

THE HUNT FOR CAPABILITIES

Evolution of M&A

In our previous Annual Marketing Industry Report, as we reflected on the global M&A market, we noted that “consultancies such as PwC, Deloitte and Accenture had become increasingly active in the market... and that this trend will only accelerate through 2014”. At that time, however, despite the increasing M&A activity by new entrants into the sector, the only non-traditional agency listed in the AdAge’s ranking of the largest agency networks, was IBM, with the top positions held by familiar names such as Dentsu, IPG, Omnicom, Publicis and WPP.

Fast forward four years, and standing at the start of 2017, as we look at the Top 6 largest digital network agencies in 2016, we see the digital practices of Accenture, Deloitte, IBM and PwC. The rate of growth of these businesses has, in many cases, been remarkable, with IBM Interactive Experience (IBM iX) alone having grown its revenues from \$717m in 2012 to \$2,125m in 2015, an average annual growth rate of 45%.

As a result, over the past four years, we have seen the M&A playing field for agencies and the global networks transformed with the arrival of this new competition. Traditional consultancies and IT services companies have rapidly expanded their practices, developing their marketing solutions capabilities across the board, including in mobile, analytics, customer experience and creative. Partly this has been achieved through organic growth, but M&A has been a critical driver of this expansion as these firms have moved to acquire and quickly integrate specific capabilities.

M&A Drivers

There are two key drivers we see behind this growing M&A activity by new entrants in the digital marketing sector, specifically their desire to build, extend and deepen relationships with CMOs and to develop a much more comprehensive, joined-up service offering through the acquisition of key capabilities.

The role, and budget responsibilities, of the CMO have grown steadily in recent years as businesses have become more consumer centric and the connection between consumers and the business has become even more crucial. CMOs are no longer responsible simply for brand strategy, advertising and marketing but have been increasingly at the helm of owning the whole customer engagement and experience. This has driven a much greater need for CMOs to have access

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We will see Accenture, IBM with its interactive division, Deloitte, Ernst & Young and maybe Price [WaterhouseCoopers] continue to invest and probably getting more in our world ... and we will see our classic competitors – at least, WPP, Omnicom and Dentsu – transforming the way they are operating. It will be a broader set of competitors, and a more open field than it is today.
– Maurice Levy, CEO, Publicis”

THE HUNT FOR CAPABILITIES (CONTINUED)

to deep data, analytics and technology in order to understand the consumer and deliver a superior customer experience. This in turn has seen the role of the CMO expand to touch on aspects such as sales, user experience, performance metrics and even cyber-security and privacy.

These increased responsibilities are reflected in their increasing share of wallet. According to Gartner’s latest CMO Spend Survey, CMO marketing technology spend is now well on track to exceed CIO technology spend in 2017 (3.2% vs 3.4% of company revenue in 2016) whilst marketing budgets keep on rising, from 10% to 12% of company revenue between 2014 and 2016. As a result, the CMO has become more and more valuable and access to them has become critical. High quality marketing agencies can bring many new CMO relationships to them, as well as deepen the existing ones.

The evolving role of the CMO has also transformed what they as clients expect from their partners, namely comprehensive digital transformation and execution. This has driven consultancies and IT services companies to build out their service offerings in order to deliver much broader digital solutions. Originally this meant expanding into areas of capability close to the core competencies, for example, digital consultancy, data analytics and mobile applications. This rapidly advanced, however, into the development of broader digital and design-oriented capabilities, for example, web design and UX specialism.

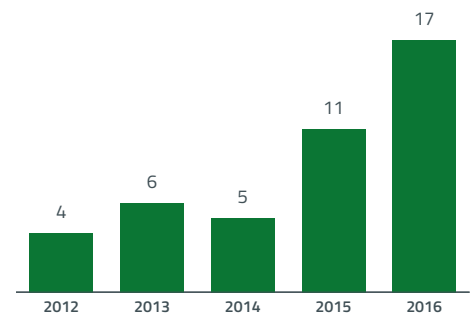
More recently, new market entrants have also realized that, despite all the digital capability, brand strategy and creative remain the key parts of the solution – it does not matter how usable the web design, how strong the SEO, analytics, programmatic trading, digital media optimization, etc. are, if the brand strategy is weak or the creative ideas are of low quality, the marketing will not succeed. Consequently, we are seeing some major moves by digital transformation players into the more creative marketing agency space, such as acquisitions of Resource/Ammirati by IBM (a JEGI transaction) and Karmarama by Accenture, and we would expect this trend to continue.

