‘Shrinkage Seems Inevitable’ in BuzzFeed and HuffPost Deal

BuzzFeed’s acquisition of The Huffington Post is a well-timed, shrewd move by CEO Jonah Peretti, but it’s unlikely to lead to top-line growth, according to analysts and media onlookers. But in such tough prevailing advertising conditions, that’s actually OK.

With the deal, BuzzFeed gets investment, scale and links to an older audience, as well as more news resources and access to Verizon Media’s ad platform. Telco Verizon has been writing down and selling off media assets like Flickr and Tumblr for the last few years. BuzzFeed gives HuffPost a relevant home.

BuzzFeed, venture capital-funded and ad-supported, is a bellwether for the health of the digital media industry and a mild obsession for publishers and industry analysts. In buying HuffPost (which Peretti co-founded), the sum of their two parts won’t be much greater than the whole, but given the challenging ad market, their future is more optimistic together, said Alice Pickthall, senior media analyst at Enders Analysis.

“Shrinkage seems inevitable,” she said, “but at a far slower pace and with a more optimistic outlook than if BuzzFeed and HuffPost had remained separate entities.”

“This is a defensive horizontal merger; BuzzFeed is the kingpin,” said independent media analyst Alex DeGroote. “It’s about survival.”

Here’s what the media market expects from the merger.

Scale can be helpful

With the deal, Peretti has advanced his pursuit of scale to combat the duopoly. Hockey-stick growth for both publishers has slowed since their heights. Combined, HuffPost and BuzzFeed News had over 108.5 million monthly visits in October, according to SimilarWeb, with HuffPost accounting for 85.5 million.

“They are doing what the rest of the media industry was focusing on back in 2010 … but now most of the rest of the industry has found other and better ways to monetize,” said independent media analyst Thomas Beakdal.

That still doesn’t make it a challenger to Facebook and Google, but that’s OK, said Brian Wieser, global president of business intelligence at GroupM.

“If you’re in a position to keep growing, then scale can be helpful,” he said. “Cost can be reduced for every dollar; you can apply more tech for your business.”

More cost-cutting

Consolidation mean synergies, but 2020 has already been a year of deep cuts.

Most analysts expect a decent ad recovery in the second half of 2021, as long as there’s a vaccine, which gives the new entity time to rightsize its enlarged cost base. Both edit teams have unionized. Peretti has already said that BuzzFeed staff are protected.

With both publishers barely turning a profit, centralized content hubs and shared procurement operations should help. BuzzFeed is expected to break even this year, or slightly best it, after cutting costs by $30 million through furloughing staff, pay reductions and layoffs, according to The Wall Street Journal. At its height in 2016, BuzzFeed was valued at $1.7 billion, but since then growth has slowed and the company

has worked itself into a much leaner state, retrenching its international operations especially within its high-profile but loss-leading news operation.

“In March, we went from expecting to be profitable for the year to simply trying to limit the damage to under $20 million in losses,” Peretti wrote to staff earlier in November. Growth this year has come from its direct-sold business, affiliate deals and display revenue.

At the end of 2019, Verizon valued its media assets at $16 million (AOL acquired HuffPost for $315 million in 2011). That was before the ravages of the coronavirus. “Investor expectations [of Verizon Media’s value] would be low,” said DeGroote. “Verizon Media is not really on the radar for the Verizon parent company.”

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