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## ICCO World Report Autumn 2004: Crisis management and public affairs top global PR agenda

**IT sector powers back from post-Y2K slump, while healthcare stabilises after last year's strong gains, finds Autumn 2004 edition of ICCO World Report**

London, 1 December:

**CRISIS MANAGEMENT AND PUBLIC AFFAIRS ARE THE TOP CONCERNS** of agency bosses going into 2005. Public affairs issues are likely to offer PR practitioners the greatest challenge – and the greatest potential reward – in a wide spectrum of countries in four continents.

Most agency heads also agreed that IT had made a strong comeback after its post-Y2K slump, while healthcare has stabilised after three years of fast growth, finds the Autumn 2004 ICCO World Report.

Turbulence in global affairs seems to have had surprisingly little impact on sentiment. Asked about issues that would potentially restrict growth, few of the survey's respondents directly cited security concerns or oil prices – and none were from the Middle East region.

Turkey was the only country reporting that 'unstable economical and political conditions affect the business directly' – bordering as

it does on Iraq. Yet Turkey is also looking west, with the prospect of ultimately joining the European Union engendering positive sentiment on growth.

Every six months, ICCO World Report polls the membership of the International Communications Consultancy Organisation (ICCO), the umbrella organisation for more than 850 consultancies through their trade associations in 24 countries.

### **Reputation, my reputation**

In the six-month period under review, reputation management was the leading preoccupation for agencies. Crisis management – assessing risk, predicting consequences and making robust plans to counter damage to reputation and business – was seen as the leading growth prospect among lines of business.

Corporate responsibility and public affairs also top the agenda in several countries. A broad reading of commentary suggests that managing clients' reputation,

against a background of growing corporate social responsibility, is seen as the defining strategic role for PR practitioners in both public and private sectors.

### **Big government**

That's to be expected in the public sector in a year that has seen the steady advance of 'big government' in the European Union countries, where regulatory activity (and grant support) has proliferated. It's perhaps more surprising in the private sector.

Product liability issues (especially in health care) and the desire by major brands to be seen as good corporate citizens have led the march by PR into this more strategic area of competence. Typical of many comments, Austria describes 'a new focus on lobbying' linked to 'increased pressure on companies to open up and face public concerns'.

The survey shows unambiguously how government influences the health of the PR industry, directly and indirectly. In Italy

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the industry fears a slowdown caused by 'delay of government activities and public sector in expanding PR'.

In Switzerland, where the financial sector's weak performance led to a 10% decline in business, the PR industry sees direct government spending as its strongest growth prospect.

France, where business is flat, also looks to the public sector to make good the poor performance of its technology sector, which elsewhere is booming. Slovenia expects to get business on the back of direct government support for SMEs.

Not only does government directly procure much of the PR industry's output, it also sets the economic conditions for its success. Asked to cite factors that

promote or retard growth, respondents frequently mention national government's outlook.

For example, India fears that the new coalition government will be less friendly towards business than its predecessor.

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### *'Pressure has increased on companies to open up and face public concerns'*

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#### **Growing EU influence**

Though not strictly a government, the European Union, which elected a new Parliament and Commission, is hugely important to the PR industry. It's not just the relatively specialised public affairs consultancies in Brussels that stand to benefit from the EU's growing confidence and its procurement muscle.

The accession countries that joined in August 2004 are looking to benefit directly from EU structural funds and other grant aid, and indirectly from the general opening-up of business to international interests. Even the anticipation of joining the EU can perk business up, as in Turkey.

But from the Czech Republic comes a warning that it's not all one-way traffic. There's the threat of increased international competition to counterbalance grant

aid and government-sponsored compliance work; and an invigorated public sector may gobble up new money in awarding itself larger pay increases.

#### **Brand marketing**

PR is also gaining ground in marketing. Academics have discussed integrated marketing campaigns for years, but this year

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agencies reported that clients are turning to PR to reinforce other brand marketing efforts such as advertising.

