

## **Komunik: Growth through mergers and acquisitions**

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[www.komunik.ca](http://www.komunik.ca)

**MONTRÉAL, QUEBEC** — Komunik is a Montréal-based marketing company with ambitious plans to become an international leader in Internet marketing. The company got its start as a division of FokusGroup, a website-consulting firm founded in 1997 by Alain Paquin and Sebastien Demers, who now own Komunik. The two first met in the mid-1990s while working in sales and marketing in the computer-software industry. They realized that although software and technology companies were strong in the areas of research and development and developing software solutions, they lacked a good grasp of sales and marketing. “Marketing and technology are a difficult mix,” said Alain. “There are not a lot of people who are able to master both.” Alain and Sebastien saw an opportunity to combine their sales and marketing skills with a solid knowledge of the software and technology industry. They decided to create FokusGroup, a consulting firm that specialized in strategies for increasing website traffic and promoting online sales.

### **Financing**

For the first year, they worked out of the basement of Alain’s home. “I had a level of debt that was absolutely amazing,” said Alain. “I was paying one credit margin with my credit card, and the credit card with my bank margin. I had house and car payments, and my wife was helping me with the business, which means we didn’t have any other income.” Because they were just starting out and had no assets, the bank had turned down their application for a loan. To help cover costs, Alain took advantage of SAJE (Service and Assistance to Junior Entrepreneurs) Montréal, a provincial government self-employment program that paid him \$250 a week while he got his business going. He also received a \$12 000 start-up grant from Industry and Commerce Quebec, now the Ministry of Economic Development, Innovation and Export Trade.

“Although it was not much by today’s standards, it was all we needed to start the company,” said Alain. “Those two programs from the government meant everything in the world to us. We didn’t have the experience as entrepreneurs so that people would back us, and we didn’t have any money.”

For the first year, Alain’s partner, Sebastien, continued working full-time while they got FokusGroup going. “He finished work at 5 p.m. and then came to work with me until one

or two in the morning,” said Alain. “You can imagine the type of days that we had, because it was the only time we had where we could work together on the business. It was very intense in the beginning.”

### **Corporate strategy**

FokusGroup’s first client was Bell Canada. Alain and Sebastien knew somebody at Bell and invited him to lunch so they could pitch their services. “We weren’t very well-established, we didn’t have business cards and we had never done a project like this before. But we told him that we would work full-time on his account because we were going to use it as a model for building our company. That’s the way we sold it,” said Alain. “And he said yes.” It was June 1997 and Internet marketing was still in its infancy. Bell Canada had just launched its website and was looking for ways to increase traffic, attract — and keep — visitors and monitor website response. FokusGroup developed customized software programs that allowed Bell to post messages on its website, maximize visibility through listings on various search engines, monitor website visits and analyze its ranking on the Internet.

“When we first started our company, we saw an opportunity to help companies increase website traffic by managing their Internet-marketing activities,” said Alain.

They then approached Desjardins Financial Services, one of Quebec’s leading financial institutions, and were given the go-ahead on a completely different project — one that ultimately led to a change in FokusGroup’s direction. “They didn’t have a website yet, but wanted to start using the Internet to help penetrate the English Canada market, which represented a huge opportunity for them,” said Alain. Desjardins hired FokusGroup to develop an Internet strategy that would help them avoid the pitfalls that other companies had encountered when first moving into Internet marketing.

“In terms of positioning, this allowed us to control the process from the very beginning, rather than coming in at the end, after the website had already been built,” said Alain. They realized that switching from website promotion to the development of website strategies not only allowed them to be more effective, but it also increased their revenue capabilities significantly. At that time, companies were prepared to spend more money on developing their website than on the ongoing maintenance and promotion of it. The move into website and Internet strategies also broadened their potential market from what was, at the time, a narrow, niche category of companies that already had websites to the much larger category of those that didn’t.

In addition to developing Internet strategies for new websites, FokusGroup continued to provide promotional support and analysis for existing websites. As the company grew, they later added website design and development to their list of services. “We focussed on getting some large clients, but we also did a lot of jobs for small businesses in the beginning,” said Alain. “We jumped at everything that was available.”

After the Bell Canada and Desjardins contracts, they never looked back. “It took a lot of perseverance. If it was difficult, or if we had problems, we always believed that there was a way to move forward, no matter what the circumstances,” said Alain.

