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INTRODUCTION

AGENCY BEST PRACTICES

Whether you run a 5-person or 200-plus-person agency, it can be a lonely path to profitability and stability -- full of questions about how to price, sell, and value your services.

And it has historically been difficult to obtain information on the business practices of agency owners without belonging to a network or paying a large fee. While you could ask a friend or pose the question in some online forum, these one-off answers don't do much in terms of giving you a better understanding of industry practices.

On the following pages, you'll find benchmark data around how agencies price their services and set rates, their new business practices, client management, financial metrics, and hiring. In addition, we've included essays from industry experts who help agency owners build better businesses every day. We hope it serves as a guide as you navigate the complexities of growing an agency.
The Agency Pricing & Financials survey was open during April and May of 2016, and 782 people completed the questionnaire. 537 respondents were located in the U.S., 39 from the U.K., 58 from Canada, and the remaining respondents were located elsewhere.

The majority of respondents are at the director level and above (88%). And while we saw a fairly good distribution of agencies from different market sizes, 66% of respondents work in agencies with fewer than 10 employees. 30% of respondents work in agencies that saw more than $1 million in revenue in 2015, and the majority of respondents come from independently owned agencies.
The Respondents

When was your agency founded?

- Less than 5 years ago: 38%
- 5 to 10 years ago: 25%
- 11 to 20 years ago: 22%
- Over 20 years ago: 14%

How many full-time employees does your agency employ?

- 1 to 5: 49%
- 6 to 10: 17%
- 11 to 25: 21%
- 26 to 50: 11%
- 50+: 3%
### What was your 2015 revenue?

<table>
<thead>
<tr>
<th>Revenue Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 to 50,000</td>
<td>17%</td>
</tr>
<tr>
<td>$50,001 to 100,000</td>
<td>12%</td>
</tr>
<tr>
<td>$100,001 to 250,000</td>
<td>12%</td>
</tr>
<tr>
<td>$250,001 to 500,000</td>
<td>13%</td>
</tr>
<tr>
<td>$500,001 to 1,000,000</td>
<td>12%</td>
</tr>
<tr>
<td>$1,000,001 to 2,500,000</td>
<td>14%</td>
</tr>
<tr>
<td>$2,500,001 to 5,000,000</td>
<td>9%</td>
</tr>
<tr>
<td>$5,000,001+</td>
<td>7%</td>
</tr>
<tr>
<td>Not sure</td>
<td>5%</td>
</tr>
</tbody>
</table>
The CEO is still the primary price setter, but business development and client services are heavily involved in decision-making as well. In addition, there is a wide variety of ways agencies price, with retainer-based and project-based being the most common.

An hourly rate of $125 and $150 were the most common rates listed in response to our question for the respondents' hourly blended rate. The average of the hourly rate/blended rate respondents listed was $126.000.
A majority (59%) of respondents offer retainer-based services, so we wanted to get a better idea of the cost of those services, finding that 45% of respondents sell retainers between $2,500 and $7,500 per month, while 38% price their retainers below $2,500.
Business Practices

Project-based work can be unpredictable, so it's important that agencies work to prevent project overruns. However, we found that 37% of agencies don't know if their completed projects are profitable or not. This information will help when estimating future projects, and it can be instrumental when deciding which projects to take on when you’re at capacity.

Do you agree or disagree with the following statements:

- We track the profitability of previously completed projects (actual vs estimated costs)
  - Agree: 63%
  - Disagree: 37%

- We require employees to track their time
  - Agree: 72%
  - Disagree: 28%

How satisfied are you with your agency’s:

<table>
<thead>
<tr>
<th>Area</th>
<th>Very Dissatisfied</th>
<th>Not Satisfied</th>
<th>Neutral</th>
<th>Satisfied</th>
<th>Very Satisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales process</td>
<td>9%</td>
<td>32%</td>
<td>31%</td>
<td>25%</td>
<td>3%</td>
</tr>
<tr>
<td>Financial health</td>
<td>8%</td>
<td>31%</td>
<td>29%</td>
<td>25%</td>
<td>6%</td>
</tr>
<tr>
<td>Positioning</td>
<td>4%</td>
<td>25%</td>
<td>25%</td>
<td>34%</td>
<td>11%</td>
</tr>
<tr>
<td>Talent and expertise</td>
<td>2%</td>
<td>9%</td>
<td>20%</td>
<td>46%</td>
<td>24%</td>
</tr>
<tr>
<td>Client service</td>
<td>1%</td>
<td>8%</td>
<td>21%</td>
<td>45%</td>
<td>24%</td>
</tr>
<tr>
<td>Creativity</td>
<td>1%</td>
<td>9%</td>
<td>23%</td>
<td>41%</td>
<td>26%</td>
</tr>
</tbody>
</table>
### Business Practices