In countries as different as Italy, Sweden and Portugal, brands are switching budgets into PR because they're finding the 'noise level' and clutter of advertising are turning consumers off.

It's the same story in the world's

biggest consumer market, the United States, where clients are exploring PR in the quest to find new ways to communicate with customers.

With five countries reporting marketing communications as a top line of business, PR is at last making a case for its inclusion in a wide spectrum of go-to-market strategies.

#### The search for talent

This year's poll is based on reports from 19 ICCO member organisations. In all, ICCO represents 558 companies employing in excess of 10,500 PR professionals. At least half of the World Report poll respondents are recruiting new staff – or at least, they are trying to.

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### Partnership, productivity – and 'kitchen-table PR'

Some smaller independent agencies from Germany and Austria are starting to court Czech agencies for partnership ventures. A comparison of the respective profiles of Czech and Austrian agencies is fascinating.

The latter is three times larger in terms of annual fee income (€2.5 million vs. €0.85) though it typically employs the same number as its Czech counterpart. While the Austrian agency is apparently three times more productive, it faces the same pricing pressures as agencies in all the traditional Western markets.

These complaints include: clients slow to commit, with extended decision-making cycles; clients preferring project work to contracts; and the filtering of bids through a corporate procurement department tasked

to buy on price alone, and unable or unwilling to assess the value PR brings to the marketing mix.

This constrains management's ability to plan and resource the agency for future business, and over time is demotivating for employees. One consequence seen in 'old Europe' is a fragmentation of the smaller agency sector into 'micro-businesses' – individual, survival-level consultancies.

PR Group Austria refers drily to this as 'kitchen table PR'. It's a phenomenon also noted by Portugal's OPECOM and the PRCA Ireland, which goes so far as to suggest that the large number of individual operators there is a drag on growth.

It's noticeable that this fragmentation is typical only of the mature economies where PR is an established sector. By contrast, agencies in the growth economies where PR is not yet mature typically have a larger headcount: 70 employees in Russia, 50 in India.



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As ever, the search for talent is a touchstone of the industry's health. On balance the report is positive, though in many countries, lack of qualified people continues to hamper agencies. In some few, there is over-supply.

PR is an industry that closely tracks the host economy. And as ICCO's membership is drawn from countries all over the world, at various stages in the economic cycle, prospects for employment vary widely.

#### Quality recruits in demand

One of the fastest-growing new markets, India, profiting by an upswing in IT and outsourced services, reports 'a dearth of talent in the PR industry'. There, newer agencies are unable to find suitably qualified recruits, while even larger players can't hold on to their mid-ranking talent.

Seasoned executives are jumping ship to join in-house corporate communication departments where, it is believed, salaries are higher and pressures less than

within agencies. Ireland, too, reports difficulty in recruiting senior consultants.

And even in the United States, the market with the longest-established resources for professional development, it's reported that agencies are having difficulty renewing middle-ranking talent.

Many talented people are attracted to the industry, but appear to drift away from it as their career matures, conceivably aiming to change their work-life balance.

#### Specific competences

What is certain is that the PR industry continues to demand qualified people, especially those with a record of proven effectiveness. In the United Kingdom, demand continues to be strong for mid-range professionals with experience of running PR accounts.

In Belgium, a unique market where demand from multinational corporations and supranational government business dwarf local demand, agencies are segmenting demand carefully and look-

ing for specific competences.

As the administrative centre of the EU, Brussels has seen a surge in public affairs demand, in stark contrast to Russia and the Middle East which are seen as stony ground for political consulting.

In general, countries where employment prospects look good are 'new Europe', where education and professional development has always been a strength, but which have been excluded from participation in the Western economies: Poland, Slovenia, Czech Republic.

#### Upskilling and opportunity

In Czech, it's noted that the number of people with significant client-side and/or agency experience has grown. The national association, ARPA, asserts that 'There are staff available to agencies and a reasonable price who can be considered consultants in the truest sense of the word...strengthening the agencies' offer.'

