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'A SCARY SUPERGROUP', 'CONSOLIDATION & REDUNDANCIES' & 'A PLAY FOR SCALE' — BAXTER, WOOLLEY, LEACH & MORE REACT TO OMNICOM'S ACQUISITION OF IPG

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Omnicom's proposed acquisition of Interpublic Group is a clear play at scale and efficiency that is likely to result in the consolidation of agency brands and redundancies. That's the verdict of industry analysts, consultants and experts, who are divided about whether the move will prove beneficial to both parties.

Omnicom's acquisitions of IPG, if passed muster by regulatory authorities, would create the world's largest advertising group with more than 100,000 staff and combined revenues of \$US25.6 billion.

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In selling the news to the New York Stock Exchange, Omnicom CEO John Wren said it creates significant value for both sets of shareholders by "combining world-class, highly complementary data and technology platforms enabling new offerings to better serve our clients and drive growth".

The acquisition would also create annual "cost synergies" of \$US750 million (\$AU1.16

0111101).

B&T approached industry experts, analysts and consultants to find out their thoughts about the acquisition and what it could mean for this market.

"Let's call this for what it is – a takeover. The Omnicom IPG Group "merger" is continuing evidence that the major holding companies are pursuing a strategy of scale and efficiency in the face of multiple business and economic challenges," TrinityP3 founder and global CEO Darren Woolley said.

"While it is evident this will mean consolidation across the new larger group, there are still plenty of options for advertisers going to market on a global or regional basis, not just with the remaining networks but with the rise of the independent networks, too.



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"Let's remember that OMG and Publicis tried a "merger of equals" in 2013 before cultural and client conflicts scuppered the deal. This is a takeover that will provide the opportunity to rationalise the underperforming media agency brands. This time around, Omnicom has been very clear about the cultural synergies between the two groups.

'A little bit desperate'

Business strategy consultancy The Leach Partnership specialises in M&A, including between agencies.

Co-owner William Leach said it was too soon to assess the wash up of what it means for Australia, but pulled no punches in his assessment of the global mega-merger.

"Brutally, what it means is consolidation and redundancies," he said. "When I look at that, I kind of go, it smacks a little bit of desperation. I don't see massive shareholder value in it. I don't necessarily see massive client value in it, and I certainly don't see massive people value in it."

When asked why he hold such a dim view about the value equation, Leach said: "Two key things that they talk about are a saving of \$750 million which is only going to come from people.

"And then the second thing is scale and that's principally media buying scale. But given how media is bought these days, and given how much of it is going in house, how much of it is changing, and the massive increase of artificial intelligence contribution to some of those areas, you've got to wonder whether scale is really the right thing to chase."

Leach said he would have like to see more about how bringing together the capabilities of the two groups would allow the merged business to compete more with the large consultancies.

"I'm not sure size is how you fend them off," he said, adding: "I would have thought its tumultuous times here in Australia. As they put it together, we'll probably see some brand names disappear, as has already happened in WPP."





— Clockwise, from top left: Mat Baxter, Julia Vargiu, Darren Woolley and William Leach.

Other hold cos are thinking “Oh Shit!”

Not everyone who spoke to *B&T* was downbeat about the move. Mat Baxter, who was the previous global CEO of IPG’s Initiative and Huge, understands the business model of holding companies better than most.

He told *B&T* that a mega-merger was always inevitable because the “current configuration is not sustainable”.

“Reading the tea leaves there continues to be downward pressure on fees. We continue to charge on head hours, head hours are reducing because of AI, technology is disintermediating agencies with the likes of Google, Facebook and others,” he said. “The marketplace had to calibrate to some extent and an acquisition is one form of recalibration.

“They’re going to create a supergroup and that’s pretty scary if you are sitting in another network. I can imagine the likes of WPP, Publicis and Dentsu execs might be thinking ‘Oh shit!’. That combo is pretty powerful.”

Baxter explained that the tie-up benefits both parties in several ways.

Firstly, there is an expansion of the geographical footprint for both parties. Omnicom is strong in Europe and Asia, especially China, compared with IPG. On the flip side, IPG’s strength in South America plugs a gap for Omnicom.

“When you look at the global composition of both parties, in terms of their historically strong and weak markets, this fits together quite nicely,” Baxter said.

In terms of capabilities, there are strong synergies between the performance marketing businesses Omnicom’s Annalect and IPG’s Kinesso. Baxter thinks they could merge to create a “super brand”.