M&A Activity

The largest non-traditional agency digital practices¹, namely Accenture Digital, IBM iX, Deloitte Digital and PwC Digital Services, have made a total of 43 acquisitions in the digital marketing space since 2012. The pace of these acquisitions has been growing steadily with 17 deals in 2016, compared to 11 in 2015 and 5 in the year before.

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DIGITAL MARKETING ACQUISITIONS BY TOP CONSULTANCIES

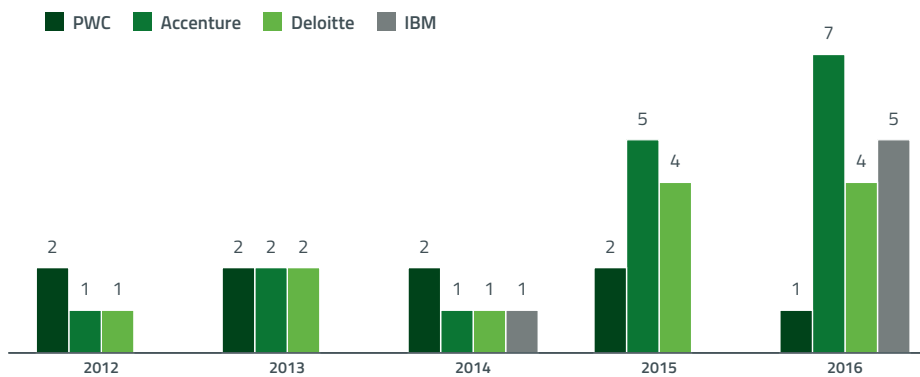


Source: Clarity research

¹ According to AdAge 2016 ranking

THE HUNT FOR CAPABILITIES (CONTINUED)

DIGITAL MARKETING ACQUISITIONS BY CONSULTANCY (2012-2016)



Source: Clarity research

In 2016, Accenture was the most active acquirer with 7 acquisitions across the sector spanning geographies from Japan to Europe. These acquisitions have been focused on obtaining skills in areas such as content design, campaign management, data and analytics, application development and digital customer experience. PwC, ranked 6th in AdAge’s report, has proven to be one of the most consistent acquirers so far closing 9 deals since 2012. PwC Digital Services was launched in 2014 with a team of 2,000 digital consultants using the acquisition of 5 companies to rapidly build out this practice, including the acquisition of US-based digital creative agency BGT (a JEGI transaction) in 2013.

2016 also saw IBM iX make its first forays into M&A in digital design capabilities. Following the flagship acquisition of a leading US-based digital marketing and creative agency Resource/Ammirati in February, it shortly thereafter announced the acquisition of two digital marketing agencies in Germany, Aperto and ecx.io.

Outside of these four businesses, we have also witnessed a steady stream of acquisitions both by consultancies (be it, for example, KPMG’s acquisition of Cynergy or EY’s acquisition of Seren) and by IT services companies (for example Cognizant’s acquisition of Mirabeau).

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THE HUNT FOR CAPABILITIES (CONTINUED)

DETAIL ON ACQUISITIONS BY CONSULTANCY (2012-2016)