The general trend to upskilling

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continues, regardless of year-on-year fluctuations in demand. There is evidence of growing professionalism in Greece, despite a post-Olympics slump that has seen many people dumped out on the job market.

With one in four Greek companies saying it plans to move operations outside Greece in the next three or four years, they should soon be re-absorbed.

### Professionalism is king

One country stands out. Nigeria is awash with oil money and with its growing consumer economy is a great prospect.

But here education lags some way behind. PR practice lacks focus and professional standards. Service quality is poor, and the role of PR poorly understood. Valuable PR clients – government and the oil industry notably – are being serviced by advertising agencies or management consultants.

The PRCA of Nigeria is tackling this with an 'Action Plan to enthrone professionalism'.

## ICCO World Report findings: second half 2004

### Local market conditions

| Direction | Country/region |
|-----------|----------------|
| Up        | Belgium        |
|           | Ireland        |
|           | Italy          |
|           | Middle East    |
|           | Poland         |
|           | Sweden         |
|           | Turkey         |
|           | UK             |
|           | USA            |
| Stable    | Czech Republic |
|           | France         |
|           | Greece         |
|           | India          |
|           | Portugal       |
|           | Russia         |
| Down      | Slovenia       |
|           | Switzerland    |

### Comment:

Nine countries report that their local markets are up. As Ireland puts it, 'There is growth across most sectors.'

The Middle East region says PR is getting more recognition. In Italy the local market conditions are slightly up because clients are turning to PR in a market crowded with advertising. In Sweden prospects are up for the same reason.

In Poland economic growth, membership of the European Union, and a developing awareness of the usefulness of PR are fueling local growth. The USA reports that the local market will be up 5–8% on 2003 driven by cautious clients who are still looking for ways to reach their customers.

A further seven countries report that the market prospects in their local market are stable. The Czech Republic says a new

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government, and some threat of an increased budget deficit to pay for more public wages, are keeping the market stable.

In France, low economic growth is holding the market stable. In Portugal budget cuts, an economic downturn and price competition from independent 'sole traders' is keeping the market stable. The undeveloped nature of the consultancy market in Russia is constraining growth.

In Switzerland the market is down by 10% because one of its major markets, the financial market, is weak.

#### Industry market sectors with best growth prospects

(2004 mentions from 19 country/region reports vs. late 2003 mentions from 21 reports)

| Sector                  | Mentions |
|-------------------------|----------|
| IT/telecoms/technology  | 14; 3    |
| Health                  | 10; 10   |
| Public sector           | 9; 9     |
| FMCG                    | 6; 2     |
| Energy and oil industry | 4; 1     |
| Pharmaceuticals         | 3; 2     |
| Consumer                | 3; 3     |
| Financial services      | 3        |
| Transport & tourism     | 3; -     |
| Food                    | 2; 2     |
| Motor industry          | 2; 2     |
| Real estate             | 2; 1     |
| B2B                     | 1; 1     |
| Education               | 1; -     |
| Infrastructure          | 1; -     |
| Professional services   | 1; -     |

#### Comment

The IT and telecommunications sector has taken back its pre-2001 role of providing the best growth prospects for the world PR sector. Fourteen of the 19 countries reporting point to growth in IT/telecoms/high technology.

Healthcare, which provided what ever growth there was in previous ICCO reports since 2001, has dropped to second place as the engine of growth. It gathered ten mentions as a high-growth sector.

The public sector continued as an engine of growth, gaining third place in the table of growth sectors with nine mentions.

A year ago, in the ICCO Global Report October 2003, healthcare gained 10 mentions as a growth sector from 21 member countries reporting. The public sector was second with nine mentions. IT and telecommunications had fallen back to joint third with just three mentions, along with consumer, food, finance and FMCG.

