



## **SOCIAL MEDIA'S IMPACT ON HIGH TECH AND MEDIA M&A JOINT VENTURE ACTIVITY**

**By  
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In an endeavor to define the truly broad concept of “social media,” the obligatory Google search leads you to the following definition from Wikipedia – one of social media’s biggest success stories: “social media describes the online tools and platforms that people use to share opinions, insights, experiences, and perspectives with each other.” If evidence was needed that social media is a popular topic, a Google search of the topic yields 384 million hits. As corporations and advertisers continue to be convinced that the use of social media can attract niche groups and garner loyalty (e.g., repeat visits) through a sense of community, transactions that attempt to capitalize on these lucrative traits should experience rapid growth. Take, for example, the recent deal where Google guaranteed \$900 million of payments from 2007-2010 to News Corporation, to be the exclusive search and keyword targeted-advertising sales provider for Fox Interactive Media.<sup>(1)</sup> Google is betting on being able to generate more than \$900 million over the three-year period because of the likely demand from advertisers looking to reach a targeted segment. Another high-profile social media deal was NBC’s \$600 million acquisition of iVillage, an online site devoted to women, with more than 14 million users.<sup>(2)</sup>

The 384 million Google hits notwithstanding, the social media phenomenon is in its infancy. U.S. advertising spending on social networking sites is expected to increase from \$280 million in 2006 to \$1.9 billion by 2010.<sup>(3)</sup> While there have been some high-profile transactions around social media, the potential for growth in these transactions is staggering. Whether it is in the form of joint ventures between established companies – such as the recent Yahoo and Pontiac launch of a social media website<sup>(4)</sup> - or simply old-fashioned acquisitions, it seems likely that transactions involving social media will drive deal flow for corporate development teams and investment bankers in both the media and high-tech industry. The key issues will be how to structure these deals and when to execute these deals in the life cycle of a social media company.

One of the major concerns with attempting to capitalize on the momentum generated by social media is the apparent disconnect between a typical marketer’s zeal to “sell stuff” and the desire of the users of social media to avoid the trappings of the corporate world and simply “converse” with other like-minded people.<sup>(5)</sup> The most successful social media sites start small and benefit from a growing buzz – a buzz that is often based in being new or edgy, or more to the point, cool.<sup>(6)</sup> Financial success for these businesses is often not the initial goal – which is a large part of the appeal. This is what makes the questions around the structuring and timing of social media transactions so difficult to answer. Structuring a deal as an acquisition followed by a rapid re-branding might result in a negative reaction from core users who are not receptive to any change in their “community.” Indeed, the very being of social media relies on passionate, opinionated users who are not shy when it comes to expressing values, ideas or beliefs. Corporations have to tread carefully (more to the point, slowly) when attempting to fold newly acquired social media business into an existing brand or corporate culture. Take, for example, gather.com, a Website with a highly educated, informed adult audience membership.<sup>(7)</sup> Gather.com recently completed a \$10 million round of financing from some established media companies looking to reach the members of the site. Hearst & McGraw-Hill opted to become investors rather than simply purchase the site. While their motives for this structure were not

disclosed, one could assume they were looking for the right structure to have access to the information about gather.com's membership and also secure the ability to participate in the upside if the business should enjoy explosive growth. Acquiring the company today might have jeopardized the potential of the business, as it is easy to imagine that gather.com's members have strong feelings about corporations attempting to capitalize on their community. The option to purchase the company is not gone. However, this structure allows the investors to learn more about the potential of the site without jeopardizing its future.

It is important for acquiring companies to critically evaluate the timing of a social media acquisition. In this instance, timing refers to where the social media site is in its life cycle. Yahoo has taken the approach to acquire multiple social media companies early in their life cycles in an effort to extract synergies from cross-holdings and establish itself as the leader in social media.<sup>(3)(8)</sup> Yahoo – because of its hip reputation - is one of the few companies with the corporate identity to successfully execute this strategy. Stodgier, older brands that attempt to acquire social media companies might upset members and derail the growth of the business. These “older” brands are better served by letting the business reach its potential and acquiring it at a later date rather than taking the risk that the acquisition will hurt the business. News Corporation's acquisition of MySpace is a good example of acquiring a growing company at the right point in its life cycle.

As these transactions become more common, a study evaluating the structure and timing of investments and acquisitions would be very interesting. As mentioned above, the success of social media is largely based on momentum and a particular identity. While the growth prospects of the industry are too compelling to pass up, execution of deals might prove to be more difficult than expected.

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