

## **The Bigger, the Better? Perception of Mergers and Acquisitions in the Nigerian Advertising Industry by Practitioners in Lagos, State Nigeria**

**Barikui Nnaane**

### **Abstract**

Mergers and Acquisitions (M & A) have become a strategic business tool for leveraging brand equity and also to have the competitive edge in the advertising industry in Nigeria, due to the current economic recession. The objective of this research is to evaluate how advertising practitioners in Lagos perceive the imperative of M & A in the advertising industry in Nigeria. Three hundred and ninety (390) copies of questionnaire were distributed, while 368, representing 94.4% were used in the analysis. Both purposive and simple random sampling techniques were used. A key finding of the research was that majority of the respondents (248:67.4%) agreed that M & A have become an important strategic business model in the Nigerian advertising industry. The study recommends that the Federal Ministry of Information, APCON, AAAN and other industry stakeholders should brainstorm on a road map for M & A in the advertising industry in Nigeria.

**Keywords:** Advertising acquisition. perception and mergers

### **Introduction**

From the beginning of the 21<sup>st</sup> Century, Mergers and Acquisitions (M &A) started attracting international attention due to economic integration, signposted by the removal of trade barriers by the World Trade Organisation (WTO), globalisation and innovations in technology, among other macro-economic factors. As time went on, and due to increasing competition and the quest for international best practices in business, organisations and businesses also started to be innovative, not only in the domestic market, but also in the global market in order to maintain a winning edge. As a result, most organisations globally have now resorted to M & A for some strategic reasons, ranging from globalisation, liberalisation and technology, among others. This trend has also affected the Integrated Marketing Communications (IMC) industry, particularly advertising. In addition, clients are now demanding more accountability, innovation and creativity for a range of services. Some other scholars have documented the imperatives and nature of M & A across businesses globally (See: Richey, *et al*, 2007; Sorescu, Rajesh & Jaideep, 2007; Wang & Zajac, 2007; Alvin & King, 2008; Mohammad, 2008; Zhao, 2009; Lamblin & Muzellec, 2010; Bratianu & Anagnoste, 2011; Lee, Lee & Wu, 2011; as well as Vu & Moisesu, 2013).

Mergers and Acquisitions refer to business transactions in which the ownership of organisations or their operating units are transferred or combined. Although M & A are still a relatively new business strategy in Nigeria, the most prominent one was the fallout of the consolidation policy of the Central bank of Nigeria in 2004, where the then 89 banks in the country with weak capital bases, were forced to embrace M & A. In the end, the number of banks shrunk to about 25. But for the advertising industry, a highly competitive and innovative sector, there has been no visible case of M & A, except probably the acquisition of the erstwhile Complete Advertising Services (CASERS), by DDB, a renowned global advertising agency. At best, what has been taking place in the Nigeria's advertising industry has been affiliation- a situation whereby a foreign but

globally renowned advertising agency will enter into a business relationship with a Nigerian agency. And this does not necessarily translate into equity partnership. Shobanjo (2016), distinguishes between affiliation and equity partnership by stating that when an advertising agency has an affiliation with a foreign agency, it is akin to putting its foot at the door of the foreign agency and the door could be opened slightly, especially when the foreign agency has a global client. He argues further that in spite of the affiliation, the foreign agency does not have control over the operations of the domestic agency. However, in equity partnerships, he argues on, the foreign agency puts money in the domestic agency, and by implication will now have equity in the business; but that this is subject to the percentage allowed by the industry regulators in the home country of the domestic agency.