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IT/telecoms/technology is an engine for growth in Austria, Czech Republic, Greece, India, Italy, Middle East, Nigeria, Poland, Portugal, Russia, Slovenia, Sweden, Turkey and the USA.

The public sector is an engine for growth in Belgium, Czech Republic, France, Greece, India, Ireland, Nigeria, Slovenia and Switzerland.

Markets are often local. This is shown by the fact that USA and Italy find that the public sector has one of the least prospects for growth in the sectors the PR industry serves, yet it provides growth for nine other countries.

Further evidence of the local nature of markets is that the IT/telecoms/tech sector provides least growth for four countries, though offering growth for 14 others. Two countries say the financial sector has poor growth.

#### Lines of business

##### with best growth

(number of mentions by 19 ICCO countries/regions reporting)

| Line of business                  |   |
|-----------------------------------|---|
| Crisis management                 | 8 |
| Marketing and corporate relations | 7 |
| Corporate responsibility          | 4 |
| Media relations                   | 4 |
| Strategic planning                | 3 |
| Public affairs                    | 3 |
| Internal comms                    | 2 |
| Consultancy                       | 1 |
| Interactive                       | 1 |
| Lobbying                          | 1 |
| Media training                    | 1 |

#### Comment

Crisis management is the leading line of business among ICCO organisations' members. The Czech Republic, Greece, Ireland, the Middle East, Portugal, Sweden, Switzerland and Turkey mentioned it as a growth prospect. It was one selection ahead of Marketing and Corporate Communications with seven mentions.

The only other lines of business which get three or more mentions among the ICCO countries/regions are corporate responsibility, media relations, strategic planning, and public affairs.

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***‘Crisis management is the leading line of business among ICCO’s members’***

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#### Issues constraining growth

| Issue  | Mentions |
|--|----------|
| Price pressures                                | 6        |
| Low economic growth                            | 5        |
| Long decision cycles                           | 4        |
| Involvement of a procurement department        | 3        |
| Low awareness of the benefits of PR            | 4        |
| Sole traders                                   | 3        |
| Emerging fiscal and legal systems              | 2        |
| Lack of talent                                 | 3        |
| Client spending down/weak financial market     | 3        |
| Unethical practices                            | 2        |
| Political instability                          | 2        |
| Bad regional development                       | 1        |
| Direct marketing                               | 1        |
| e-tenders                                      | 1        |
| High taxes                                     | 1        |
| Overservicing of clients                       | 1        |
| Predetermined winners on public sector tenders | 1        |

|                                   |   |
|-----------------------------------|---|
| Project rather than contract work | 1 |
| Short planning cycles             | 1 |
| Staff churn                       | 1 |
| No standards                      | 1 |

#### Comment

Pressures on prices caused partly by low economic growth generally or poor awareness of the value of PR are the main inhibitors to the growth of the world PR market. The single most important inhibitor mentioned by just under a third of ICCO country/regional organisations is pressure on prices.

This is connected to the joint second issue inhibiting growth mentioned: low growth in the local economy and long decision cycles among clients.

Then comes a clutch of three issues that also retard growth and undermine prices: the proliferation of 'sole trader' PR operations, or, as PR Group Austria

calls them 'kitchen table PR'; the involvement of procurement departments in the purchasing process; and a low awareness of what PR can achieve.

The two largest PR markets reporting, the UK and the USA, both point to the increasing involvement of procurement departments which do not have expertise in PR and whose sole criteria can be price. Linked to the growing influence of the procurement department is also the rise of e-tenders which the Czech Republic says is an inhibitor in its market.

In markets new to PR, a lack of the appropriate fiscal, legal and political systems can retard growth.

In more developed PR markets where there is some growth or the prospect of growth, lack of talent or the churn of jobs in the PR market is also an inhibitor. In Switzerland, weakness in its most important market, the financial sector, has been a constraint.

