PR cafe

Make Money, Not Excuses: 7 Ways Model PR Firms Are Thriving Despite the Global Economy

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Among the seemingly endless, doom-and-gloom economic headlines of recent months, the September 15 acquisition of Schwartz Communications by Publicis Groupe was, indeed, a significant bright spot.

Sale of Schwartz, the ninth largest U.S. independent PR firm with annual revenues approaching $30 million, was initiated and facilitated by our consultancy, StevensGouldPincus (SGP), as advisor to Schwartz. But more than a single M&A transaction, **we believe the sale bodes well for the broader, continuing recovery of the PR agency industry**. It confirms for us again a basic truism that defies any prevailing financial conditions: Despite the general economy, there will always be strong demand for high quality PR firm sellers by high quality PR firm buyers.

The above assertion seems quite logical and obvious. But we at SGP, based on more than a decade of dialog with and counsel to a gamut of agency seller principals, have found that not all PR firm owners fully grasp the metrics of what constitutes “high quality” as defined by the majority of agency buyers. Simply and more importantly put, just not enough PR agency owners know the steps necessary to maximize their firm’s financial performance going forward – whether they wish to eventually sell their business or not.

The key question boils down to this: How can PR firm principals, especially in today’s prolonged, volatile economic environment, best position their agencies to survive – and even thrive financially – now and for the future?

To best answer the question, let’s first look at critical bottom line PR agency trends SGP regularly tracks.

Recent June 2011 survey research garnered by SGP from 104 prominent PR agencies across the U.S. and analyzed in our 2011 Best Practices Benchmarking Report, reveals the following:

- U.S. PR agencies posted revived, strong performance in 2010, with profitability rebounding to 2008 levels after hitting a four-year low in 2009.
- Agency 2010 profit margins increased to 15.6%, on a par with 2008, after eroding to 13.5% n 2009.

Other relevant indicators were uncovered by the SGP survey. Average PR firm profitability was brought down by smaller firms. Firms with net annual revenues below $3 million reported profitability of only 13.1%. Margins increased in relation to agency size, with firms in the $3 million to $10 million net revenue category posting 16.2 % profitability. Agencies with $10 million to $25 million in revenue netted profitability of 17.8%. Firms that reported revenue above $25 million in revenue per year delivered 16.5% profitability. All four revenue groups improved from 2009.

Lastly, our survey showed that despite the positive signs, adverse economic pressures continue to impact U.S. PR agencies. Average monthly fees charged by firms decreased from $9,808 in 2009 to $8,385 in 2010, attributable to client losses and budget cuts. Revenue per professional, however, grew to nearly $206,000 in 2010 from $198,000 in 2009, likely the result of reductions in staffing. Overall staff turnover averaged 22.9% for 2010, slightly less than 2009.

So what’s the moral of this story? What practical action steps flow from our research findings for PR agency principals who want to stabilize, grow, and distinguish their businesses as “high quality” in this challenging environment?

Though there is no one silver bullet, SGP’s research confirmed again a combination of basic “model firm” best practices that statistically sustain and grow PR firms during both expanding and contracting economic cycles.

SGP has specifically tracked one dozen such “model” U.S. PR agencies for the last several years that consistently operate financially well above the mean – despite these recessionary times. These firms – covering the range of small, medium, and large net annual revenue categories – averaged an operating profit margin for 2010 in excess of 25%. **What might these firms know that others don’t?**

A quick rundown of the most important, game-changing metrics SGP’s model PR firms always strive for and consistently achieve include these seven bellwether averages (all as a percent of net revenues):

1. Base Account Salaries – 38%
2. Total Labor Cost – 49%
3. Rent and Utilities – 7%
4. Total Operating Expenses – 25%
5. Agency Operating Profit – 26%
6. Annual Revenue per Professional – $236,000
7. Annual Staff Turnover – 26%

How does your PR firm compare with these numbers? The fact is, high quality PR agencies in all revenue categories are not only surviving, but also thriving, in the current economic landscape. Accomplishing it requires management commitment, financial discipline, and an executive team whose eyes are clearly focused on long term success. Are you up to the challenge?

Whether your intent is to eventually sell your agency or not, establishing proper internal systems now that maximize favorable financial metrics is critical. Further, whether you self-implement or engage outside counsel – do it at the earliest opportunity. Your investment will return exponential dividends for you, your executive team, and staff.

And one final bit of advice. Don’t be overly distracted by news about the ailing economy. Instead, concentrate on making your agency the best it can be financially. Aim for being a model PR firm. At the end of the day, high quality PR firms always prevail in the marketplace, regardless of economic swings – and that puts you in ultimate control of your firm’s present and future.

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