	2012	2013	2014	2015	2016
	<ul style="list-style-type: none"> avVenta Digital production 	<ul style="list-style-type: none"> Acquity Digital marketing Fjord Design consultancy 	<ul style="list-style-type: none"> Reactive Media Digital design/UX 	<ul style="list-style-type: none"> AD.Dialetto Full service digital agency Brightstep Digital consultancy Boomerang Pharmaceutical Full service digital agency Chaotic Moon Digital design PacificLink Full service digital agency 	<ul style="list-style-type: none"> Allen International Design consultancy dGroup Digital consultancy IMJ Full service digital agency Karmarama Creative MOBGEN Mobile applications New Energy Group Full service digital agency Tecnilógica Digital design
	<ul style="list-style-type: none"> Ubermind Mobile applications 	<ul style="list-style-type: none"> Digicon Digital consultancy Banyan Branch Digital agency 	<ul style="list-style-type: none"> Flow Interactive UX/CX 	<ul style="list-style-type: none"> LRA Worldwide UX/CX Digital One Digital agency MashUp UX/CX Mobiento Digital consultancy 	<ul style="list-style-type: none"> Heat Full service ad agency Jinja Advertising Digital strategy/UX The Explainers Digital & creative agency Uselab UX/CX
			<ul style="list-style-type: none"> Silverpop Marketing software 		<ul style="list-style-type: none"> Aperto Digital agency Bluewolf UX/CX ecx.io Full service digital agency Fluid XPS Marketing software Resource Ammirati Digital & creative agency
	<ul style="list-style-type: none"> Ant's Eye View Social Media Strategy Logan Tod & Co Online analytics 	<ul style="list-style-type: none"> BGT Partners Digital consultancy Intuity Mobile applications 	<ul style="list-style-type: none"> Optimal Experience UX/CX Stamford Interactive UX/CX 	<ul style="list-style-type: none"> Nealite Digital design iBROWS Web & mobile applications 	<ul style="list-style-type: none"> StrategiCom Brand strategy

Source: Clarity research

Case Study: IBM acquisition of Resource/Ammirati

In February 2016, IBM iX made a significant statement of its intent to grow and expand the capability of this business with the major acquisition of Resource/Ammirati, a transaction on which our US investment banking partner JEGI advised.

Resource/Ammirati is a digitally led creative agency, formed in 2014 by the integration of digital marketing pioneer Resource and New York creative firm Ammirati, with over 300 associates across four locations in the US. The company had a long history of being at the leading edge of digital creativity, design and innovation – its first client was Apple in 1981 and it has helped companies such as Home Depot, Procter & Gamble and a host of other major brands combine buying and branding experiences as well as pioneer “everywhere commerce”.

THE HUNT FOR CAPABILITIES (CONTINUED)

During the sale process, Resource/Ammirati attracted very strong interest from both the traditional agency world and from new market entrants. Demand was driven by the company's deep understanding of how digital media and technology change, how consumers engage with brands, and its ability to deliver innovative, consumer-centric marketing experiences across a large, blue-chip client base, together with highly regarded management team.

For IBM, the acquisition was a key part of their continued focus on owning the customer experience as a way of driving competitive differentiation. Whilst IBM has a long digital design heritage, with digital agency capability going back to the mid 1990's coupled with a history of design stretching back decades, in recent years the company has increasingly focused on this area. Prior to the acquisition, IBM already had over 20 design studios globally and over 1,000 designers, however Resource/Ammirati brought deeper thought capital and experience in this area.

In addition, the company also brought long-standing and highly valued CMO relationships which will allow IBM to deepen their relationships with many of their clients, not least since 75% of Resource/Ammirati clients also use IBM services. From the company's side, access to IBM and Watson's powerful data and analytics capability will allow them to innovate further around transformative customer experiences.

Conclusion

Driven by their clients' need to have end-to-end digital strategies and the increasing role of CMOs, non-traditional digital agencies are emerging as strong players in digital marketing M&A as they look to boost their content and creative solutions through strategic acquisitions.

We have seen a consistent growth in M&A activity coming from these players over the last 5 years and we expect this trend to continue and grow. Almost every consulting firm now operates a digital division be it BCG Digital Ventures or Digital McKinsey whilst many IT services companies also now provide marketing solutions as part of their service offering. M&A offers a fast route to rapidly expand and grow these businesses, be it through smaller scale acqui-hires or the outright acquisition of major industry players.

Today, as we again look forward four years it would be surprising to say the least, if we did not only see the established digital practices of Accenture, IBM, PWC and Deloitte having consolidated their positions in the list of largest digital agencies globally, but also these companies being joined by their peers.

