Advertising giants merge to hedge against economic downturn

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On July 28, French company Publicis Groupe announced an agreement to acquire half of the US-based Omnicom Corporation, merging to create the world’s largest advertising holding corporation.

If approved, the merger of Publicis, led by CEO Maurice Levy, with Omnicom will create a company with 130,000 employees and $22.7 billion in combined revenues for 2012. The merged entity, Publicis Omnicom, is valued at more than $35 billion.

The merger will effectively place the largest portion of global advertising in the hands of two mega-corporations, Publicis Omnicom and WPP.

Over the last 27 years, Publicis and Omnicom have aggressively acquired smaller firms, building up large networks of specialized advertising and media production houses. Omnicom owns at least 1,500 such firms. Publicis Omnicom’s clients would include Pfizer, Procter & Gamble, McDonald’s, Coca-Cola, Pepsi, Visa, Mars, AT&T, and Verizon.

After Publicis acquired Bcom3, the *New York Times* wrote in 2002, “Besides dominating commercial speech, a $500-billion-a-year industry, these four agency companies and the men who run them—John D. Wren at Omnicom, John J. Dooner, Jr. at Interpublic, Sir Martin Sorrell at WPP and Maurice Lévy at Publicis—also hold incredible sway over the media. By deciding when and where to spend their clients’ ad budgets, they can indirectly set network television schedules and starve magazines to death or help them to flourish.”

The company’s joint statement announcing the agreement to merge indicates that they wish to tighten their grip over global advertising in order to compete with the highly personalized behavioral advertising offered by companies like Google and Facebook. Since the onset of the global crisis in 2008, Google made an average $277,000 in profit per worker, whereas the average for Omnicom and Publicis is $14,000 in profit per employee.

However, the deepening of the global financial crisis, which has caused a sharp drop in corporate spending, especially in Europe, is the greatest force behind the move. Agency statements indicate large corporations continue to pull back on advertising spending due to uncertainty about the US economy, economic contraction in Europe, and the anticipated outbreak of political and military conflict. Historically, drops in advertising spending are predictors of recessions.

Late last year, Publicis reduced spending in the US and made clear that it expected a further dramatic drop in its European markets. The company identified digital media growth as the only promising arena on the horizon. Omnicom CEO John Wren emphasized the fragility of the global market to investors in October 2012, indicating that returns would likely be poor throughout 2013. Last year, Omnicom also took losses in revenue from Europe and the UK.

Wren has promised the merger will create $500 million in “efficiencies,” through office consolidation and the removal of redundant workers. Salaries account for sixty to seventy percent of the advertising giants' operating costs. Thousands of layoffs can be expected, primarily affecting administrative workers. Older workers, especially those whose expertise lies in traditional media, are likely to be affected as well.

Between the onset of the global financial crisis and March 2010, Publicis and Omnicom laid off 10,500 workers. The world’s largest agency at that time, WPP, laid off 11,232. Last May, Omnicom’s BBDO, the largest of its agencies, cut about 10 percent of its US staff. BBDO employs 15,000 people worldwide.

The personal wealth of the corporate leaders and

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major stockholders is just as certain to rise. Omnicom CEO Wren holds 1.1 million shares in that company, worth $70.6 million at the time of the announcement of the merger. Maurice Levy's net worth is valued at $137 million. Each CEO is expected to receive a large bonus based on the agreement.

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