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#### Average fee income per consultancy

| Country      | Ave income<br>€ million (\$m) |
|--------------|-------------------------------|
| Austria      | €2.5 (\$3.2)                  |
| Sweden       | €2.5 (\$3.2)                  |
| France       | €2.2 (\$2.9)                  |
| Greece       | €0.79 (\$0.87)                |
| Italy        | €2.2 (\$2.9)                  |
| Nigeria      | €1.9 (\$2.4)                  |
| Switzerland  | €1.8 (\$2.3)                  |
| Slovenia     | €1.2 (\$1.6)                  |
| Ireland      | €1.1 (\$1.4)                  |
| Czech Rep    | €0.8 (\$1.1)                  |
| India        | €0.7 (\$1.0)                  |
| Middle East  | €0.39 (\$0.5)                 |
| Poland       | €0.6 (\$0.75)                 |
| Russia (est) | €0.39 (\$0.5)                 |
| Turkey       | €0.5 (\$0.64)                 |
| Average      | €1.4 (\$1.8)                  |

#### Comment

There is a wide range of fee income per consultancy among ICCO organisations' members. It ranges from €2.5 million per consultancy in Austria to €390,000 in the Middle East.

Belgium, Portugal, the UK and the USA are not included here. UK and USA members say they are constrained by the US Sarbanes-Oxley Act (which calls for more open and consistent reporting of financial affairs) from splitting out the figures for their different lines of business.

Many members are part of larger groups, so cannot split domestic public relations fee income from other items. Of those able to report, the split is large, around an average of €1.4 million.

#### Table: Employment directions

| Direction     | Country        |
|---------------|----------------|
| <b>Up</b>     | India          |
|               | Poland         |
|               | Portugal       |
|               | Russia         |
|               | USA            |
|               | Belgium        |
| <b>Stable</b> | Nigeria        |
|               | Turkey         |
|               | Czech Republic |
|               | France         |
|               | Ireland        |
|               | Slovenia       |
| <b>Down</b>   | Middle East    |
|               | UK             |
|               | Austria        |
|               | Greece         |
|               | Italy          |
|               | Sweden         |
|               | Switzerland    |

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#### Comment:

Employment in eight of the ICCO organisations' members is up. In the USA there is a shortage of middle-rank executives. Other countries reporting employment up include India, Poland, Portugal and Russia.

Employment is stable or only moving very slightly in six of the ICCO organisations' members. They are: Czech Republic, France, Ireland, Middle East, Slovenia, and the UK.

Employment is down in Austria, Greece, Italy, Sweden and Switzerland.

#### Size of establishment

| Country        | Employees  |
|----------------|------------|
| Russia         | 70         |
| India          | 50         |
| Belgium        | 37         |
| United Kingdom | 35         |
| Turkey         | 25         |
| Italy          | 22.1       |
| Sweden         | 21         |
| France         | 21         |
| Slovenia       | 18         |
| Czech Republic | 15.2       |
| Portugal       | 15         |
| Austria        | 15 approx. |
| Greece         | 13.8       |
| Switzerland    | 13.7       |
| Poland         | 13         |
| Ireland        | 12         |
| Average        | 24.7       |

#### Comment:

There is a large difference between the number of people employed per consultancy among ICCO organisations.

Russia has the largest agencies by employment at 70 employees on average. Ireland has the smallest by employment on 12. The average for all those reporting is 24.7. The two larger West European countries with strong PR, France and the UK, have 35 employees per consultancy in the UK and 21 in France.

The International Communications Consultancy Organisation (ICCO) is the voice of public relations consultancies across the world.

It is the umbrella organisation for more than 850 consultancies through their trade associations in 24 countries, employing a total of more than 25,000 people.

ICCO is the forum to discuss issues facing PR consultancies worldwide. It provides an opportunity for sharing experiences and best practice in the sector.

ICCO's target is to work towards providing greater consistency of high-quality, efficient PR consultancy practice across borders.