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PRIVATE COMPANY SPOTLIGHT: INVIQA

Each issue, we spotlight an interesting emerging growth company for our audience. We highlight the characteristics that enable these companies to grow into market leaders and ultimately attract the interest of investors and major strategic partners.

This month, our Private Company Spotlight shines on Inviqa, a London headquartered web and software development company specialising in content management systems and ecommerce. Inviqa helps brands and organisations to engage, convert and retain their customers through digital innovation.

We interviewed Yair Spitzer, Inviqa's CEO, for his view on how the Company is growing and differentiating itself.

What is the "elevator pitch" of the main problem(s) Inviqa is trying to solve?

Rapid digital transformation, evolving customer behaviour, and increasingly competitive marketplaces are the ultimate challenges (and growth drivers) our clients face. As a web and software development company, we provide businesses with the agility and technology to deliver differentiated experiences that engage, convert, and retain audiences.

A specialist in ecommerce, content management, and digital innovation, Inviqa takes a business-strategy-led approach to digital to ensure our clients meet their goals, keep pace, and continue to propel their business forward.

How do you define and size Inviqa's market?

Inviqa is a European company predominantly based in the UK and Germany. Specialised in ecommerce, content management, and digital innovation, key verticals for the company include retail, fashion,

media and publishing, B2B, as well as well-funded start-ups.

Inviqa targets large enterprises looking to take their business to the next stage through digital. The majority of our clients are mid-tier with a turnover between £50 million and £1 billion.

What "secret sauce" differentiates Inviqa from competitors, big and small?

Inviqa is both a technology powerhouse and an advisor, trusted to help identify and meet our clients' strategic goals through digital solutions.

A multi-discipline technology partner, we build long-term, mutually-beneficial relationships with businesses through large-scale, mission-critical digital initiatives.

With a dedicated consultancy practice, we are uniquely positioned to understand our clients' individual challenges and opportunities, helping leading organisations, including retailers, publishers and brands, meet their goals through digital.

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PRIVATE COMPANY SPOTLIGHT: INVIQA (CONTINUED)

We have long been impressed by the size and quality of Inviqa's customer base. Can you provide some representative case studies of why clients chose Inviqa?

Inviqa works with pioneering brands like Virgin, Talk Mobile, a major financial publication, Missguided – which we helped grow from a £7 million startup into a £100 million retail giant – and Dreams – which rocketed from a £8 million to £40 million enterprise with our help. Our clients choose us for our technical expertise, as well as our laser-like focus on our clients' business goals and how they can be achieved through digital.

Can you share with us some insight into the growth path of the Company in the past and looking forward?

Over the past nine years, Inviqa has grown to become one of the largest independent software development companies in the UK, employing more than 200 people across Europe.

We're growing both organically and through strategic mergers and acquisitions that enable us to further grow our technical expertise and core strengths in ecommerce, content management, and digital innovation.

Starting out as a specialist PHP company engaging with technical professionals, we've grown into a multi-faceted business that engages with organisations at C-level. Completing eight M&A partnerships since our inception, we've gained new talent, expanded geographically,

and transformed from a pure technology company to a digital consultancy and technology partner.

When it comes to M&A we're particular about the type of company we're looking for. We look for high-promise technology agencies, whose growth has hit a plateau or natural ceiling. We're interested in companies that are leaders in their field, capable of complementing and extending our own expertise, but that lack the infrastructure or investment to take their business to the next level.

What excites you when you think about Inviqa's future?

I'm excited to continue on our strong growth trajectory through both organic means, and through our continued focus on M&A. The UK and Germany will continue to be our predominant focus in the near term as we look to reinforce our central European stronghold.

Today we have eight offices across the UK, and we're looking to replicate that presence in Germany. We're also keen to look at other countries where our success model can be replicated including the US.

We attract amazing talent and that's a testament to the investments we make in our people through the learning and development opportunities we offer. We want our people to be the best, and that shines through in our hires. I'm always excited to meet the next generation of Inviqans.