It follows therefore that there have been more cases of affiliations in the Nigerian advertising industry than M & A. Thus we have had: *SO&U Saatchi & Saatchi*; *Lintas Lowe*; *CentrespreadFCB*; *Prima Garnett Ogilvy*; *Rosabel LeoBurnett*; *LTC Walter Thompson*; *Novelpotta Y & R*; *STB-McCann*; and *Insight Grey*, (now *Insight Publicis Groupe*), among others. There is no gainsaying the fact that Nigerian advertising industry which is a part of the knowledge industry cannot continue to be doing business the old way if it wants to be reckoned with in Africa no to talk of the international level. International Best Practices (IBP) have now become the barometre to measure the level of corporate governance, innovations, and quality of service being rendered by advertising agencies worldwide. Innovation is at the heart of the advertising business, and any agency that fails to innovate will either grope in the dark or die in the long run. It is pertinent to ask at this stage that how many Nigerian advertising agencies have ever won international awards such as Cannes Lions or the New York Festival Awards? The closeness the Nigerian advertising industry got was the announcement of Steve Babaeko, Chief Executive Officer/Chief Creativity Officer of X3M Ideas, Lagos as a member of the 2016 Grand Jury. A good number of the agencies in Nigeria still operate as “one-client agencies”. Out of the 82 registered members of the Association of Advertising Agencies of Nigeria (AAAN), about 15 percent of them control the market, with *Insight Communications Limited* leading the way. So it has become imperative for this plethora of agencies to go into M & A in order to become global players, just the same way a few Nigerian banks have now become global players due to M & A. The focus of this research therefore is to evaluate how the Lagos-based advertising practitioners perceive M & A in the industry in the country.

### **The Problem**

Mergers and Acquisitions have been seen as the trump card of business success by some perceptive business executives, especially in the developed world. However, in spite of this, the “mentality of ownership” still makes M & A in the Nigerian industry an unlikely business venture. There are divergent views about M & A by scholars and industry players both within and outside Nigeria. According to Levin (2011) and Sorrel (2014), M & A leads to depletion of the ranks of middle-sized agencies, resulting in a polarised size-structure consisting of very large and small firms. But Shobanjo, cited by Ismail (2016), argues that M & A have become imperative in Nigeria. He notes that the outdoor agencies in particular should go for M & A in order to survive the current economic recession in the country. He argues on that in an economy that is undergoing recession, like Nigeria as at present, one of the first casualties is the IMC sector which has to

innovate or die. In a similar refrain, Odugbemi (2015), also argues that M & A are really needed in the Nigerian advertising industry now because it makes a whole lot of sense. He argues further that it will make the industry bigger and stronger.

So arising from the two contradictory positions above, how do the Lagos-based advertising practitioners perceive the issue of M & A in the industry in the country; and of what benefits will M & A be to the advertising industry in the country. These constitute the problem of this research.

### **Objectives of the Study**

In broad terms, this research sought to evaluate the perception of the Lagos-based advertising practitioners on M & A, but in specific terms, it is geared to:

1. Determine if M & A will be a strategic business model in the advertising industry in Nigeria.
2. Find out if M & A has become imperative in the light of the current economic recession in the country.
3. Ascertain if the Association of Advertising Agencies of Nigeria (AAAN) has any role to play in M & A in the Nigerian advertising industry and the extent of such role.

### **Research Questions**

The following research questions guided the study.

1. Will M & A be a strategic business model in the Nigerian advertising industry?
2. Has M & A become imperative in the light of the current economic recession in the country?
3. Does the Association of Advertising Agencies of Nigeria (AAAN) have any role to play in M & A in the Nigerian advertising industry and what is the extent of such role?

### **Literature Review**

Studies on M & A, especially empirical, in the advertising industry are few and far between even at the global level. However, a few scholars and writers have expressed divergent views on this issue. According to Illesanmi (2016), for M & A to succeed generally, communication needs to begin during the preliminary stage of the consummation of either the merger or acquisition so that all the parties will understand what they are going into. For Yusuf (2016), he asserts that M & A become imperative when there is the desire to gain controlling market share in an increasingly competitive environment; and this now makes some multinationals to buy off smaller firms.

According to Bahadir, Bharadwaj and Srivastava (2008:49), in a study entitled “Financial Value of Brands in Mergers and Acquisitions: Is Value in the Eye of the Beholder?”, they argue that in M & A, brands account for significant but heterogeneous proportions of overall transaction value; that in M & A, the value of brands also depends on how their new owners leverage them. Further, their study identified both the target and acquirer firms’ characteristics that affect the value of a target firm’s brand in M & A. Using an empirical test of 133 transactions in which the acquirers attribute value to target firm’s brands, the results indicate that buyer and target marketing capabilities and brand portfolio diversity have positive effects on a target firm’s brand value; and that the positive impact of marketing capability is lower when the M & A is synergistic than when it is non-synergistic.

