The really real reasons Omnicom and Publicis are merging

By Justin McCarthy

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"Publicis and Omnicom are merging because of us. Anyone who has used Facebook, done a search on Google, or watched Netflix instead of buying a local newspaper, using the phone book or watching broadcast television has contributed to this merger". These are the words of Matt Straz, published in MediaPost and The Media Online. Presumably, by "us", Mr Stratz alludes to the named new media players - although he doesn't represent any of those quoted*, thus leaving a questionable link to his inclusion in such an illustrious company.

That aside, it is preposterously arrogant and naïve to claim that the global giant communication groups are merging primarily because of the threat to traditional media. Advertising dollars follow attention, always have, always will, irrespective of which channels the audiences can be found in.

The global groups own most of the media buying companies - the new Publicis Omnicom Groupe will see over 41% of all US and 31% of all EU advertising spend channelled through its books. That includes a portion of Google's $43bn 2012 ad revenue, as well as Facebook's relatively paltry $5bn**. Netflix doesn't have any advertising revenue, it's a subscription only revenue model, which may not remain so for much longer either.

One crucial thing Stratz fails to account for is that the vast majority of clients don't want to deal with a multiplicity of media channels. They have businesses to run. They want a service provider to do that for them, and agency networks make up the bulk of these service providers - be it on TV, OOH, Facebook or any digital platform you care to list. Successful subscription-only content providers are very few and far between, with most yet to prove their sustainability any more than the print media is able to prove its long term sustainability.

Omnicom and Publicis are merging for three primary reasons, in the following order:

1. Shareholder value

Just like banks, telcos, media owners or any other business sector, sustaining steady shareholder returns is paramount to a listed company. Growth is essential. Neither party can obtain meaningful growth without acquisition, and since there's not much left to acquire they merge to create it.

In doing so they will find economies of scale by de-duplicating resources through rationalisation. Maurice Levy and John Wren point to $500m of expected savings over five years. The dividend pay-out ratio of Publicis Groupe was 24% in 2011 and 25% in 2012, while Omnicom's was 30% and 33%. The anticipated dividend policy of the combined group is circa 35% - look no further than that for the primary motivation.

2. Talent

The single biggest cost to service based companies like communications agencies is human capital. These are not industrial players requiring billions in stock, plant or machinery, nor are they technology players with the massive capital intensive needs of a telco or server farm.

Depending on the business, a typical communications agency expends between 50% and 60% of its income on human capital. Real talent is rare, difficult to manage and prone to volatility. A greater share of the rare talent pool is an unquestionable competitive edge when you have more options to offer it.

3. A response to "big data"

This is where I do concur with Stratz, but not on the same basis he professes. When one player accounts for over one third of global advertising spend, even the most successful new players like Google pay attention. Google's revenue model is about scale.

To compete the communication services companies need a scale married to their already massive media clout to give them a sound footing in online behavioural data metrics, that is presently largely the preserve of tech media players. They also need the talent to mine that data.

Omnicom, WPP, Publicis, IPG, and other groups already have such talent and will compete fiercely with media owners, old and new, for a greater share of it.

When considering the role of big data, fragmenting media and diversifying advertising spend, it is prudent to remember several things to maintain perspective:

- In the overall landscape digital channels complement rather than diminish. Naturally some media channels will lose share, but the overall market grows significantly. In 1980, global media consumption averaged under 50 hours per week; by 2000 that was almost 60 hours and by 2012 it averaged over 70 hours. Projected estimates for 2020 are 80 hours per week.

- Big data unlocks behavioural patterns which empower marketers to channel highly targeted messages. While this is marketing nirvana to some, the associated costs of tracking and managing data at such a granular level are significant. There will always be economies of scale to be found in mass media.

- Any behavioural psychologist will confirm that persuasion comes in many forms. No amount of digital links to even the richest of web experiences will replace the persuasive power of big brand behaviour in the public domain. Deep down, us human beings like to have our choices affirmed in the public domain. It's the reason why half the planet walks around proudly sporting branded clothing.

**Mr Stratz was employed by MEC, a media buying company in the WPP stable from 2002 to 2008 and is now CEO of Namely, a cloud based human resource analytics company.*

***By comparison, measured adspend in the US alone in 2012 was in excess of $250bn, of which the single largest spender was P&G at a shade under $4,9bn.*

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