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PR Agency Industry

2017 Best Practices Benchmarking Report:

By Agency Size, Region and Specialty

(Based on 2016 Results)

June 2017

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Introduction and Overview

Rick Gould, CPA, J.D. created the concept of benchmarking for the public relations industry. One thing stands out:

Firms that implement changes based on current benchmarks ultimately realize increased profitability and value to their firm.

Benchmarking data, especially the year-end figures as outlined in this report, shows how firms are evolving based on changing market forces. Business practices that have proven to be successful, including during the recessionary period, are identified.

We regularly advise merger and management consulting clients how to interpret and apply this data in detail, tailoring it to each particular firm. Our clients increase profitability and improve operational effectiveness & value to their firm.

CEO's of leading PR firms have honored us with the feedback that our benchmarks are an invaluable resource in successfully managing their firms.

Executive Summary, Scope and Participant Profiles

This 2017 Best Practices Benchmarking Report by Agency Size, Region and Specialty includes what we see as the 22 most critical benchmarks for a firm to track. They are the ones an agency principal must manage closely to successfully grow a firm and maximize profitability.

Overall, ***101 firms from a broad spectrum of sizes and specialties are represented*** in the survey results reported herein. Profiles of the responses by size, region and specialty are illustrated in the following charts.

We have also tracked the most frequently requested benchmarks of billing rates and utilization percents. These informative benchmarks, including productivity statistics, will be presented in a separate expanded report and release in July.

Executive Summary

		Total Labor	Operating Expenses/ Overhead	Operating Profit
Size	#			
<$3 Mill	26	57.8%	27.9%	14.3%
>$3 Million to $10 Million	46	59.3%	26.1%	14.6%
>$10 Million to $25 Million	18	57.2%	25.4%	17.4%
> $25 Million	11	57.2%	24.8%	18.0%
All	101	58.9%	25.9%	15.2%
Regions				
1. NY & Metro	31	57.4%	26.3%	16.3%
2. D.C. & Suburbs	3	67.5%	24.2%	12.3%
3. NE	8	63.7%	23.5%	12.9%
4. SE	7	60.8%	26.4%	12.7%
5. Midwest	20	56.3%	25.8%	18.0%
6. SW	9	54.7%	26.4%	16.5%
7. Southern CA	6	56.7%	32.0%	11.3%
8. Northern CA	6	63.5%	21.9%	14.6%
9. NW	3	54.7%	22.9%	22.5%
10. Canada	8	52.8%	23.9%	23.4%
All	101	58.9%	25.9%	15.2%

Executive Summary

Specialties	# (1)	Total Labor	Operating Expenses/ Overhead	Operating Profit
1. Healthcare	40	57.6%	23.2%	19.2%
2. Tech	35	58.0%	23.6%	18.4%
3. Financial/Investor Relations	31	56.7%	25.9%	17.4%
4. Consumer	30	57.9%	24.4%	17.7%
5. Crisis	40	57.3%	25.8%	16.9%
6. Sports/Entertainment	14	55.0%	26.1%	18.9%
7. Beauty/Fashion	15	59.3%	25.6%	15.1%
8. Economic Development	19	58.3%	24.5%	17.2%
9. Professional Services	24	57.5%	25.3%	17.2%
10. Food & Beverage	25	57.2%	25.7%	17.1%
11. Public Affairs	33	56.2%	27.1%	16.7%
12. Travel	24	57.5%	26.3%	16.2%
13. Real Estate	16	57.5%	25.4%	16.6%
14. Digital	36	59.8%	24.3%	15.9%
	All	58.9%	25.9%	15.2%

(1) Represents # of firms having category as a specialty. Most have multiple specialties and are included in all tabulations.

