

Customer & Market Due Diligence Of Technology Event Marketing Agency: Assessing Outsourcing Dynamics, Company Positioning, And Recession Risk

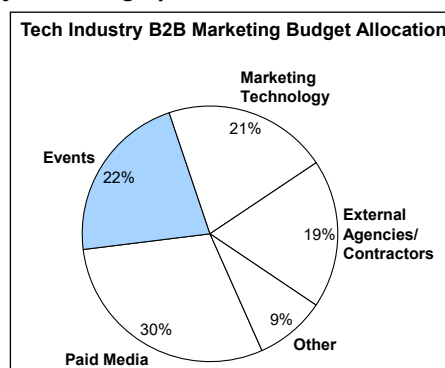
The Challenge: One of our long-time PE clients was considering an investment in an event marketing agency serving some of the largest technology companies in the world. The target had expanded its service offering via acquisitions, and management was looking to build a one-stop shop. Our client was excited about the increase in marketing spending by technology companies, the large addressable market, and the potential to grow wallet share across existing customers by service offering through expansion acquisitions. However, the client was concerned about outsourcing dynamics, marketing budget and event spend during a recession, and customer stickiness. Gotham was asked to conduct a 2-week customer & market due diligence effort to: (1) determine addressable market size and trends, (2) establish competitive positioning and reputation, and (3) assess the target's cyclicity exposure/recession risk.

Rapid Assessment Of Threshold Issues Prior To Check-in Bid: To deliver an insightful set of information in an information-poor environment, Gotham undertook a multi-pronged effort:

- Conducted customer interviews and an online survey of large technology companies, including C-suite, marketing and event directors, and field managers to gain insights into: event portfolio and objectives/requirements; trends in marketing spend and share of experiential events as part of marketing budget; outsourcing dynamics at different stages of the event execution process; purchasing process and vendor selection criteria; competitive landscape; the target's reputation vis-à-vis competitors; and impact of recession on event and marketing spend of technology companies
- Leveraged secondary research to: build detailed profile of different event types in the technology industry and services required; identify, segment, and profile ~300 event agencies with strategy, creative & design, event management, and/or production capabilities; and assess recession risk and establish the target's cyclicity exposure
- Developed a bottom-up market sizing model by identifying and analyzing most events for top customers and establishing spending patterns benchmarks (e.g., # of events, # of attendees, spend/attendee, outsourced %, agency fee %) by event type – hosted events (annual conferences/expos, road shows/summits, learning/training events, product launches/activations, executive events), internal events (sales events, celebrations), and 3rd-party events (trade shows/exhibitions, conferences/conventions, partner events).

Events Large And Increasingly Important Part Of Growing Technology Industry Marketing Spend

The ~\$400B U.S. corporate events market has been growing at ~8% CAGR, with large technology companies relying on experiential events to increase brand awareness, accelerate sales cycles, build community, and deliver content to their users, developers, and business partners. As such, events have grown in multiple dimensions such as # of attendees, \$ spend per attendee, and frequency, and now comprise a significant portion of technology companies' marketing spend, with marketing spend reflecting a substantial portion of their revenue (e.g., 44% for Salesforce, 27% for SAP). Gotham also established that although the overall corporate event services market declines in a deep recession (13% overall drop during last recession), the impact on the technology industry is somewhat muted as evidenced by flat and even growing sales and marketing expense for companies such as Salesforce, Microsoft, and Cisco during the 2007-2009 recession.



Event Size, Complexity, And Creative Needs Drive Use Of Event Agencies

Gotham established that the use of event agencies varies by event lifecycle stage. Event strategy is typically done in-house due to its linkage to overall corporate strategy and the need to interact with multiple stakeholders within the company. Creative & design outsourcing depends on in-house capabilities – some companies have internal teams for creative work to ensure brand consistency across all marketing channels. The use of agencies for creative & design work is a function of creative need, where events such as product launches, annual conferences, and executive events have a higher creative need or require more customized and refined experiences. On the other side, event management is often outsourced for large events; however, event planners and production companies might also get involved at this stage of the event process. Ultimately, event production is highly fragmented and requires event agencies to execute events by managing multiple vendors on behalf of the event organizer.

Target Well Positioned With Largest Technology Companies And Emerging As A Tier 1 Player

The event services market is highly fragmented, with only a handful of Tier 1 and 2 players and large number of smaller players, typically specialized by capability or geography and primarily serving smaller events. Event agencies have strong relationships with their customers and typically work via multi-year contracts and only get replaced for poor performance. Price is not a big consideration when selecting agencies; agency expertise and quality of service are more important, and the target is rated highly by its customers across key vendor selection criteria. As such, the target has grown with its customer base and has the opportunity to grow with the next tier of emerging technology companies. In addition, customers are generally open to the idea of a one-stop shop for the ease of conducting business; however, large customers are concerned about overwhelming an agency with multiple events and not getting the agency's best team for all their event.

The Outcome: Gotham's comprehensive fact-based assessment allowed our client to develop an understanding of the technology event market, outsourcing dynamics, the target's competitive positioning, and the recession risk. Armed with this robust assessment prior to the check-in bid, our client moved forward with confidence in the auction process and secured an LOI.