
Web 2.0 and the Demise of Advertising Stocks

In the five years following its birth in 1998, [The Intelligent Investor](#) built its membership base by advertising in the now defunct *Shares* and *Personal Investor* magazines, supplemented by the odd newspaper advertisement. Eleven years on, we spend hardly anything on such 'traditional media' advertising.

We're hardly 'new media' experts. We've simply tried new things as they've come along, turning our collective hand to 'web 2.0' through initiatives such as [Twitter](#), [YouTube](#), this blog (and our less active [Value](#) blog) as well as interactive Q & A forums for our paid-up members and on our sister site [New2shares](#).

Our analysts have even managed to overcome their reservations about public speaking to produce regular podcast discussions (see the left-hand side of the [home page](#) for a free edition of *Stock Take*), and other special podcasts where we interview fund managers and operating managers of businesses we research.

Potential customers are now more likely to recognise *The Intelligent Investor* from such online initiatives than they are from any traditional display advertising. This has changed the way our – and many other – businesses work. Web 2.0 means if we do our job well, you are going to find out about it without us spending a cent on advertising. Conversely, if we make a mess of things, no amount of advertising is going to stop you learning the truth.

Obvious victim

Traditional media is an obvious victim, with *The Intelligent Investor* being just one example of a former [Fairfax](#) customer that is no longer spending significant money with it.

But what might all this mean for advertising agencies? In *Putting the Public Back in Public Relations*, Brian Solis and Deirdre Breakenridge write:

'Many executives still view blogs as random musings, social networks as places where people troll for friends, and other social places as founts of pure narcissism. Most notably, companies fear letting go of control and acknowledging that the wisdom of the crowd can be a powerful group (sic).

'In actuality, companies lost 100% control of their communications a long time ago. People are discussing their brands, products and services right now, across multiple forms of Social Media, with or without them. Plugging their 'ears' and pretending none of this is taking place isn't going to help the situation or make it go away. Quite honestly it will only make things worse for the brand. The key is to let go and embrace the chaos.'

The entire marketing sector is grappling with this issue, including listed groups such as [STW Communications](#) (SGN), **Photon** (PGA), **Mitchell Communications** (MCU) and **Bluefreeway** (BLU).

Symbiotic relationship

Traditional advertising agencies had a symbiotic relationship with traditional media – clipping the ticket by taking a percentage of a client's advertising spend. So does the move away from traditional mediums such as newspapers and free-to-air television signal the demise of the advertising agency?

I suspect not. For years, STW Communications (which features in my family's investment portfolio) has been positioning itself to clients as a partner. Rather than the traditional commission from the placement of advertising in the media, the idea is to act in a fee-based advisory capacity. Some smart clients even incentivise their agencies by paying them a percentage of any uplift in sales.

Many clients of advertising agencies are adrift in the new world. Blogs, Twitter and YouTube clips are sources of fear and trepidation. They are seeking help – and the financial results bear out the view that there is a growth business inside the broader tumult in the advertising industry.

In the year to 31 December 2008, STW's traditional advertising agencies recorded revenue growth of 2%. Its 'Digital, Promotion and Relationship Marketing' businesses grew at triple that rate. Over the metaphorical road, Photon reported that its 'Integrated Communications & Digital' businesses grew revenue by 16% on a like-for-like basis in the half-year to 31 December (while EBITDA rose 25%). Meanwhile, relative upstart Mitchell Communications reported that its Digital operations grew revenue by 28% in the six months to 31 December 2008 (EBITDA grew by 15%).

I'm about to embark on an analysis of STW Communications for *The Intelligent Investor's* members. The first question is whether the industry has a future – I suspect that the answer to that question is yes (although it may not be as profitable as it has been).

The second and much more important question – at least in the short term – is whether STW can ride out the broader advertising downturn given its debt-laden financial position. If the answer to both is in the affirmative, today's price of approximately 3 times last year's earnings will prove an exceptional bargain.

I'm looking forward to reviewing the situation. And I'm also looking forward to any opinions, views or 'scuttlebutt' from this bristling online community.