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2017 Best Practices Benchmarking Report: By Agency Size (2016 Results)

	Refer to Benchmark # on Insights Page 9	A < $3M	B $3M - $10M	C >$10M - $25M	D >$25 Mill	All 2016	All 2015	All 2014
# Respondees		26	46	18	11	101	106	104
1. Revenue Per Staff	1	$ 140,002	$ 184,922	$ 200,835	$ 184,069	$ 184,069	$ 185,624	$ 182,206
2. Revenue Per Professional	2	$ 161,878	$ 210,304	$ 231,724	$ 211,995	$ 211,995	$ 212,796	$ 214,111
As a % of Revenues								
3. Account Salaries	3	43.0%	44.8%	42.9%	43.0%	43.1%	44.2%	43.8%
4. Bonuses	4	3.4%	2.8%	3.9%	5.4%	3.4%	3.1%	3.0%
5. Freelance Labor	5	6.4%	3.9%	3.2%	1.4%	4.1%	4.3%	4.2%
6. Total AE Labor Cost	6	57.8%	59.3%	57.2%	57.2%	58.9%	58.5%	57.6%
7. Admin. Salaries	7	5.3%	5.3%	5.4%	5.0%	5.3%	5.6%	5.1%
8. Rent & Utilities	8	6.5%	6.6%	6.4%	6.7%	6.5%	6.4%	6.4%
9. New Biz/Marketing	9	2.8%	2.2%	1.3%	1.7%	2.2%	2.2%	2.2%
10. Professional Fees	10	3.2%	2.1%	1.3%	1.6%	2.2%	1.8%	1.6%
11. Technology	11	1.8%	2.1%	1.8%	1.4%	1.5%	1.9%	1.7%
12. New Biz Referral Commissions	12	2.7%	1.4%	1.3%	1.7%	2.0%	1.3%	1.8%
13. Total Overhead/ Op. Expenses	13	27.9%	26.1%	25.4%	24.8%	25.9%	26.2%	26.0%
14. Operating Profit	14	14.3%	14.6%	17.4%	18.0%	15.2%	15.3%	16.2%
15. Billing Methods Used (Weighted)	15							
Time Based		26.3%	43.3%	52.0%	40.4%	42.4%	39.4%	41.5%
Fixed Fees/Retainers		70.3%	53.9%	42.5%	31.5%	53.9%	54.2%	48.2%
16. Billing for Travel Time	16							
Full Rate		50%	47%	45%	75%	48%	49%	46%
Half Rate		50%	53%	55%	25%	52%	51%	54%
17. Average Minimum Monthly Fee	17	$ 5,736	$ 7,149	$ 16,333	$ 10,490	$ 8,829	$ 9,309	$ 9,679
18. Largest Client % of Revenues	18	16.0%	17.7%	22.8%	6.9%	16.9%	15.7%	17.0%
Top 20% Clients % of Revenues		44.5%	60.9%	62.1%	52.4%	56.8%	56.1%	56.9%
19. Baseline Hours ("Available" Client Hours)	19	1,673	1,701	1,794	1,702	1,711	1,722	1,720
20. Utilization - Account Execs	20	84.1%	80.9%	84.9%	84.1%	84.1%	89.1%	89.0%
21. Turnover	21	27.7%	21.0%	19.7%	23.1%	22.1%	21.3%	19.8%
22. Average Markup (Range 15-20%)	22	17.3%	14.9%	12.6%	13.2%	15.2%	17.0%	16.6%