In a study by Huang, Hu and Chen (2008:587), entitled “The Influence of Market and Product Knowledge Resource Embeddedness on the International Mergers of Advertising Agencies: The Case Study Approach”, the authors focused on the merger of two Taiwanese and Japanese advertising agencies from the network embeddedness point of view. Using the case study method, they probed into the motivations and strategy evolutions of the merger and discovered the following: “product knowledge” and market knowledge” are important resources on which advertisers and the agencies share mutual dependency in a given market. And that as products are marketed and experience growth, advertising agencies and advertisers enter into a long term cooperation relationship and resource-embeddedness. They also argue that when advertising agencies follow their advertisers into a foreign market, thus leading to bundled investments, the globalisation strategies of the former becomes a consequence; and that in the course of a merger dictated by common market knowledge, advertising agencies having more resources, often have a greater dominance in the M & A process.

Further, Admedia Partners Inc ([www.admediapartners.com](http://www.admediapartners.com)), conducted its 22<sup>nd</sup> Annual Survey of Senior Executives at leading marketing services, media and allied technology companies on their take on industry M & A prospects for 2016. The key findings were as follows: 68% of the respondents were approached by a buyer in 2015 up from 63% in 2014; 81% of the respondents believed that M & A by strategic buyers will increase in 2016; 54% of the respondents said they would seek a sale of their company in 2016; 79% of the respondents said they would advise buyers to act now. Further, in terms of growth expectations, 74% of the respondents argue that digital would represent 40% or more of their business in two years; mobile would grow with 35% of the respondents expecting that the portion of their revenue from mobile would be over 40% in the next two years.

Specifically, the areas where respondents were most interested in expanding or acquiring were as follows: Ad Tech-33%; Analytics-51%; Mobile Marketing-36%; Digital Agencies-51%; Social Marketing-46%; Customs Content/Native Advertising-46%; Customer Relations Marketing/Database Marketing-38%; Design/User Experience-29%; Integrated Ad Agencies-21%; Marketing/Strategic Consulting-37%; Market Research-25%; Experiential Marketing-22%; and Shopper Marketing-15%.

From the literature reviewed so far, the few empirical studies on M & A in the advertising industry were done outside Africa, especially Nigeria. This research will make a modest attempt to contribute in that regards.

### **Theoretical Framework**

This research is anchored on The Efficiency Theory of Mergers and Acquisitions. According to Wadhwa and Syamala (2015), The Efficiency Theory believes that M & A are planned and executed in order to achieve synergies. These synergies can be in the form of reduction in cost or increase in sales. In other words, it views M & A as effective tool for reaping the benefits of synergy. The import and relevance of this theory to this research is that M & A, being a strategic business model aimed at having an edge over competition is imperative as businesses, especially advertising agencies continue to adapt and innovate. These adaptations and innovations are not only spurred by the competition in the domestic market, but also by the need to imbibe global best practices in order not to be a fringe or peripheral player in the global market. The central thesis of this theory is that M & A lead to efficiency in business strategies and operations.

### Methodology

This study used the survey method of scientific inquiry. Survey was quite appropriate in eliciting people's views on the issue. According to Brown, *et al* (2009), survey research design employs careful sampling techniques to obtain an accurate description of an entire population. The population of this research was an estimated 15,000 registered members of the Advertising Practitioners Council of Nigeria (APCON), based on enquiry.

The sample size was 390 Lagos-based advertising practitioners. It is instructive to note that Lagos was used as the area of the study because it is where absolute majority of advertising practitioners and the agencies are based. This was based on Glen (1992) sample size determination table, as cited by Singh and Masuku (2014), which states that at + or – 5 precision levels, where confidence level is 95% and  $P=0.5$ , a population of 15,000 should have a sample size of 390. The sampling techniques used were purposive and simple random sampling techniques. The instrument for collecting data for this study was the questionnaire. The questionnaire was administered by research assistants. The techniques of data analysis involved frequency tables, simple percentages, and charts.

### Presentation and Interpretation of Findings

Out of the 390 copies of questionnaire distributed, 368, representing 94.4% of the response rate were returned and used for the analysis. However, the sex of the respondents is represented in the Table 1 below:

**Table 1: Sex Distribution of the Respondents**

|   | <b>Respondents</b> | <b>Frequency</b> | <b>Percentage</b> |
|---|--------------------|------------------|-------------------|
| 1 | Male               | 272              | 73.9              |
| 2 | Female             | 96               | 26.1              |
|   | <b>Total</b>       | <b>368</b>       | <b>100</b>        |

From the Table 1 above, it shows that the Nigerian advertising industry is still heavily dominated by men.

