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COLUMNS

What is driving the surge in media M&A activity?

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By A LUXURY DAILY COLUMNIST

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The media industry consolidation trend that began in 2013 continues to gain momentum as media companies look for innovative ways to connect advertisers with their audiences amid the dramatic rise in digital, mobile and social (DMS) channels.

This year has already seen significant media mergers and acquisition activity, including Verizon's $4.4 billion acquisition of AOL, AT&T's $49 billion acquisition of DirecTV and Charter Communications' planned purchase of Time Warner Cable and Bright House Networks.

In fact, the first half of 2015 saw 1,243 deals in the digital media, information and technology industries globally, according to Coady Diemar Partners. That represented a 24 percent increase in M&A activity, from the 1,000 deals in the first half of 2014.

Merge surge
We are hearing from media executives across departments and title levels who predict that M&A activity will increase. Prime M&A targets for media companies will be digital companies.

So what is spurring this surge in media M&A activity?

The trigger is largely the disruptive emergence of DMS channels, which has dramatically impacted the media marketplace and begun to eat into media companies' profitability.

Companies facing rapidly changing market dynamics or pressure from new market participants typically have one of two options for mapping out their plans for growth: diversify and expand into new markets or acquire new customers in their existing market.

It appears that both strategies are driving M&A activity in today's media landscape.

Media companies are realizing that they are no longer just competing with a limited group of traditional players. New DMS offerings for startups and established players are entering the market at a rapid pace.

Whole sum

Some media companies are looking to merge with other companies to reinforce and grow their footprint in their existing markets. This is what Charter Communications is aiming to do by announcing its plan to acquire Time Warner Cable and Bright House Networks.

That acquisition would provide Charter Communications with 23.9 million customers across 41 states, making it the second-largest cable provider in the United States.

Other media companies are acquiring to diversify their capabilities and offerings.

Rather than focusing on increased scalability and higher profit margins in a single market, broadcast, for example, these media companies are broadening their offerings to capture revenue across a wider range of media channels.

Verizon's recent purchase of AOL is a prime example of an acquisition that helps both players to extend their reach into new markets.

Verizon is a mobile device and network giant, and AOL has a strong digital platform with a sophisticated programmatic offering.

In this case, the value that this merger will provide to shareholders, advertisers and customers alike is undeniable. The whole is definitely greater than the sum of its parts.

In September, Luxembourg-based telecom company Altice made a similar move to acquire New York-based Cablevision.

ACROSS THE BOARD, the desire to both protect existing market share and expand into new markets is driving media M&A activity today.

While media companies choose their M&A strategy to protect or to expand based on market dynamics that are specific to our brand, the one thing we can say for certain is that the current round of M&A activity will significantly reshape the industry.

Whether that makes advertisers' jobs easier or more difficult remains to be seen. But it will certainly require their understanding the new and improved products they represent and reassessment of how best to maximize their company's relationships.

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