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HEY, DID YOU SEE THIS?

STUDIO 100

January 25, 2017

Belgian TV production company Studio 100 intends to acquire a 68% stake in German brand management and media company m4e. The move will enable the creation of one of the leading kids and family entertainment content groups in Europe, according to a statement.

[Read Article](#)



PAGEANT MEDIA

January 3, 2017

Pageant Media, the business information specialist, announced the acquisition of Hedge Fund Intelligence, a series of business information, data and workflow products – including EuroHedge and AsiaHedge – and global events, which provide a 360-degree view of the hedge fund world.

[Read Article](#)

GRAY DAWES GROUP

December 1, 2016

Travel Management Group and Cambridge Business Travel have both been acquired by Gray Dawes Travel in simultaneous deals. The takeovers follow Gray Dawes' acquisition of Business Travel Partnership and Travel Focus last year.

[Read Article](#)



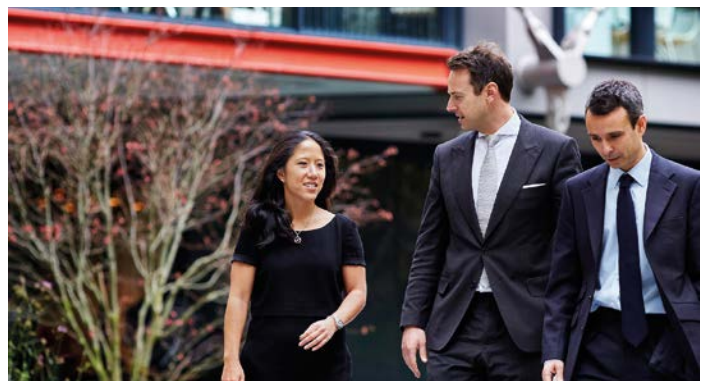
ABOUT CLARITY

Clarity has been a leading M&A advisor for the global media, information, marketing, software and tech-enabled services sectors for over a decade. Headquartered in Europe, with offices in London and Sydney, as well as New York City and Boston (through our partnership with [JEGI](#)), we have a strong and growing global presence.

We provide clients with a global network of prospective buyers and senior decision-makers, as well as vast industry knowledge, perspective and intelligence. This affords our clients seamless access to deep market insights and a wealth of M&A experience, enabling us to deliver them great results.

We share our clients' passion and ambition: for what they've achieved, the future they're building and the industry in which they work.

For more information, visit www.claritycp.com



SELECT RECENT CLARITY TRANSACTIONS

Framestore is a leading global VFX and CG content production company.

Milkround is the UK's leading graduate recruitment brand.

Pegasus is a leading UK integrated healthcare communications consultancy.

FCBI's TU-Automotive is the global leader in the B2B automotive technology events and information sector.

Imago Techmedia is a leading enterprise technology trade show organiser.

Selligent is an international SaaS platform delivering omnichannel audience engagement.

Briefing Media is the leading provider of business information and marketing solutions to the UK agricultural sector.

Splendid is an award-winning user experience design and technology consultancy.

Investis is the leading independent global provider of digital corporate communications solutions.

Indicia is a leading data analytics and customer engagement agency.

Pepper is an international integrated communications agency.

Salterbaxter is a leading international sustainability strategy and communications consultancy.

Harlands Group is the leading outsourced payment services provider to the UK leisure and fitness sector.

Epiphany is an award-winning, independent search marketing agency.

Walker Media is a leading UK media agency.

Twofour Group is an international, award-winning factual, features and entertainment television producer and digital agency.

IML is a market-leading audience engagement solutions company.

BrandAlley UK is the #1 fashion private sales website in the UK.

Morningstar's Investor Relations Services (formerly Hemscott IR) is a leading provider of online investor relations and digital communications solutions.

Adam Matthew Digital is an award-winning publisher of online resources for university research.

Investis is the leading independent pan-European provider of digital corporate communications solutions.

I Spy is an award-winning digital marketing agency.

adam&eve is a leading creative advertising agency.

betty is a leading independent TV production company, specialising in high-quality primetime contemporary factual television.

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