**Questions provided by Tim Williams**

#### Do you agree or disagree with the following statements:

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>We proactively price every assignment based on the value (expected outputs or outcomes) rather than reactively estimating based on costs (inputs such as hours or time of staff).</td>
<td>9%</td>
<td>22%</td>
<td>27%</td>
<td>34%</td>
<td>9%</td>
</tr>
<tr>
<td>Our current business model incentivizes our people to be effective (produce results), not just efficient (hold hours to estimate, meet billable time targets, etc.)</td>
<td>12%</td>
<td>30%</td>
<td>28%</td>
<td>25%</td>
<td>5%</td>
</tr>
<tr>
<td>Just as our clients are trained to be professional buyers, our client-facing executives are equally well trained in the art of professional selling (pricing, presenting, and defending value).</td>
<td>12%</td>
<td>31%</td>
<td>32%</td>
<td>20%</td>
<td>4%</td>
</tr>
<tr>
<td>In pricing discussions, we focus the dialogue around outputs and outcomes rather than inputs.</td>
<td>14%</td>
<td>36%</td>
<td>31%</td>
<td>16%</td>
<td>2%</td>
</tr>
<tr>
<td>We have the tools and systems needed to track key business results for our clients.</td>
<td>14%</td>
<td>37%</td>
<td>27%</td>
<td>19%</td>
<td>3%</td>
</tr>
<tr>
<td>We are willing to walk away from prospective clients who require us to disclose our costs.</td>
<td>15%</td>
<td>26%</td>
<td>28%</td>
<td>23%</td>
<td>7%</td>
</tr>
<tr>
<td>We are willing to be a true stakeholder in our clients’ success by sharing in both risks and rewards.</td>
<td>18%</td>
<td>38%</td>
<td>27%</td>
<td>14%</td>
<td>2%</td>
</tr>
<tr>
<td>We begin every new client relationship with a discussion of “scope of value” (expected outcomes) before we discuss scope of work (expected deliverables).</td>
<td>21%</td>
<td>35%</td>
<td>21%</td>
<td>19%</td>
<td>4%</td>
</tr>
<tr>
<td>Our culture would support the idea of experimenting with different compensation models.</td>
<td>21%</td>
<td>48%</td>
<td>22%</td>
<td>7%</td>
<td>6%</td>
</tr>
<tr>
<td>Our client-facing teams have a good understanding of how the agency creates value and what that value should be worth to our clients.</td>
<td>24%</td>
<td>48%</td>
<td>21%</td>
<td>6%</td>
<td>5%</td>
</tr>
</tbody>
</table>

*Questions provided by Tim Williams*
WHAT ARE YOU REALLY SELLING?

BY TIM WILLIAMS

What business are you in?

This is arguably the most essential question of any enterprise. And based on agencies’ answers to this survey, it appears most firms believe they’re in the business of selling efficiency. That belief would be understandable if they were running a car wash, but it’s a seriously unsound idea for an industry that employs some of the country’s most talented knowledge workers.

This misplaced focus on efficiency not only provides the wrong incentives internally, but produces suboptimal and misguided compensation agreements with clients.

As professional firms engaged in knowledge work – not manufacturing – what we sell isn’t hours, efforts, endeavors, or any other form of input. **We sell expertise.** Our various forms of expertise solve problems, leverage marketing dollars, create new customers, and make brands famous.
The principal unit of value in knowledge work is effectiveness – not hours. Clients hire agencies for their utility, not their efficiency. Yet the majority of agencies report that their business model incentivizes their people to focus on efficiency instead of results. Less than half of responding firms believe they even have the tools they need to track their clients’ key business results.