**Table 2: Distribution of the Respondents by Level of Education**

|   | <b>Respondents</b> | <b>Frequency</b> | <b>Percentage</b> |
|---|--------------------|------------------|-------------------|
| 1 | Bachelor           | 251              | 68.2              |
| 2 | Master             | 73               | 19.8              |
| 3 | Others             | 44               | 12                |
|   | <b>Total</b>       | <b>368</b>       | <b>100</b>        |

From Table 2 above, it shows that a majority of the respondents were Bachelor's degree holders, while an appreciable number hold Master's degree. It is an indication that the advertising industry in Nigeria has come of age considering the number of graduates now, compared with before. This may be attributed to the membership requirements of APCON.

**Table 3: Distribution of Respondents by Advertising Agencies' Departments**

|   | <b>Respondents</b> | <b>Frequency</b> | <b>Percentage</b> |
|---|--------------------|------------------|-------------------|
| 1 | Client Service     | 177              | 48.2              |
| 2 | Creative           | 94               | 25.5              |
| 3 | Human Resources    | 75               | 20.4              |
| 4 | ICTs/New Media     | 22               | 5.9               |
|   | <b>Total</b>       | <b>368</b>       | <b>100</b>        |

From Table 3 above, Client Service got the highest number of respondents. This is usually the doorway to any potential client/advertiser. Apart from other departments being well-represented, having respondents in the ICTs/New Media underscores how this unit has become an integral part of modern advertising, especially digital advertising.

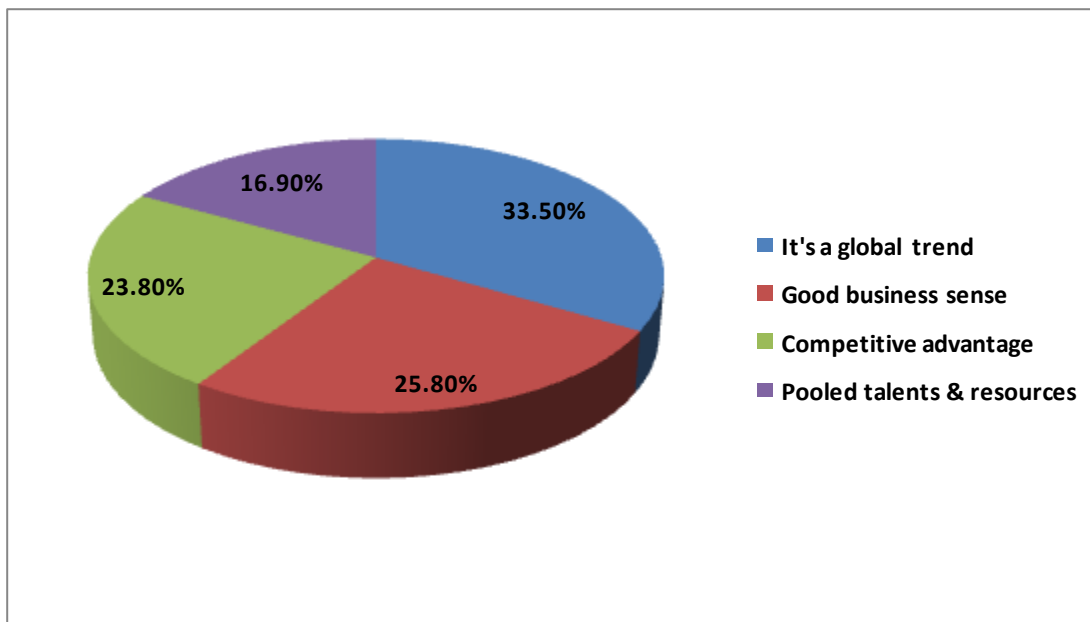
**Research Question 1: Will M & A be a strategic business model in the Nigerian advertising industry?** This research question was quite important, because it underpins the central theme of the research. Below are the views of the respondents:

**Table 4: Respondents Views on M & A as a Strategic Business Model in the****Nigerian Advertising Industry**

|   | <b>Respondents</b> | <b>Frequency</b> | <b>Percentage</b> |
|---|--------------------|------------------|-------------------|
| 1 | Yes                | 248              | 67.4              |
| 2 | No                 | 87               | 23.6              |
| 3 | Not sure           | 33               | 9.0               |
|   | <b>Total</b>       | <b>368</b>       | <b>100</b>        |