After a year, they had built a substantial enough portfolio of clients that Sebastien was able to quit his job and join Alain in the company full-time. Three months later, they moved from Alain’s basement into office space in Old Montréal. “We rented a small office suite,” said Alain. “Soon we were leasing the whole floor, then another floor and another floor. We stayed for four or five years in the same building, expanding like this.” Within two weeks of moving into their new office, they had hired three more people, eventually growing to 28 people by 1999.

“There was a time when it seemed there was a new employee every Monday,” said Sebastien. Moving into an office also forced them to become more organized. “We were still entrepreneurial, but we also became more businesslike,” said Sebastien.

### **Merger for growth**

By the end of 2000, FokusGroup had grown to more than 30 employees and had reached a turning point. Interest in the Internet had exploded and larger, more traditional technology companies were keen to get into the Internet business. It was a hectic period of mergers and acquisitions as larger companies bought up smaller shops that specialized in the Internet.

“We realized that if we did not join forces with a larger organization, we would end up remaining a marginal player in the field of marketing technology related to the Internet,” said Sebastien. “For us, it was not a question of being a very good but marginal player. Our vision was to be a well-respected, international organization that could play a key role in changing the way business is done on the Internet.”

They knew that if they didn’t expand, they would risk staying a small, niche player or disappearing altogether. They explored several options before eventually deciding that merging with a larger organization would offer them the most advantages. “Going public did not seem like a reasonable alternative because we were too small,” said Sebastien.

Going public would also focus greater attention on the company, which Alain and Sebastien felt was too risky, given its size and the fact that, as a relatively young company, they were just starting to establish themselves in the market.

They also considered venture-capital financing, which was less complicated and not as risky as going public, but they knew it would be a much longer, more time-consuming process. Given the speed with which the Internet market was exploding, they didn't have the luxury to pursue venture capital. At the same time, Alain and Sebastien recognized that most venture-capital organizations were mainly interested in investing in technology and software-based business models that could deliver a high return. Although FokusGroup specialized in Internet-related strategies, they were primarily a consulting group that offered its expertise rather than a technology solution or software product. "We knew that, just like any other service provider, if we wanted to grow our revenues, we had to add more people," said Sebastien. "Software-development businesses, like Oracle or Microsoft, can increase their revenues by simply selling more products."

Up until then, FokusGroup had been entirely self-financed. "When you're building a company, what's tough is debt," said Alain. "A lot of people told us it was almost impossible to grow as fast as we did without investment. But we did it. We did it with \$15 000."

Every bit of profit was put back into the company. "We needed it for cash flow," said Alain. "We needed it for growth, so we never took any money out of the company and, even though we were seen as successful entrepreneurs, we drove old cars, and we were still overwhelmed with financial debt."

Alain and Sebastien believed in their company's potential to grow. After considering several merger proposals, they decided to accept an offer from DTM-Nexxlink Technologies, a Canadian-based public company with annual sales of \$60 million. The decision to go with Nexxlink was due in part to the fact that Nexxlink had a small Internet-related division that would be merged into FokusGroup to form a larger Internet-exclusive department. Under the terms of the deal, Nexxlink acquired 46 percent ownership of FokusGroup in exchange for Nexxlink's web-services division, AxyS, and an undisclosed cash investment. The value of the shares was determined according to the average market price during the 20 days leading up to the final sale, but not less than \$5.75.

FokusGroup became a subsidiary of Nexxlink, with Alain and Sebastien remaining president and vice-president respectively. FokusGroup also retained its name, which, by

then, had become well-known and well-respected within the industry. The company also added 31 employees from Axys to its staff of 32, bringing the total number of employees up to 63.

The deal was finalized in January 2001. In March, Nexxlink reported that second-quarter earnings were up 20 percent over the previous year, a significant increase that was due in part to the positive contribution of FokusGroup. “We’re looking for dynamic internal growth and the rapid expansion of FokusGroup, which is already making positive contributions to the company’s bottom line,” said Nexxlink President Karol Brassard.

### **Management challenges**

Three months later, the Internet market collapsed, causing FokusGroup’s market value to drop substantially. “Imagine if you’re a public company and you buy at the height of the boom and then the market crashes,” said Alain. Nexxlink had made a deal to buy FokusGroup based on extremely strong market conditions. Once the market crashed, they still had to live up to their end of the bargain.