2017 Best Practices Benchmarking Report: By Agency Region (2016 Results)

Regions	Refer to Benchmark # on Insights Page 9	1 NY Metro	2 DC & Suburbs	3 NE	4 SE	5 Midwest	6 SW	7 Southern CA	8 Northern CA	9 NW	10 Canada	All 2016	All 2015	All 2014
# Respondees		31	3	8	7	20	9	6	6	3	8	101	106	104
1. Revenue Per Staff	1	$220,181	$191,640	$152,677	$147,209	$180,833	$161,111	$165,733	$174,243	$168,878	$180,140	$184,069	$185,624	$182,206
2. Revenue Per Professional	2	$257,349	$206,290	$178,678	$160,601	$216,463	$188,545	$188,480	$196,566	$174,435	$204,176	$211,995	$212,796	$214,111
As a % of Revenues														
3. Account Salaries	3	42.8%	52.7%	47.4%	46.3%	40.3%	40.8%	41.2%	49.3%	39.5%	41.5%	43.1%	44.2%	43.8%
4. Bonuses	4	3.9%	3.7%	3.4%	3.1%	3.7%	1.4%	5.2%	2.6%	4.2%	2.6%	3.4%	3.1%	3.0%
5. Freelance Labor	5	4.0%	1.2%	3.8%	4.4%	6.2%	2.6%	5.0%	2.3%	1.5%	4.7%	4.1%	4.3%	4.2%
6. Total AE Labor Cost	6	57.4%	67.5%	63.7%	60.8%	56.3%	54.7%	56.7%	63.5%	54.7%	52.8%	58.9%	58.5%	57.8%
7. Admin Salaries	7	5.4%	5.8%	4.3%	4.2%	6.1%	4.9%	6.4%	5.0%	5.2%	5.5%	5.3%	5.6%	5.1%
8. Rent & Utilities	8	7.5%	5.7%	6.0%	5.7%	6.4%	5.7%	5.8%	5.3%	4.3%	8.7%	6.5%	6.4%	6.4%
9. New Biz/Marketing	9	1.6%	0.6%	2.5%	1.6%	2.8%	2.7%	4.1%	1.7%	1.6%	2.1%	2.2%	2.2%	2.2%
10. Professional Fees	10	2.9%	1.8%	2.4%	1.5%	2.5%	1.5%	2.1%	1.5%	1.0%	1.8%	2.2%	1.8%	1.6%
11. Technology	11	1.7%	3.6%	2.9%	2.0%	2.5%	2.9%	1.6%	1.1%	0.5%	1.6%	1.5%	1.9%	1.7%
12. New Biz Referral Commissions	12	1.4%	1.0%	0.7%	1.2%	1.1%	1.1%	0.9%	0.5%	--	1.0%	2.0%	1.3%	1.8%
13. Total Overhead/Operating Expenses	13	26.3%	24.2%	23.5%	26.4%	25.8%	26.4%	32.0%	21.9%	22.9%	23.9%	25.9%	26.2%	26.0%
14. Operating Profit	14	16.3%	12.3%	12.9%	12.7%	18.0%	16.5%	11.3%	14.6%	22.5%	23.4%	15.2%	15.3%	16.2%
15. Billing Methods (Weighted)	15													
Time Based		29.7%	91.0%	43.0%	26.3%	45.4%	20.7%	15.0%	25.0%	83.5%	74.6%	42.4%	39.4%	41.5%
Fixed Fees/Retainers		59.0%	18.0%	65.0%	83.8%	42.3%	43.1%	78.0%	89.0%	12.5%	17.3%	53.9%	54.2%	88.2%
16. Billing for Travel Time	16													
Full Rate		70.0%	50%	50%	67%	50%	17%	50%	33%	50%	50%	48%	49%	46%
Half Rate		30.0%	50%	50%	33%	50%	83%	50%	67%	50%	50%	52%	51%	54%
17. Average Minimum Monthly Fee	17	$ 10,868	$ 12,500	$ 11,300	$ 6,869	$ 5,927	$ 7,021	$ 5,333	$ 17,000	$ 7,500	$ 5,000	$ 8,829	$ 9,309	$ 9,679
18. Largest Client % of Revenues	18	20.2%	18.6%	16.2%	11.5%	12.9%	16.1%	17.0%	9.2%	41.5%	19.3%	16.9%	15.7%	17.0%
Top 20% Clients % of Rev.		59.2%	66.5%	50.8%	49.0%	56.0%	55.5%	53.0%	34.9%	79.0%	74.7%	56.8%	56.1%	56.9%
19. Baseline Hours	19	1,804	1,875	1,717	1,701	1,681	1,637	1,736	1,787	1,510	1,650	1,711	1,722	1,720
20. Utilization - Account Execs	20	81.9%	82.0%	86.5%	83.1%	85.3%	90.7%	88.9%	87.3%	88.2%	81.7%	84.1%	89.1%	89.0%
21. Turnover	21	22.3%	15.7%	24.8%	16.1%	22.5%	19.4%	31.9%	18.0%	15.50%	27.1%	22.1%	21.3%	19.8%
22. Average M/U		16.8%	17.5%	17.7%	13.8%	16.1%	18.9%	15.0%	15.5%	15.0%	14.8%	15.2%	17.0%	16.6%