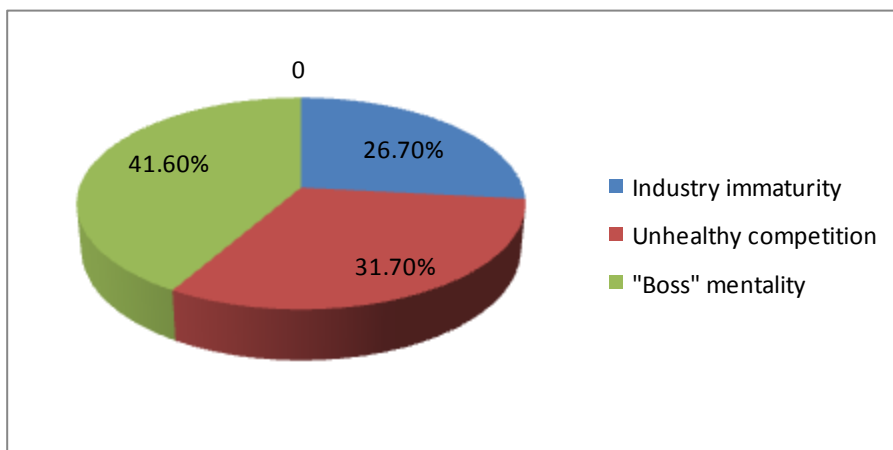
From Table 4 above, a majority of respondents agreed that M & A would be a strategic business model in the advertising industry in Nigeria. However, some still disagreed. For the respondents who said “Yes”, they were further asked their reasons for their responses. Below is the aggregation of their views:

**Chart. 1: Respondents Reasons on the Imperative of M & A as a Strategic Business Model in the Advertising Industry in Nigeria**



From Chart 1 above, the reasons adduced by the responses can be said to be tenable. However, for those respondents who answered “No” and “Not sure” respectively, their reasons were equally sought. Below is an aggregation of their views:

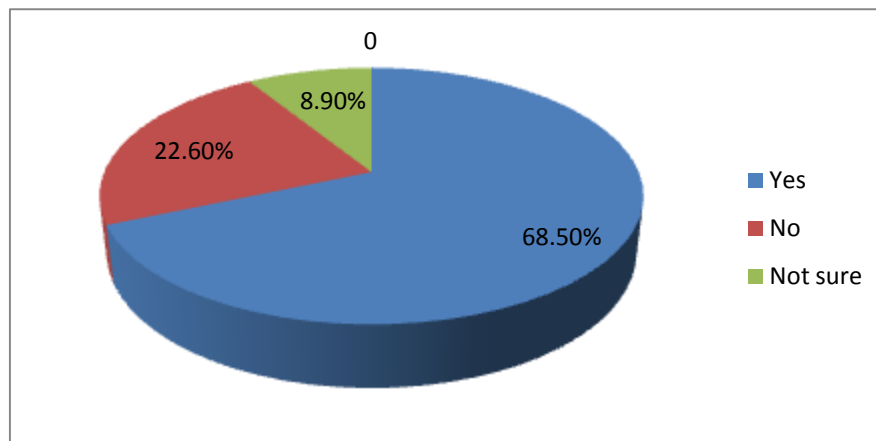
**Chart 2: Respondents Reasons on why M & A is not imperative now as a Strategic Business Model in the Advertising Industry in Nigeria**



From Chart 2 above, the reasons given by the respondents could be attributed to the peculiarity of the advertising scene in Nigeria.