There are also complementary businesses between both. Omnicom’s e-commerce practice Flywheel fills a gap in the IPG armoury, while IPG’s data business Acxiom can supercharge Flywheel.

Another benefit is IPG’s healthcare business, which Baxter describes as one of its superpowers and believes it should provide huge benefits to Omnicom, particularly in the US.

Baxter was keen to point out that the takeover won’t solve all of the challenges facing advertising holding companies, however.

“The model we’ve got doesn’t necessarily have some of those foundational ingredients that will allow it to be healthy and sustainable long term,” he said.

“We’ve got to solve those things such as foundational business model design and architecture and how you get remunerated, I would argue and more important than just ‘spend to grow, spend to grow, spend to grow’, because that formula will run out at some point.”

Consolidation of agencies ‘inevitable’

Those speaking to *B&T* all agree that the consolidation of agencies in a combined Omnicom and IPG supergroup is inevitable

On the creative agency side, Baxter believes there could be some consolidation, but it is likely that Omnicom’s powerful creative agency businesses, DDB, BBDO and TBWA will remain untouched. He believes it’s more likely that IPG’s global creative assets (McCann and FCB) will be “brought into the Omnicom swim lane”.

"I just feel like their creative side of the business is such a super power for Omnicom that they might supercharge the TBWA or BBDO brands with an IPG merger," he said.

Where the disruption is more likely to be felt is in media. In Australia, the 2023 combined media billings of OMG and IPG Mediabrands would create a media buying behemoth that handles \$2.2 billion in billings, which is well above the next largest GroupM, with \$1.41 billion, according to [COMvergence](#) data.

This gives the new group significant scale and negotiating muscle, but the problem is the number of media agencies brands: OMD (first), PHD (fourth), UM (fifth), Initiative (sixth), the smaller agencies Hearts & Science and Mediahub.

"There are way too many media agency brands now," Baxter said. "It doesn't really make a lot of sense to have OMD, PHD, Hearts & Science, Initiative and UM all competing in the same market.

"You only have to look at WPP in terms of how they've consolidated their media agency brands to get a hint that there might be some level of consolidation in this space. I would be very surprised if all those brands just, you know, continue to just roll without some sort of adjustment."

Baxter believes the dynamics of the Australia media agency market could shift dramatically post-acquisition.

"The reordering of the size and negotiating power, client scale and pitch competitiveness messes with the current chemistry of the market as we know it today," he said. "I think it's gonna disrupt the market and I think it's gonna give the market an opportunity to rebalance."

Julia Vargiu, director Australia, SI Partners said that the merger could provide a prime opportunity for independent agencies.

"The integration process will dominate Omnicom and IPG's focus over the next six months, creating opportunities for indie agencies to pick up clients and talent as the dust settles. But indies need to act strategically, shoring up relationships with any shared clients while looking for ways to differentiate themselves," she said.

"We've seen a shift in client preferences in recent years, with many valuing the flexibility, personalisation, and local understanding that independent agencies bring. Indies provide direct access to top talent, including founders, and their responsiveness and fresh thinking are particularly appealing as clients seek alternatives to the scale-driven models of holding companies.

"I expect to see the next hot shop arise from this change, as top talent takes the opportunity to leave the network life and flex their own muscles by doing the work in a different way. Akcelo, Howatson+Co, Thinkerbell and RyanCap are all examples of thriving indies led by ex-network talent which have created new ways of working and are dominant forces in the market today."

However, it will be harder for indie agencies to keep pace with the tech chops of the holdcos—particularly the merged IPG and Omnicom.

What about Horgan's successor?

Another question that the merger poses is whether this impacts Omnicom Media Group's plans to find a successor for outgoing boss Peter Horgan.

B&T understands that chief revenue office Kristiaan Kroon is the frontrunner for that post and the group is due to make an announcement to shed more light on its plans this side of Christmas, but Woolley believes the merger could put those timeframes on ice.

"Locally, you have significant challenges on both sides, with Peter Horgan stepping down from the lead at OMG and Initiative recovering from the loss of their leadership team earlier this year to Accenture Song. Amid this local disruption, the takeover creates momentum for significant change in the media agency landscape," he said.

"Who knows, it could see Mark Coad return to lead a unified OMG comprised of the best of the two groups. Anything is possible."

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