![How satisfied are you with your agency's:](image)

But where this counterproductive thinking plays out most is externally in the ways agencies put a price on their value. Only 31% of firms say they proactively price their work based on the perceived value of the outputs or outcomes instead of just reactively adding up their costs. Only half of agencies say they even discuss outputs and outcomes in conversations about pricing. This turns compensation negotiations into a one-sided dialogue where professional buyers grill agencies about what they appear to be selling: their costs.

Rather than confidently but diplomatically pushing back on demands to disclose their costs, the majority of agencies are willing to play the “transparency” game in which well-trained procurement professionals keep asking for more and more cost-related information until they get a “no,” which only rarely happens. Most agencies, lacking a more progressive approach than just selling their costs in the form of hourly rates (coupled with their belief that all procurement requests and challenges are real) end up with compensation arrangements that cede most of the power to the client.
Just 12% of agency executives strongly agree with the statement, “Just as our clients are trained to be professional buyers, our client-facing executives are equally well trained in the art of professional selling.”

<table>
<thead>
<tr>
<th>Do you agree or disagree with the following statements:</th>
</tr>
</thead>
<tbody>
<tr>
<td>We proactively price every assignment based on the value (expected outputs</td>
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<tr>
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<tr>
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<td>results), not just efficient (hold hours to estimate, meet billable time</td>
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<td>facing executives are equally well trained in the art of professional selling,</td>
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</tr>
<tr>
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</tr>
</tbody>
</table>

But against this backdrop of lackluster survey results, there is an emerging realization that professional firms like agencies should stop selling their costs and adopt the same modern pricing practices used by other businesses. There’s actually been a pricing revolution during the past 20 years, evidenced by innovative pricing practices of companies ranging from Adobe to Tesla. It’s not too late for agencies to catch up.

Tim Williams leads Ignition Consulting Group, a U.S.-based consultancy that helps agencies and other professional firms improve their margins and client relationships by focusing their core business model and developing pricing (not just costing) as a core competency.
When asked where agencies source their new business leads, the overwhelming answer was referrals, which isn’t surprising. (It is, however, risky, as you’ll find out in the next chapter.)

But it’s important to understand how to garner more referrals, if that is your main source of business: The Hinge Research Institute found that the way to drive more referrals is through visible expertise and marketing of that expertise by publishing content that showcases the firm is at the forefront of industry trends. Agencies need to improve both their diversity of lead sources and brand-building efforts, which can lead to more referrals and more new business.
How many RFPS do you respond to a year? How many proposals/bids do you send a year?

- 65% Less than 10
- 28% 11 to 20
- 26% 21 to 50
- 26% 51 to 100
- 10% 101+
- 5% Net sure

What percentage of proposals/bids sent to clients do you win?

- 10% or less: 10%
- 11 to 20%: 10%
- 21 to 30%: 12%
- 31 to 40%: 13%
- 41 to 50%: 12%
- 51 to 60%: 13%
- 61 to 70%: 11%
- 71 to 80%: 10%
- More than 80%: 9%
That less than half of agencies create a plan to grow the size of a client account, as seen below, points to many missed opportunities. However, this isn't much of a surprise. We know that most agencies focus more time on chasing new accounts than on improving their current relationships and retention rate.

We also found that 42% of respondents don’t have established buyer personas, 44% don’t use a CRM to manage leads, and 43% haven’t developed a strong positioning statement. This all points to the fact that agencies haven’t considered or defined their sales processes, including how they market their agency, generate and manage leads, and convert new clients. This information aligns with the fact that agencies are relying too heavily on referrals, which are client-driven and leave agencies in a position where they have no control over their sales process and future growth.

---

### Do you agree or disagree with the following statements:

- **We create a plan for each client for upselling and retention**
  - Agree: 49%
  - Disagree: 51%

- **We use a CRM to manage leads and our sales funnel**
  - Agree: 56%
  - Disagree: 44%

- **We are a differentiated agency, meaning we have established a strong positioning statement and actively market our agency’s USP**
  - Agree: 57%
  - Disagree: 43%

- **We have ideal client profiles or buyer personas to identify prospects that align with our most profitable and rewarding clients**
  - Agree: 58%
  - Disagree: 42%
That most agencies (66%) indicated that they do not employ a full-time new business person is no surprise, especially with the majority of respondents working in agencies with fewer than 10 people. However, the problem and risk is that the agency’s CEO/owner is spending too much time selling (or not selling depending on how they feel about the activity) and not enough time working on the business. The lure of a new client is an alluring target to chase, even if there are major problems and structural challenges in the agency that need to be solved. There needs to be a balance if the agency wants to grow.