At the same time, Alain and Sebastien were dealing with the transition from running a small, privately owned company to becoming a division of a much larger, publicly owned company. “Going from a small, artisanal firm to a public company was a shock, a real shock,” said Alain. “We didn’t have any experience working with a public company, so we didn’t have any idea what it would be like.”

Looking back, they found that one of the greatest challenges was their lack of experience in managing a board of directors. In particular, they realized that they needed more skills and information in the area of corporate governance. “Running a small company you do what you want when you want,” said Alain. “You don’t necessarily need to clarify your deliverables as much because you’re controlling everything.” As a division of a public company, they were also expected to adhere to specific protocols, reporting processes and bureaucratic systems that had already been put in place; systems that they were largely unfamiliar with.

Despite the difficulties in adjusting to the new relationship, Alain and Sebastien believed that the move was a good one and would allow them to grow as entrepreneurs. “We would learn what it was like to be a public company, and how to manage a company in a very different way,” said Alain. “It was one of the most difficult experiences of my life, but we learned a lot.”

In the meantime, Alain and Sebastien continued to build FokusGroup, repositioning it from strictly website consulting into the area of software development. In the wake of the high-tech implosion, the Internet market had undergone a period of rapid change and reorganization. Recognizing that the market was constantly evolving, Alain and Sebastien moved quickly to take advantage of new opportunities. They decided to expand their website-consulting services to include Internet-related marketing services and programs, starting with email. In May 2001, they purchased Segment of One, a small start-up company that had developed an online-marketing tool that allowed clients to undertake large-scale email campaigns. “The initial concept was very simple, especially today,” said Sebastien. “To be able to deploy massive amounts of email in real time, millions of emails in just a couple of minutes or hours, and to be able to personalize them in terms of first name, last name and content. And then to track and measure and report on everything that has occurred once those emails have been deployed.” At the time, these features were revolutionary concepts that had not yet been commercialized.

Segment of One’s name was changed to Komunik and its email software became the first component of Alain and Sebastien’s vision to build an integrated Internet-marketing firm. The software was launched five months later under the name Maestro, and is still on the market today. “Now we can deploy more than 125 000 emails per hour on a single server,” said Sebastien. “With Maestro, we deploy millions of emails per month for different clients.”

### **Starting over**

By May 2002, 16 months after Nexxlink acquired FokusGroup, the downward shift in the market had changed the substance of the original deal dramatically, causing some tension between the two companies. Through a mutual understanding, they renegotiated the purchase arrangement. In a deal worth roughly \$1 million, Nexxlink purchased the remaining shares of FokusGroup for a combination of cash and shares in Nexxlink. In exchange, Alain and Sebastien acquired 100 percent ownership of Komunik, formerly Segment of One. “We knew that FokusGroup would no longer be the ship that would bring us to where we wanted to be as business owners,” said Sebastien. “But we knew that Komunik could be that ship, so we made the decision to move on.”

They went from a company that had grown to more than 60 employees in five years to starting over with five people. “The challenge then was not in managing or growing the company, but in going back to five people and starting over again,” said Alain.

The second time was much easier. Not only did they have a stronger financial base than when they started FokusGroup, but they were older, more experienced and knew what to expect. They knew how to avoid some of the problems they'd encountered in the past.

They also recognized that email would not be the "golden nugget forever," said Sebastien. They saw email as simply one of several key components in creating a fully integrated Internet-marketing company that would be a leader offering a wide variety of Internet-marketing tools, including email and direct mail, combined with other activities related to a client's core business goals.

The next component they added to their arsenal of Internet-marketing tools was Zego, an ad-serving and campaign-management program that they acquired from Zaq Interactive in May 2003. "It was more of a business deal than an acquisition," said Alain. "We bought the name, we bought the exclusive rights to the technology, we bought the clients, we bought the revenue, we bought everything."

Ad-serving and campaign-management technology allows companies to deliver banner advertising into a website and then monitor the effectiveness of the ad campaign by measuring the "click-throughs" or number of times each ad is viewed. At the time it acquired Zego, Komunik had been exploring the idea of adding an ad-serving tool to its line of products and services, either by building it from scratch or by purchasing an existing program that they could then customize to meet their clients' needs. They heard that Zaq wanted to get out of the ad-serving business and immediately decided to pick up their program. "Buying an ad-serving tool, you have the expertise the next day, you have the client base the next day and you have the technology the next day," said Alain. "Building one from scratch, you have to invest in the technology, you have to learn as you go and you have to get the client base. It's much easier to grow an existing client base than to start from scratch."

