

Customer & Market Due Diligence Of Full-Service Digital Marketing Agency: Establishing Competitive Differentiation And Growth Outlook

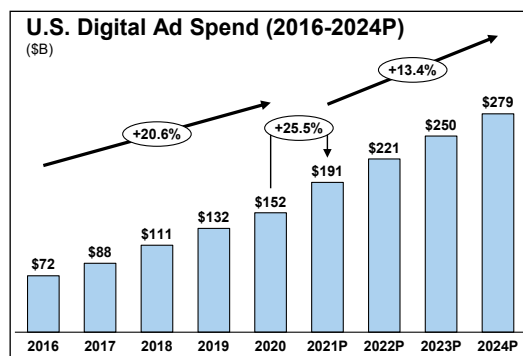
The Challenge: One of our longtime PE clients was considering an acquisition of a digital performance marketing agency serving B2B and B2C clients in a diverse array of end-markets. From its inception as a search marketing agency, the target has acquired multiple niche agencies to build a full suite of digital marketing agency services. Our client was excited by target's scale in this highly fragmented but fast-growing digital marketing universe and its blue chip long-standing customer base, but wanted a clear view of the target's competitive differentiation and growth opportunities. Accordingly, the client asked Gotham to conduct a 3-week customer & market due diligence to: (1) establish competitive dynamics in the digital marketing agency market; (2) establish target's value proposition/competitive differentiation; and (3) validate target's growth opportunity.

Deciphering Complex And Evolving Digital Marketing Agency Market: To deliver a comprehensive and fact-based view of the market and competitive dynamics, Gotham:

- Leveraged available industry data and digital marketing buyer/competitor interviews to decipher market dynamics, including: evolution of digital marketing from its early days of search marketing; advertiser segmentation based on their digital marketing journey; and structure of digital agency market
- Conducted secondary and primary research to build a competitive database of digital marketing agencies, providing a profile of key competitors among media holding companies, full-service agencies, specialist agencies, and consulting firms
- Conducted ~40 interviews with digital marketing buyers, including ~20 customers, to gain insights into: customers' marketing programs and the role of digital, and how their programs are changing; how/where clients use digital marketing agencies vs. in-house staff; agency selection criteria and purchasing process; and target's reputation/positioning and growth opportunities.

Rapid Growth In Digital Marketing Driven By Increasing "Top of Funnel" Use In Addition To Original "Bottom of Funnel" Use

Digital marketing began with search allowing brands to reach customers when they were ready to make a purchase. As such, initial digital performance marketing focused on bottom of the marketing funnel activities to drive conversions, acquisitions, and activations. After performance marketing experienced significant growth due to marketer's ability to directly tie advertising spend to outcome, and along with general digitization of consumer and business activity, multiple new channels (e.g., social, programmatic, video, CTV) were created that now allow top of the funnel tactics. With the inherent digital marketing advantages of micro-targeting, rapid-testing, and attribution, marketers have been able to leverage this wide variety of channels for brand building, attracting new customers to the category, introducing them to the brand/service, and adding them to a first-party database for retargeting. Recent privacy regulations and elimination of third-party cookies are further driving the focus on brand building and first-party database marketing. COVID restrictions further boosted digital marketing as consumer shopping/activities shifted online and B2B marketers had to find alternatives to tradeshows/in-person meetings to reach their customers/prospects.



Target One Of The Handful Of Independent Scale Full-service Digital Marketing Agencies In This Highly Fragmented Market

Due to the creative nature of agencies and marketers' ability to try out new agencies for a small budget, the digital marketing agency market is highly fragmented, comprising about 20,000 agencies. These agencies are segmented into: specialist agencies focused on a channel (e.g., search, paid social, influencer); full-service agencies; media holding companies (e.g., WPP, IPG, Omnicom, Publicis, Dentsu) who built their digital marketing capabilities principally through acquisitions and who primarily focus on serving large companies with substantial traditional and digital marketing budgets; and recently entered consulting firms (e.g., Accenture Interactive). As large agencies typically get acquired by media holding companies, target is well-positioned as one of the handful of mid-size full-service agencies. Target is also highly regarded by its customers with a high NPS and scores well on customers' key selection criteria (communications, transparency of expectations, and team expertise). Most of target's customers came through referrals and prior working relationships, and they noted that the target was able to form strong partnerships with companies as they grew and felt like an extension of their team.

Target Has Opportunity To Drive Above-market Growth From Corss-selling, Business Development, And Acquisitions

Target's customers are experiencing above-market growth due to the superior outcomes they are realizing from their digital marketing activities, and now these customers are looking to expand their digital marketing activities (e.g., B2B distributor setting up a B2C site, customer adding influencer marketing to its mix). Target is well-positioned to accommodate these growing customer needs by cross-selling its full suite of services gained through its recent acquisitions. Our customer interviews indicated that the target is a trusted advisor to its customers and has an opportunity to educate its customers on how to fully leverage various digital marketing channels and target's capabilities as many customers indicated they were not aware of target's full suite of offerings. Target could also leverage its analytical expertise to develop models that attribute performance of customers' ad spend to help them overcome challenges from elimination of third-party cookies. Target can further accelerate its growth by investing in business development to reach new customers and by acquiring additional agencies to expand its geographic presence and capability stack.

The Outcome: Gotham's assessment provided clarity on our client's core questions as regards the target's competitive differentiation within the digital marketing agency market and its growth opportunity. Armed with this solid understanding of market dynamics and target's reputation/competitive positioning, our client proceeded with confidence to successfully close the deal.