**Do you employ a full-time new business/sales person?**

- 1: 22%
- 2 to 3: 8%
- 4 to 5: 2%
- 6 to 10: 1%
- More than 10: 1%
- No full-time new business role: 66%

**What is your agency’s budget for tools/technologies to better manage and market your agency?**

- $1,000 or less: 27%
- $1,001 to $5,000: 26%
- $5,001 to $10,000: 16%
- $10,001 to $20,000: 13%
- $20,001+: 6%
- Don’t know: 12%
It’s no surprise that agencies ranked referrals so highly as a lead generator. You do great work and referrals (can) follow. It’s a lot easier than an ongoing new business program, right?
New business is hard — hard to maintain, hire for, and keep up consistently. And, let’s be honest, agencies typically aren’t very adept at it.

So referrals become the default new business option, which is not a bad thing. If your agency doesn’t have a process in place to drive referrals, you need to implement that — yesterday.

Having said that, you simply cannot rely on referrals alone to build and grow your agency.

I know there are agencies that will contradict me on this saying, “It’s working for us.”

I say that’s fantastic, and you’re doing that part of it right — but you rely on them at your peril. There are several reasons why:

1) REFERRALS AREN’T NECESSARILY THE RIGHT TYPE OF CLIENT.

For several reasons this could be true (wrong fit, too small, no budget), and you could find your team spending time on the wrong types of work.

2) REFERRALS ARE NOT A CONSISTENT AND SCALABLE SOURCE OF NEW BUSINESS.

Just as your agency experiences certain lulls given the nature of your clients’ businesses, referrals function in the same way.

3) IF YOU’RE A SMALL- TO MID-SIZED AGENCY, LARGER AGENCIES ARE GOING AFTER WHAT THEY DIDN’T USE TO.

It’s a trend that’s gained momentum, which means those referrals you’re relying on have a better chance of slowing, or drying up altogether.

4) AGENCIES CONTINUE TO GET MORE AGGRESSIVE WHEN IT COMES TO NEW BUSINESS.

In our own recent survey reports, 86% of respondents say they’re getting more aggressive in their outbound and inbound activity. (In 2011, it was 77%.)
If you’ve gone through this report, you may raise an eyebrow right about now, pointing out that 66% of agencies surveyed said they don’t employ a full-time new business person.

Doesn't seem too aggressive does it?

The fact is, it’s easier than ever to pursue new business, whether it’s technology, tools, or outsourcing the function, to name a few. Just because there's not a full-time new business person doesn't mean the agency isn't pursuing new business. It’s all about balance and scale. Clients have to come first, of course. But you need a blend of referrals, outbound, and inbound that you can manage.

There's a reason insurance exists – if you're crushing it on the referral front, look at the outbound/inbound component as your insurance policy; it's not the easiest part, but it's absolutely necessary to your success.

Lee McKnight is the vice president of sales at RSW/US, a business development/lead generation firm that only works with marketing agencies.
When I look at the above chart, one thing is very clear: Across the board, agencies are consistently inconsistent on their proposal closing rate. We’re all over the place, and really, it worries me that there aren’t more respondents in the 80%+ ranges.
Let’s be honest. You need to win the vast majority of your proposals because if you don’t, it means tons of wasted time and resources spent on generating leads and getting them to the proposal stage, only to lose out on gaining the new business.

So, what can you do to increase your agency’s proposal closing rate?

At my agency, we established a foolproof process for creating and presenting our proposals. When we executed this process, we watched our win rate leap from 20% to 80% or better.

So here are my three golden rules for closing more proposals:

**1) FIND OUT THE 3 I’S: ISSUE, IMPORTANCE AND IMPACT.**

If you can identify the issue, work with the client to quantify the impact, and determine the relevant importance in the client’s own words, most likely they’ll want to work with you to solve their problem.