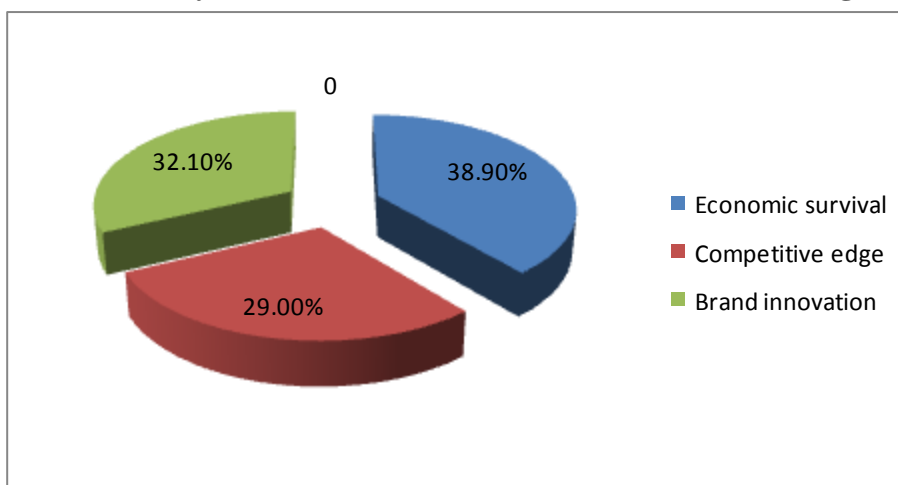
**Research Question 2: Has M & A become imperative in the light of the current economic recession in the country?** The imperative of this research question can be seen in the fact that M & A are usually seen as an option during periods of economic recession as it is being currently experienced in Nigeria now. Below are the views of the respondents:

**Chart 3: Respondents Views on the Necessity of M & A in the Light of the Current Economic Recession in Nigeria**



From Chart 3 above, a majority of the respondents answered in the affirmative; meaning that they believed that M & A have become pertinent because of the current economic recession in Nigeria. The respondents who said M & A have become pertinent were further asked to give reasons for their views. Below is an aggregation of their reasons:

**Chart 4: Respondents Reasons on why M & A is now Important in the Advertising Industry Due to the Current Economic Recession in Nigeria**

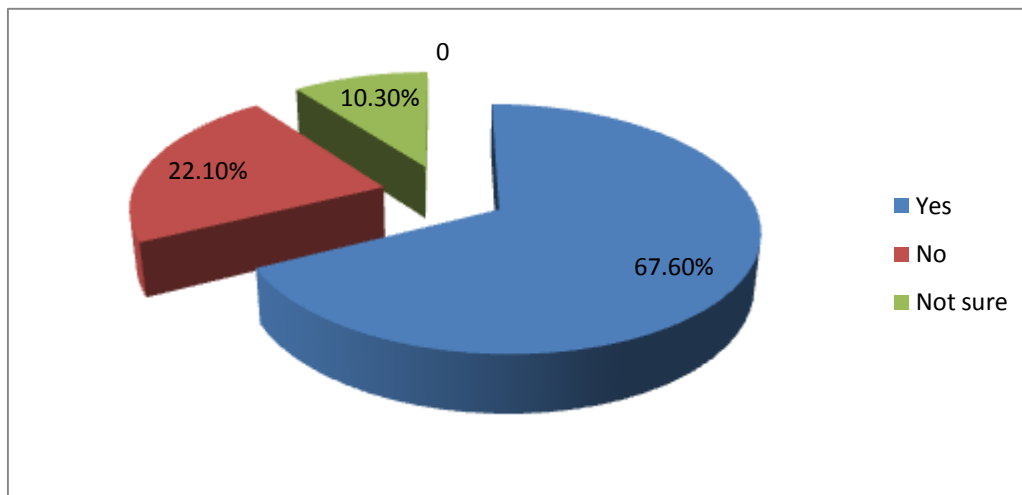


From Chart 4 above, all the reasons adduced by the respondents are valid.

**Research Question 3: Does the Association of Advertising Agencies of Nigeria (AAAN) have any role to play in M & A in the Nigerian advertising industry and what is the extent of such role?** This question was important because it is advertising agencies that can go into M & A. The respondents' views are as follows:

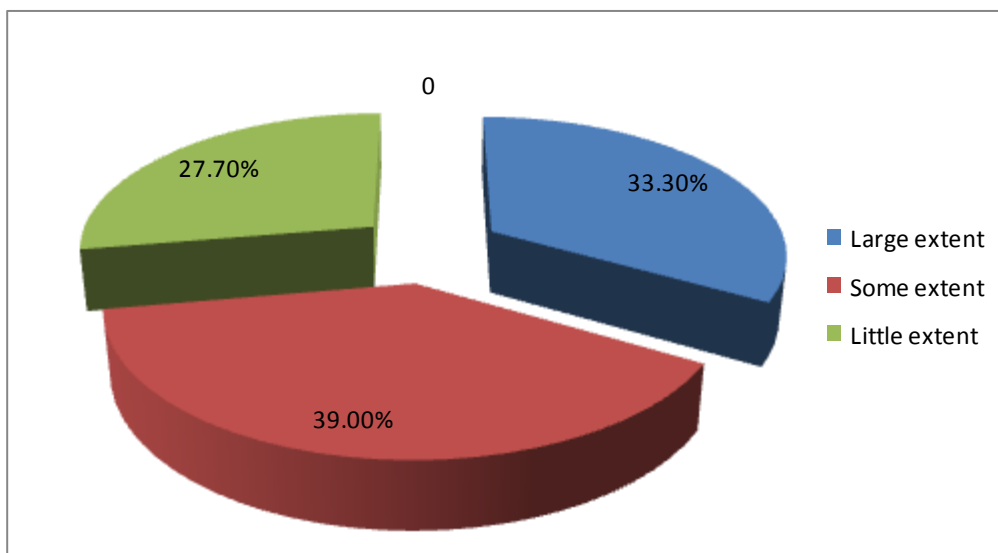
**Chart 5: Respondents' Views on Role of AAAN in M & A in the Nigerian Advertising Industry**





From the chart 5 above, a majority of the respondents agreed that the AAAN has a role to play in M & A in the Nigerian advertising industry. The respondents who answered in the affirmative were further asked the extent of such role. Below are their responses:

**Chart 6: Extent of AAAN Role in Influencing M & A in Nigeria**



From Chart 6 above, the degree of the extent of AAAN influence in M & A is high.

### Discussion of Findings

Although Mergers and Acquisitions are not a new phenomenon in the corporate world, particularly in the developed countries, they are an emerging phenomenon. In Nigeria, apart from the banking sector consolidation in 2004, there has been no serious case of M & A in the advertising industry, except affiliations. However, a majority of the respondents agreed that M & A would become a strategic business model in the advertising industry in the country. This realisation could be as a result of it now becoming a global phenomenon and also because of global recession making the IMC sector to be affected.

Further, even when some of the respondents did not believe that M & A could be strategic business model in advertising industry in the country, a majority of them also believed that the current economic recession in the country should make advertising practitioners to think out of the box by embracing M & A. Even some top industry players have advised that agencies in Nigeria, particularly outdoor, should go into M & A. But looking at the reasons adduced for the imperative of agencies going into M & A in Nigeria and the reasons against such, the former are tenable and realistic while the latter are selfish and short-sighted. The research also discovered that since the AAAN is merely the umbrella body of the agencies, its role in M & A can only be advisory. In terms of its influence in bringing about M & A, this is varied among the respondents. In addition, The Efficiency Theory of Mergers and Acquisitions was found relevant because since a majority of the respondents agreed that M & A would be strategic business model in the advertising industry in Nigeria, especially in this recession, it goes without saying that M & A would make service delivery to be efficient.

### **Conclusion and Recommendations**

There is no disputing the fact that M & A has become a necessity in contemporary advertising business in Nigeria. With the 82 AAAN registered members, not to talk of some others who engage in advertising yet do not belong to AAAN but prefer to call themselves brand management consultancies, it is now clear why some agencies are merely “one-client” agencies, with very weak capital base. In terms of the resources for pitching, some of these weak agencies cannot afford the fees. In addition, these same “one-client” agencies cannot afford to send their staff on training or to attend conferences outside the country to be exposed to global best practices. In addition, the Nigerian advertising industry can take a cue from the merger of the defunct opposition parties in Nigeria- the Action Congress of Nigeria (ACN), All Nigerian People’s Party (ANPP), and the Congress for Progress Change (CPC), which merged to form the All Progressives Congress (APC); and for the first time, an opposition political party was able to unseat the ruling party in Nigeria. It showed that there is strength in size. Arising from the foregoing, this study recommends that the Federal Ministry of Information, APCON, AAAN, and other stakeholders in the industry should brainstorm on a road map that will see to M & A in the industry in the country. In the advisory of M & A, it is often stated that it is better to own one percent of something than to own 100 percent of nothing, but the advertising scene in Nigeria is filled with people who want to call the shot. This attitude will not make the agencies to be reckoned with in Africa, not to talk of globally. In addition, advertisers, particularly those under the umbrella body-Advertisers Association of Nigeria (ADVAN), should realise that it will be in their interest to encourage M & A, if they put aside their selfish interests.

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