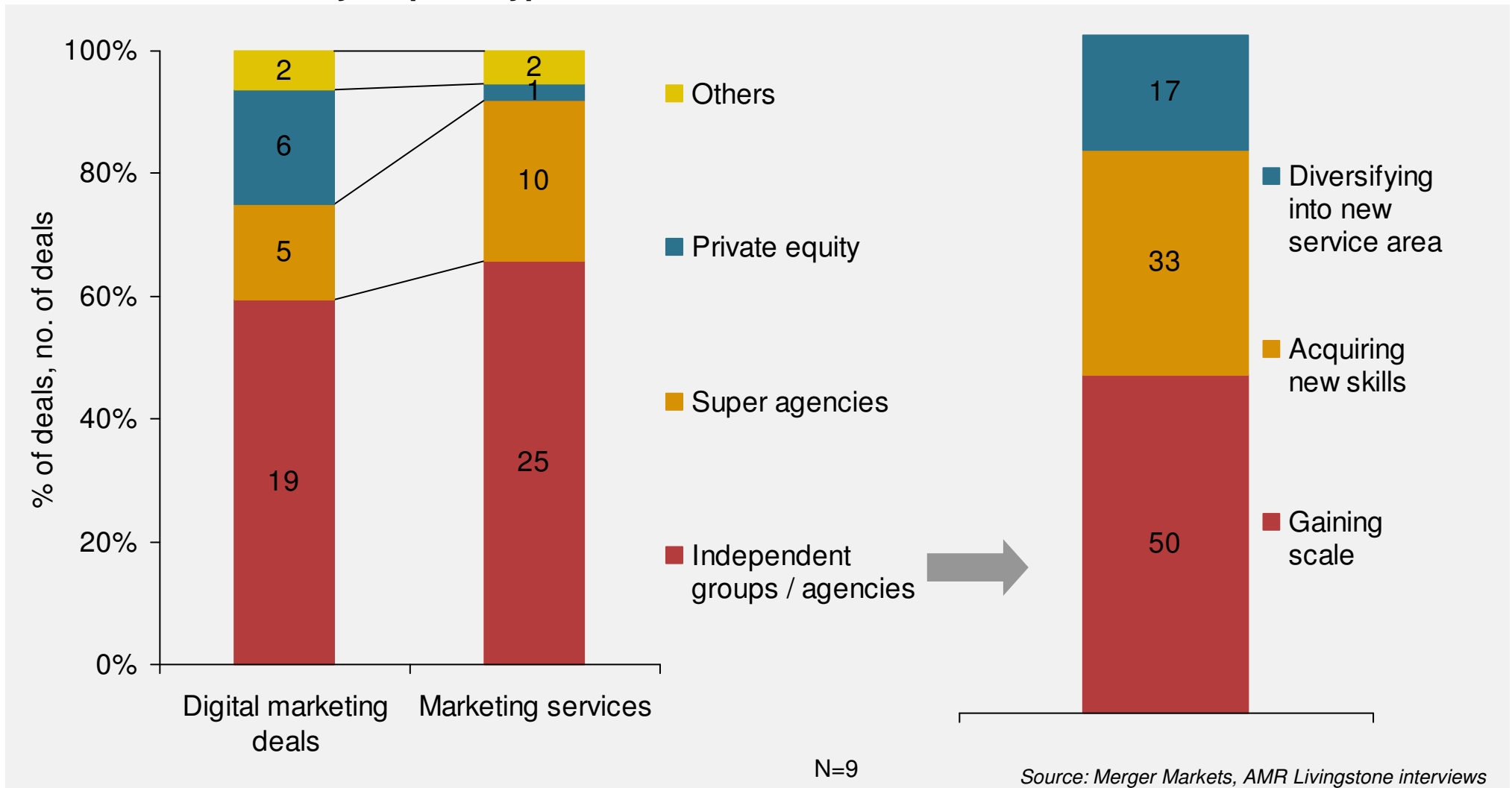


Source: AMR / Livingstone interviews

# The volume of M&A activity in marketing services is in the independent groups, driven by gaining scale

UK marketing services deal activity, 2007 to H1 2009, by acquirer type

“What is driving your acquisition strategy?”