**2) ALWAYS WORK WITH BANT IN MIND.**

Breaking down an initial meeting and learning the B.A.N.T. will help tremendously in your proposal drafting and winning. This means asking all the right questions to determine the:

- **B - Budget.** This can be tricky but it’s absolutely imperative. If your prospect is reluctant, try guessing their budget (even inject some humor by guessing an absurdly high amount), then let the conversation run its course until you get a real budget amount they’re comfortable committing to.
- **A - Authority.** Be certain you are working with the person who has the authority to make decisions. Ask who has the final say and make sure that person is in the room so there’s no delay in future decisions.
- **N - Need.** Have a full understanding of all needed elements. Remember you are not trying to sell them what you want them to want. You are hoping your offering fills their need.
- **T - Timing.** Obviously, timing is important. Can you achieve the desired results in the given time frame? If not, set the expectation early on. Realistic timing is important for starting a relationship off right.
3) PROPOSALS GET PRESENTED IN PERSON.

This has to be non-negotiable. If you are at the proposal stage with a prospect, you must make them aware upfront that your policy is to present the proposal in person, or via video conferencing. Handling the proposal this way will allow you to demonstrate your full understanding of the situation and your strategy for solving it, and it will provide you with the opportunity to overcome any objections.

Never, never email your proposals. And be willing to walk away from anyone who won’t agree to this term because chances are, if they won’t make time to meet with you, they’re just price shopping anyway.

The other major key in winning more proposals is having it set up in a specific order. Most agency proposals start with accolades and bragging points. I urge you to bury that stuff later in the proposal. When you are walking a prospect through a proposal, all they care about is themselves, their problem, and how it’s going to be solved.

Follow the these golden rules, and you could land yourself a golden goose.

Jason Swenk launched a digital agency that quickly grew to a multi-million dollar operation working with brands such as AT&T, Hitachi and Lotus Cars. After 12 years of steady growth, they caught the attention of bigger agencies and sold the agency in 2012. Now, Jason leads JasonSwenk.com, a unique consultancy helping digital agencies start, scale, enjoy, and sell their digital agencies by applying the exact proven formula he used.
A DEDICATED NEW BIZ PERSON IS NOT ENOUGH

BY PETER LEVITAN

Lets start with an irrefutable fact: Agencies that do not grow will fail.

It is inevitable that some of your existing AOR and project clients will eventually walk out the back door. Now for an obvious point: You will only succeed if you add more clients and revenues than you lose. The only way to achieve this goal is to have a dedicated, 24/7 business development program.
According to HubSpot research, 34% of agencies employ the services of a business development director (BDD) to help them maintain their forward progress.

**Do you employ a full-time new business/sales person?**

- 1: 22%
- 2 to 3: 8%
- 4 to 5: 2%
- 6 to 10: 1%
- More than 10: 1%
- No full-time new business role: 66%

However, having a dedicated sales person is not enough. My experience indicates that agencies that win also have a business plan, a competitive brand positioning, an active business development program, and the whole-hearted dedication of agency management and staff to run ongoing sales programs. **Having a sales person alone will not do the trick.**

There is no one size fits all BDD attributes. But there are some common attributes you can look for in a successful BDDs.

The optimum BDD has ad agency experience (preferably in account management), has a detailed working knowledge of today’s inbound and outbound marketing, has some sales training, and is driven by a smart compensation plan. These individuals create, execute, and manage the plan and are capable of running early sales meetings. Even large agencies have a difficult time finding people with this history and skills.
However, some many agencies may want a business development manager who can run a plan written by senior management and is more focused on marketing the agency while the owner or CEO handles the selling/closing part of the process.

This person is dedicated to running the inbound and outbound plan, which includes maintaining a marketing calendar and CRM and managing agency resources to develop sales materials and respond to incoming inquiries and RFPs. This person is more skilled in project management and coming up with unique ways to gain attention for the agency, rather than prospecting, qualifying, and pitching.

Depending on the size of your agency, having an active business development director or manager is a critical element in driving success. You simply have to get the word out about your unique agency (i.e., on-going sales pressure) if you want to add the clients you deserve.

As I stated earlier, the success of an agency sales person is a direct result of agency management making business development a primary agency objective. No BDD can succeed if they are not supported by a comprehensive sales plan and the entire agency’s dedication to look and sound different than its thousands of agencies competitors.