Along with the software program itself, Komunik also acquired the expertise behind it. One of the people who came over to Komunik from Zaq Interactive was extremely knowledgeable about the market, and is now Komunik's Vice-President of Sales and Marketing. "He is a very, very key person in the company," said Alain. "Looking back, having him on board was almost better than having the software. Having the right team, having the right people in the right place, has made all the difference in our ability to be successful."

Although Komunik eventually phased out the original ad-serving software — they changed the name and reprogrammed it — Zego became the starting point for the company's latest ad-serving program, Konversation, which is still being used today.

The company continued to grow and position itself as a leader in the field of relationship marketing for the Internet, an area that Alain and Sebastien saw as having enormous growth potential.

“Most of the large companies today are working in silos,” said Alain. Companies may have a team of direct marketers that focusses on the mail channel while a separate interactive group deals with the website and email campaigns, another group handles customer inquiries and the call centre, and yet another group manages point-of-sale and promotional activities. “It means that for every channel, you have data, you have reports, you have creative, you have content and it's all working in different silos,” said Alain. “But they're all talking to the same customer. So the question becomes, how do you create an environment where each department is talking to each other and sharing information?” This integrated approach to relationship marketing is what Alain and Sebastien see as the future of marketing, and especially Internet marketing.

“So we positioned ourselves as a company specializing in developing relationship-marketing solutions for the Internet, focussing on integrating the core media and promotional tools used in the industry,” said Alain.

They had already started the process of building a fully integrated Internet-marketing firm in May 2001 with the purchase of Segment of One — since renamed Komunik — and its email-marketing expertise when they were still with Nexxlink Technologies. Two years later, they purchased Zego, an ad-serving and campaign-management tool, and added it to their roster.

In May 2005, Komunik acquired Croix Grise, a company specializing in the measurement of interactive marketing results through the development of a marketing dashboard — a software program that enables companies to track and monitor the effectiveness of their marketing program. “The marketing dashboard program was a critical addition to our offering as it allowed us to provide clients with the ability to gather more precise information on their marketing results,” said Alain.

The following month, Komunik added digital printing services and personalized direct-mail capabilities to its list of services through the acquisition of DDM, a Montréal-based



digital printing and data-management company. The acquisition — their largest to date — added 20 new employees to Komunik’s staff, bringing the total to just over 60.

With the exception of DDM, Komunik financed its acquisitions through long-term debt financing. “The cheapest way to grow is with long-term debt,” said Alain. “Companies that don’t have a debt-equity ratio that is balanced have two problems. One is that they have too much debt and they can’t go forward; they can hardly grow. Or, their debt-equity ratio is so low that there’s money available that could be used to grow and they don’t use it. Before, we were proud that we didn’t have any long-term debt. Today, we think it’s a mistake. So we’re making sure we keep a good balance in our ratio. And since we’ve been profitable for a long time, we’ve had the capacity to bring long-term debt financing into the company through loans that are made for long-term investments.”

Because the deal to purchase the digital printing company was somewhat larger than any of Komunik’s previous acquisitions, they offered a combination of shares and an undisclosed cash amount to the owner of the company, who joined Komunik as Vice-President of Integration.

In addition to increasing their capabilities, Komunik’s growth strategy has also included the acquisition of key people and their strategic deployment in overseeing various divisions within the company. Vice-presidents have been put in charge of various divisions, laying the foundation for a strong management structure that will allow them to expand their operations to realize their vision of becoming an international Internet-related marketing company.

“The challenge now is to do what we were never able to do with Nexxlink, which is to go from a small company to a truly world-class organization,” said Alain. “To do that, we will have to change the way we manage. We will need to manage the company in a very different way. We will need to add more processes, more planning. For us, it’s a completely different way of managing a company.”

For Komunik, that means adding more stringent planning processes where vice-presidents have control over their departmental budgets and are accountable for achieving specific objectives that are established at the beginning of each year. For Alain and Sebastien, it means becoming less “hands on” and implementing more structure. They are in the process of redefining their organization and building a strong team that will help take them into their next phase.

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