Endnotes: Analyses and Insights

The 22 most critical benchmarks are analyzed by agency size, or revenue category, by region and by agency specialty. *(The benchmarks marked with an asterisk* represent the most critical elements to track.)*

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1. **Revenue Per Staff ($184,069)** This is the revenue per total number of staff, regardless of whether they are account or administrative personnel. Last year it was $185,624, up slightly.

2. ***Revenue Per Professional Account Personnel ($211,995)** The trend was slightly down. Last year the average for all firms was $212,798. Firms with Net Revenues in excess of $25 Million averaged $242,875, a slight increase over last year.

   This is a key indicator of productivity for professional staff. If professional staff salaries % of revenues and total overhead % of revenues are also effectively managed, this benchmark should be an indicator of profitability.

   If the revenue per professional amount is high, in excess of $200,000, but professional account salary % is also high, it is possible to have high revenue per professional amount with "moderate" profitability.

   By analyzing this key benchmark, you will get terrific insight as to the "why" behind the profitability %.

AS A % OF REVENUES (FEE BILLING PLUS MARKUP ON REBILLABLES)

3. ***Account Salaries (43.1%)** This % is down from 44.2% the past year. It does not include bonuses. The goal should be under 40%. The most profitable firms, what we call "model firms", consistently keep their base account salaries at this level.

4. **Bonuses (3.4%)** 3.1% last year. This metric is consistent with prior years. It equates to 8.0% of salaries.

5. **Freelance Labor (4.1%)** Consistent with the last several years. This represents temporary personnel and specialists to fill staffing gaps.

6. ***Total Labor Cost (58.9%)** Up from (58.5 %), still too high. This is an indication that salaries, bonuses and freelance labor have not been managed tightly. Model firms keep it as low as 50%.

7. **Administrative Salaries (5.3%)** Last year was 5.6%. There was no specific trend in the various regions and specialties.

8. ***Rent & Utilities (6.5%)** Consistent with last year four years. It is generally the largest overhead item for all firms.

9. **New Biz/Marketing (2.2%)** This remained right around the traditional 2%.

10. **Professional Fees (2.2%)** This was up from last year's 1.8%. It had increased in the previous 5 years, a sign that CEO's & CFO's were utilizing the services of outside coaches, consultants, CPA firms and law firms on a more regular basis.

11. **Technology (1.5%)** Close for four years in a row.

12. **New Business Referral Commissions (2.0%)** Last year was 1.3%. There may be a correlation between the utilization of outside referrers and superior profitability. In less profitable and recessionary years commissions may be higher in the drive to get new business.

13. ***Total Operating Expenses/Overhead (25.9%)** This was consistent with the three prior years. Our advice is always to consistently monitor these costs. It is very difficult to change courses and cut back quickly during less prosperous times. Model firms will be sure it is below 25%.

14. ***Operating Profit (15.2%)** This was down from15.3% in 2015, 16.2% in 2014, 15.8% in 2013, 18.8% in 2012 and 18.6% in 2011. A very troubling trend, the lowest in six years. This metric has not closely paralleled industry growth in revenues, up 6.6% in 2015.

15. **Billing Methods** This benchmark varies the most and is the most difficult to measure and track. The best way to approach a comparison with this benchmark is to focus on your revenue group & region. The ideal method is to charge a minimum fixed-fee as a retainer and then an hourly rate for productive, pre-approved time charges that exceeds budgeted hours. This assures steady cash flow and provides assurance that you will get paid for your time. The reality is that more firms bill on fixed fee/retainers. This topic will be addressed again in our soon to be released Billing Rate & Utilization Report.