At best, about half of business development directors make it. They will only get to the “promised land” if agency management makes their success an agency objective.

Peter Levitan is an advertising agency business development consultant that helps small- and medium-size agencies grow. He is the author of “The Levitan Pitch,” the definitive guide to winning new business pitches. He ran business development at Saatchi & Saatchi Advertising, owned his own Portland advertising agency and was CEO of two Internet startups. Microsoft bought one.
Financial Metrics

It’s no secret that most agency principals avoid or are wary of the financial aspects of management. But without a strong understanding of what to track, what benchmarks to measure against, and how to improve specific metrics, it will be a difficult and confusing path to profitability and stability.

According to the results, most agency leaders are concerned with revenue and profits numbers, as they rightly should be. However, few track equally important metrics that indicate future success or signal potholes to avoid.

What KPIs do you track?

<table>
<thead>
<tr>
<th>Metric</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>91%</td>
</tr>
<tr>
<td>Net profit</td>
<td>74%</td>
</tr>
<tr>
<td>Revenue per client</td>
<td>49%</td>
</tr>
<tr>
<td>Client satisfaction</td>
<td>42%</td>
</tr>
<tr>
<td>Leads generated</td>
<td>37%</td>
</tr>
<tr>
<td>Revenue per employee</td>
<td>24%</td>
</tr>
<tr>
<td>Average client tenure</td>
<td>22%</td>
</tr>
<tr>
<td>Utilization rate</td>
<td>21%</td>
</tr>
<tr>
<td>Number of client referrals</td>
<td>17%</td>
</tr>
<tr>
<td>Cost per lead</td>
<td>17%</td>
</tr>
<tr>
<td>Employee satisfaction/NPS</td>
<td>16%</td>
</tr>
<tr>
<td>Lead to customer ratio</td>
<td>14%</td>
</tr>
<tr>
<td>Client concentration rate</td>
<td>7%</td>
</tr>
</tbody>
</table>

In addition, it’s surprising that only 21% are tracking utilization rates (either by firm or by employee). Without understanding this metric, agency leaders can’t understand the effective hourly rate of employees nor whether there are problems with project estimates, employee efficiency, and overservicing.
As for profit margin metrics, the average range in the advertising and public relations industry is 12% to 15%, but most firms set a goal of a 20% profit margin. As seen in the chart below, 26% of agencies are operating within the norm of 11% to 20% profit, and the average profit margin by number of clients chart below proves that more clients doesn’t necessarily mean more profit.
On any given day, agency ownership is akin to riding a roller coaster. The highs are exhilarating and the lows are terrifying. While the highs and lows are triggered by a variety of factors (clients, technology, employees, etc.), the net result of those highs and lows are almost always financial.

It’s pretty tough to be excited about owning/running a business that isn’t making any money. And yet, many agency owners I meet don’t really have a handle on their company’s financial picture.
As the results from Hubspot’s Agency Pricing & Financials Survey show, 15% of respondents don’t even know what their average profit margin is, which means they’re out there operating in the dark.

![Profit Margin Distribution](chart)

I’m equally concerned about the agencies that reported 41-51+% profitability. I see the financials of over 250 agencies (from 1 FTE to 300 FTEs) a year, and I’ve never seen an agency’s profitability exceed the low 30s. My guess is that either those respondents don’t understand the term profit margin or their books are a mess.

![Revenue Distribution](chart)
The bottom line is there are metrics every agency owner needs to understand and track. It’s how you know when you hire, if you’re prices are appropriate, and if you’re making any money.

Every month, you should be tracking:

- **AGI** (Gross billings minus cost of goods sold)
- **How the AGI is being spent** (Between loaded salaries, overhead and profit)
- **Profitability by client** (are you paying for the privilege of working for some clients)
- **AGI per FTE** (Goal should be $150K per FTE, anything less than 100K is serious trouble)
- **Estimates to actuals** (How accurate are your estimates and how much are you writing off every month?)

Without these basics metrics, you can’t possibly run your agency well, and you can’t make smart decisions. Every accounting software tool – from the simple to the agency specific/more complex – is capable of giving you this data. Get in the habit of gathering this information every month and plugging it into a spreadsheet so you can track trends and see if you’re moving towards your goals.

