

Art Stevens: Getting Your Agency in Top Shape to Be Sold

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Most agency principals love to practice PR. Their primary job is doing great marketing for their clients. For this reason, they often don't think about their career end game — their exit strategy from their firm. However, a failure to build and structure your agency in the correct way can cost you hundreds of thousands, if not millions, of dollars when it comes to selling out. Buyers look for a business that is managed in a certain way; a business that offers certain kinds of potential; and one that demonstrates certain characteristics of stability.

So, what are the key steps that an agency principal should take to ensure that he or she garners the highest possible price when it comes time to sell?

What are the three biggest mistakes that PR principals make in terms of grooming their firms for sale?

The first major mistake PR principals make is taking more satisfaction in generating great ideas for clients than in making more money for themselves. Where is it written in the PR scriptures that making more money is gauche? That you're more obligated to your clients and employees than to yourself? Let me shatter a prevailing myth among PR agency owners. It is perfectly permissible to satisfy your clients and make a lot of money at the same time. How? By learning how to be a better business person — not just a PR professional.

Running a sloppy business while doing great work for clients is a disservice to PR agency principals and their families. The bottom line in running a PR agency is to produce a bottom line. There are two reasons to do this: to generate far greater income personally and to have a more valuable asset to sell when the time comes.

The second major mistake is skimping on generating ongoing financial information and updates on how the business is going. Far too many PR agencies make use of internal bookkeeper/controllers, as well as outside accounting firms, who are not familiar with the metrics of running a PR agency. Without the proper information readily at hand, it's difficult to run a profitable agency.

The third major mistake in grooming a firm for sale is not to have strong second line management in place. Considering that many agency principals plan to phase out after the sale of their firm, buyers evaluate who else can be in charge. If your next in command doesn't have the proper credentials there may go a possible sale.

How do you avoid these mistakes? What solutions do you recommend?

We often advise agencies to hold off on trying to get sold until they meet the following criteria: can demonstrate three consecutive years of both increased revenues and

profitability; have strong second line management in place; have financial statements that are professionally done and conform to generally accepted PR agency accounting principles; and don't have any one client that represents more than 20% of total revenue.

Nowadays, the three years of profitability doesn't always have to be a stumbling block. Our challenging economic times have changed some rules. For example: If a firm in 2008 showed a revenue decline, 2009 flat and an uptick/bounceback/recovery in 2010 and 2011, that could be strong enough to get a firm sold if all the other criteria are right. In addition, their operating systems - from keeping books to billing to forecasting - need to be well organized and efficient.

What are the top traits buyers look for in an agency?

The most important trait is how the agency will fit into the buyer's operation. What attributes does the agency bring to the buyer that can create synergy, new business and greater offerings to the buyer's clients?

Niche. Does the agency bring expertise in a niche practice that augments what the buyer needs?

Management. Will the management of the agency add to the strength of professional capability that the buyer already has?

Geography. Does the buyer need to be in the geographic region of the agency to better service existing clients as well as to generate more business?

Critical mass. Many buyers simply want to get bigger faster so that they can compete more effectively.

What profit margins do buyers want to see?

Buyers generally would like to see at least a 15 percent profit margin when recasting financial statements. Recast financial statements normalizes the compensation and perks the owner takes to reflect industry standards.

What is the typical multiple of net profit that buyers will pay for an agency?

The current rule of thumb is five to seven times net profit and/or one times the average annual net fee billing for the last three years. Certain niches, like healthcare, interactive and investor relations, will go for higher than average purchase prices.

Assuming an agency principal is too busy practicing PR to whip the agency in shape to be sold, what are the alternatives?

There are a number of alternatives: the agency principal can start today to get his agency in shape to sell it in two to three years. He can simply cross off the option of selling the agency at all and continue the business as usual. He can find another agency to merge with that is compatible. He can develop a succession plan to sell the business to key employees at a price well below market value.

Another option would be to embark on an aggressive business development program to take the agency to new levels. Once at this vantage point, however long it takes, the agency owner can then explore all of these options – as well as selling the agency to an interested buyer.

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