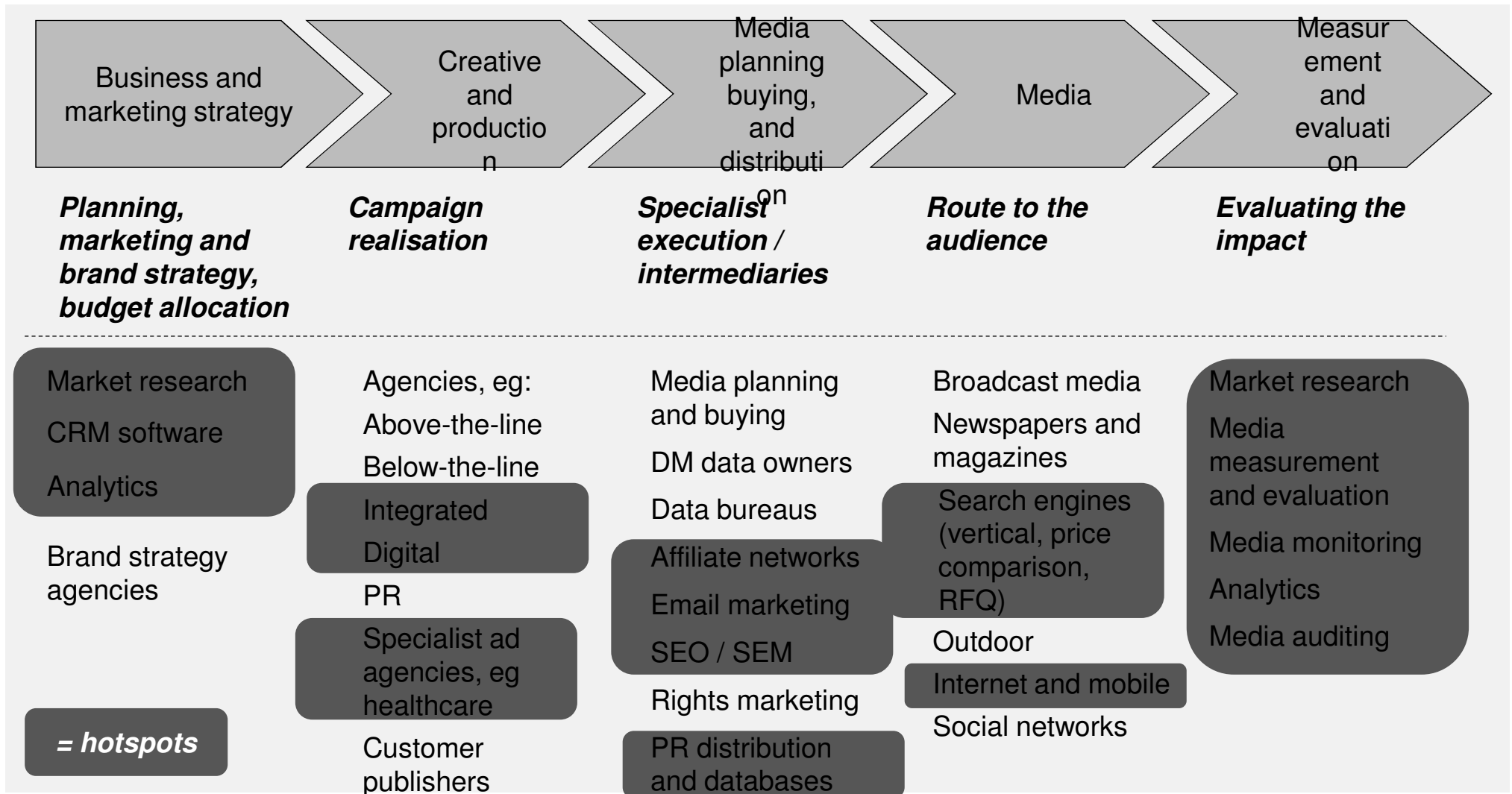
## There are a number of reasons why there may be strong M&A activity in the independent sector from mid 2010

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- Advertising and marketing spend should have bottomed, with some visibility on the upturn
- Vendors' price expectations should come down
- Banks should be lending more freely.. we hope
- It will be clearer which business models are robust, and which are not
- The UK continues to have a dynamic independent agency market where much of the innovative activity is happening

# And there will be a number of hotspots

## Marketing services value chain



# Thank you!

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