Running an agency is hard work. There’s no reason to make it riskier or more difficult than it already has to be. You don’t have to be a CPA to monitor your agency’s financial health. But you do need to know what metrics to watch, and you have to do it every month, not just when you think you’re in trouble. By then, it’s typically too late.

**Drew McLellan** runs the Agency Management Institute (AMI), which is a consultancy for small-to-medium-sized agencies that has been helping agency owners grow their agencies since the mid-90s. He also runs McLellan Marketing Group, which he founded in 1995 after a five-year stint at Y&R.
It's no secret that finding and retaining talent is a top concern for agency leaders. Agencies need an innovative, highly creative, and analytical workforce to attract top brands. But there is more competition than ever in attracting these individuals.

Some of these staffing challenges are being solved by freelance talent who are filling in capacity gaps and providing specialist skills. And this trend of turning to independent workers is predicted to only continue as top talent increasingly chooses flexibility and independence, and technology makes it easier to manage the remote relationship. The Bureau of Labor and Statistic predicts that by 2020, more than 40% of the U.S. workforce will be made up of contractors.

18.5% Average Employee Turnover Rate
In addition, there are a number of agencies hiring full-time remote employees — or even building their agencies around location independence. The new normal is increasingly going to be about providing staff with options about how they want to work and from where, especially if you want to attract top creatives and technologists.

### Do you employ full-time remote employees?

- **Yes**: 39%
- **No**: 61%

### What employee benefits does your agency provide?

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock options</td>
<td>5%</td>
</tr>
<tr>
<td>Tuition reimbursement</td>
<td>12%</td>
</tr>
<tr>
<td>Gym membership</td>
<td>13%</td>
</tr>
<tr>
<td>Paid paternity leave</td>
<td>18%</td>
</tr>
<tr>
<td>401K matching</td>
<td>27%</td>
</tr>
<tr>
<td>Profit sharing</td>
<td>28%</td>
</tr>
<tr>
<td>Training from outside consultants and experts</td>
<td>29%</td>
</tr>
<tr>
<td>Paid maternity leave</td>
<td>32%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>43%</td>
</tr>
<tr>
<td>Reimbursement of online training fees</td>
<td>46%</td>
</tr>
<tr>
<td>Conferences for ongoing education</td>
<td>52%</td>
</tr>
<tr>
<td>Remote and flexible work options</td>
<td>79%</td>
</tr>
</tbody>
</table>
In 1963, sociologist William Bruce Cameron wrote, “[N]ot everything that can be counted counts, and not everything that counts can be counted.”

If you want to grow your agency successfully, you need to make smart decisions along the way. Unfortunately, most agencies aren’t tracking key performance indicators (KPIs) beyond the basics of revenue and net profit.

Good KPIs are ones that help you make better management decisions – they are actionable and forward-looking. Past revenue is easy to track, but you can’t do anything to change history, no matter how many times you reload the report.
And according to our research, 9 out of 10 agencies track revenue, but only 1 out of 3 track what I’d consider a much more actionable, forward-looking growth metric: how many leads they’ve generated.

Today’s “leads generated” become tomorrow’s revenue. Low lead flow means you need to improve your agency’s marketing and sales efforts, or else revenues will suffer – better to know now, when you have time to do something about it.

Other examples of actionable metrics include employee satisfaction and utilization rate.

**Employee satisfaction** will impact tomorrow’s **client satisfaction** – in my experience, unhappy employees tend to create unhappy clients. As the agency’s best employees quit, client satisfaction will decline further, and things spiral downward. Yet only 1 in 6 agencies track employee satisfaction. When I conduct culture surveys at agencies, I find employees often have concerns they’re afraid to share to the owner’s face.

**Today’s utilization rate predicts tomorrow’s net profit.** A low utilization rate (below 60% agency-wide) means you’ll have trouble improving future profitability. If you can start improving your utilization rate now, growth in net profit (to 20%+) tends to follow. But only 1 in 5 agencies track utilization rate.
Comparing top-performing agencies with those near the bottom, top performers are twice as likely to track client satisfaction, revenue per employee, and lead-to-customer ratio.