16. **<u>*Billing for Travel Time (48% Full Rate and 52% Half Rate)</u>** Based on our interviews with many CEO's and CFO's, we found that if the staff person is doing work for only that client they are traveling to, whether it be preparation, presentation, writing or follow-up reporting then the full rate will be charged.

17. **<u>*Average Minimum Monthly Fee ($8,829)</u>** Down slightly from the past two years. Many clients have changed the fee model. Be sure to look at the metric for both region and specialty.

18. **A. *<u>Largest Client as a % of Revenues (16.9%)</u>** Up from last year. This benchmark has remained very consistent year after year, and it is currently right on target. The goal has always been for it to be around 20%.

    B. <u>Top 20% of Clients as a % of Total Revenues (56.8%)</u> Up slightly from from last year (56.1%) (i.e. if 25 clients, the 5 largest would be 20%). The goal should be for the top 20% to represent no more than 60% of total revenues.

19. **<u>*Baseline Hours (1711)</u>** Consistent with 1722 last year. This has been the most consistent benchmark for the past several years. Baseline hours represent the targeted client hours for an account staff person. It is net of vacation, holidays, sick, personal, training, seminars etc. 1700 hours should be the goal for each staff person not involved with new business pitching. We recommend setting a realistic expectation for each staff. The baseline for an account executive doing exclusively client work would be 1700. The baseline for CEO may be 500; for a V.P that does substantial new business pitching and proposal writing it may be 1,000 hours. The key here is to be very realistic. (i.e. 52 weeks @ 40 hours = 2,080 as a starting point.) Start with the total hours, back out the non-client time and get your baseline. You then can use this for budgeting billable hours, revenues for the month and year-end productivity metrics.

20. **<u>*Account Staff/Utilization Targets (84.1%)</u>** Down 5% from the last year at 89.1%. This is another reality check. It represents what % of the total hours will actually be billable. (i.e. IF 1711 hours are the baseline clients hours, 84.1 % or 1,439 hours will actually be billable. This benchmark is critical to watch in order to realistically budget revenues. (The net utilization hours times the billing rate should equal the dollars generated by that staff person.) This will be expanded in our Billing Rates & Utilization Report, to be issued in July.

21. **<u>Turnover (22.1%)</u>** Up from 21.3 %. This is fairly consistent with our turnover study done each year. Some firms have turnover as high as 50% which is a recipe for a firm to go out of business.

22. **<u>Average Mark-up (15.2%)</u>** We have done extensive studies on this for 20+ years. In the PR industry, most firms mark-up a majority of rebillables to cover the cost linked to administering and carrying the outlay for the out-of-

pocket. Those firms that do mark-up rebillables use the standard rate of 17.65%. We recommend this as a practical policy to adopt. Some firms have slightly altered their mark-up model and may have different mark-up percents for each rebillable. Some firms now charge a flat administrative fee of 4-7% of the fee invoice.

COMING SOON *Billing Rates & Utilization Report, Industry Growth Report, critical in fully understanding the Financial profile of the PR industry.

Keep Your Eye On The Overall Goal:

Labor under 50%; Overhead no more than 25%,
Operating Profit 25%+

My counsel to you is this: if your agency can strive to reach the 22 most critical benchmarks, you will watch your profitability attain levels beyond what you imagined were possible and continue to prosper in recessionary times.

Ongoing Goal of our Spot Surveys and Reports

Our goal is to continually define the profile of a successful "model firm", based on a point in time each year, by each revenue category, region and specialty. Quantifying model firms not only helps us to better support our clients' goals and objectives, but also helps the industry as a whole to successfully evolve and weather changing market conditions.

We examine all types and sizes of PR firms in-depth, both those that are clients as well as those that simply agree to share their confidential financial, management and operational statistics with us.

Thank you for your support of our benchmarking efforts. Look for other relevant surveys in the future. We welcome your suggestions for additional survey topics and reports.

We also invite you to commit to being a long-term, ongoing participant in our surveys. Everything you share with us is in complete confidence, and all resulting reports will be sent directly to you.

Please contact me directly if you have any questions and/or comments. Best wishes for a prosperous year, professionally and personally!

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