**Average Profit Margin by the KPIs Tracked**

As an agency leader, your job is to make smart, above-average decisions to help you create the life you want for yourself and your team. But if you waste time looking at non-actionable KPIs, it'll be too late to make a change by the time you know something is wrong. Pay attention to actionable KPIs; don't let yourself get distracted by “vanity” metrics.

Karl Sakas eliminates growing pains for digital agencies. Karl has advised agencies on six continents about operations, strategy, and leadership, and he leads Inbound.org’s Marketing Agencies community, with 1,500+ agencies in 50 countries. Outside of work, Karl volunteers as a bartender on a 1930s railroad car. Get free advice at SakasAndCompany.com.
According to respondents, 60% of agency-client relationships are shorter than three years, which is in line with the often-cited industry metric. This further emphasizes the need for agencies to build quick wins into the first few months, to have an organized onboarding process, and to check in on the health of their relationships every six months. It’s also signals how important it is to stay top-of-mind with leads and potential clients through ongoing marketing efforts – every few years, they will be looking for a new partner, which could be you.
There was a wide variety of responses as to the average hourly rates of various agency roles, as you can see in the following charts. These should be used as benchmarks, but remember that you need to understand your employees’ effective hourly rate to be able to properly set rates and estimate profitable projects.
Hourly Rate by Role

What is the hourly rate for the following roles?

New Business Director/Sales Manager
- $<50: 7%
- $50-75: 5%
- $76-100: 8%
- $101-125: 7%
- $126-150: 9%
- $151-175: 7%
- $176-200: 3%
- $201-250: 1%
- $251+: 1%

Marketing/PR Director
- $<50: 6%
- $50-75: 6%
- $76-100: 10%
- $101-125: 11%
- $126-150: 10%
- $151-175: 7%
- $176-200: 4%
- $201-250: 2%
- $251+: 1%

Strategist
- $<50: 6%
- $50-75: 7%
- $76-100: 8%
- $101-125: 11%
- $126-150: 13%
- $151-175: 9%
- $176-200: 7%
- $201-250: 5%
- $251+: 4%

Inbound Marketing Coordinator
- $<50: 8%
- $50-75: 9%
- $76-100: 10%
- $101-125: 10%
- $126-150: 11%
- $151-175: 5%

SEO Manager
- $<50: 8%
- $50-75: 8%
- $76-100: 11%
- $101-125: 11%
- $126-150: 12%
- $151-175: 7%
- $176-200: 2%

Social Media Manager
- $<50: 13%
- $50-75: 9%
- $76-100: 13%
- $101-125: 11%
- $126-150: 13%
- $151-175: 6%
- $176-200: 1%

Content Marketer
- $<50: 12%
- $50-75: 9%
- $76-100: 12%
- $101-125: 13%
- $126-150: 13%
- $151-175: 7%
- $176-200: 2%
Paying attention to the health of your business is the most important thing you can do on a daily basis. While a client fire, a staff member quitting, or an overdue bill might seem more urgent, the fact of the matter is that if you aren’t paying attention, no one is. And that’s the first sign of a failing business.

The metrics and benchmarks covered in this report highlight how complex running a successful agency can be. They should serve as your guide to improving your processes and practices in hiring, financial management, new business, marketing, and client service.

Remember: Treat your agency like your best client. With this attitude, you’ll be on your way to growth and stability.
Jami Oetting
Jami is a section editor for HubSpot’s Blog, focused on creating content and resources that help agency leaders grow sustainable and profitable businesses.

Connect with her on Twitter @jamioetting

Mimi An
Mimi runs HubSpot’s Research, analyzing consumer data and customer trends to uncover insights for the marketing and sales community.

Check out HubSpot Research.
HERE'S HOW WE HELP:

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The HubSpot Partner program provides support, training, and exposure to ensure our partners generate net new business opportunities using an inbound methodology.

PROVE ROI
HubSpot Partners have a clean and easy view into all the data and reporting necessary to quickly quantify their return on client spend. And it’s not just reporting. With an all-in-one approach agencies can streamline internal processes and increase their operational efficiency.

BUILD A DEPENDABLE BUSINESS
HubSpot Partners offer services that drive retainer-based relationships. Having dependable recurring revenue enables HubSpot Partners to grow and scale their businesses.

HubSpot’s Agency Partner Program Isn’t About Software – It’s About Solving Your Business Problems

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