



PUBLIC RELATIONS WEATHERS THE STORM

2009 was a tough year for many, and public relations consultancies proved to be no exception. Communications budgets remained tight or were cut further as businesses scaled back their operations.

Especially in mature markets, retainer work diminished in favor of short-term projects, making financial and resource planning even more challenging for consultancies. However, demand for PR services proved resilient in many ways, even in light of a gloomy global economic picture. And in fast-emerging countries like Brazil, PR actually thrived.

Is the storm over, talk of 'crisis' done? It is perhaps too soon to tell, but the signs are certainly promising. As the world economy slowly recovers, 2010 predictions for the PR consultancy market are universally bright...

2009: A Year of Survival (with some silver linings)

If 2008 was the year that public relations consultancy 'beat the odds' by sustaining a brisk pace – especially as compared to other marketing and communications disciplines – 2009 was the year the global economic crisis finally made an impact, albeit with very mixed results.

The broad majority of markets showed little to no variation over 2008 figures, demonstrating the resilience of the consultancy industry and a healthy demand for public relations in general.

This was the case in the United States and the United Kingdom – the largest and most developed markets for public relations – both of which experienced only small variation over the previous year, estimated at -5%.

Most European countries found themselves in a similar position, though a few actually approached double-digit growth: most notably Norway and Ireland, at +9%, and Portugal, at an estimated +8%. And public relations consultancies in Brazil steamrolled ahead with impressive growth of +20%, defying a zero increase in overall GDP.

On the other end of the spectrum, a handful of geographies experienced a clear drop in demand for PR services. Slovenia took the hardest hit among surveyed countries, showing a decline in annual consultancy revenues of -30%, while Belgium and Russia saw a decline of nearly -15% and Slovakia approximately -10% (see table).

The impact on profit margins internationally is harder to gauge. Many countries, including the US and the UK, experienced some decrease in profitability. This was even the case when the overall revenue picture was stable or improved (the most extreme example being Brazil) – a development that suggests clients and consultancies alike felt considerable pressure throughout 2009 to deliver 'more for the money', especially in light of global trends toward cautious spending and tighter budgetary constraints.

Nonetheless, consultancies in a few countries were able to withstand this pressure and maintain profitability in line with 2008 levels (Germany, Italy and Poland) or even to improve their performance (Austria, France, Norway and Portugal).

| Country | 2009 Revenue Growth vs 2008 | 2010 Revenue Prediction |
|----------------|-----------------------------|-------------------------|
| Austria | +3% | Up 3% |
| Belgium | -14% | Up 6% |
| Brazil | +20% | Up 25% |
| Czech Republic | 0% to +3% | Up <5% |
| Denmark | -5% | Stable |
| Finland | -5 to -10% | Up |
| France | -2% | Stable |
| Germany | 0% | Stable to Up 5% |
| India | N/A (Up) | Up |
| Ireland | +9% | Down |
| Italy | 0% | Stable |
| Norway | +9% | Up 10% |
| Poland | 0% | Up 15% |
| Portugal | +8% | Up 10 to 20% |
| Russia | -14.5% | Up 10% |
| Slovakia | -10% | Stable |
| Slovenia | -30% | Down |
| South Africa | N/A | N/A |
| Spain | N/A | Down 5% |
| Sweden | +2.5% | Up 10% |
| Switzerland | 0% | Up 2% |
| Turkey | -1.6% | Up 5 to 7% |
| UK | -5% | Down 5% |
| US | -5% | Stable |

1. 2009 GDP growth estimates from the Economist Intelligence Unit (-0.3%), the CIA Factbook (+0.1%) and the Brazilian Institute of Geography and Statistics (-0.2%).

Looking at the nature of the demand for public relations services in 2009, Crisis and Corporate Communications were the two practice areas from which consultancies derived the most fee income globally. These were mentioned among the most lucrative services in 17 and 12 surveyed countries respectively, indicating a continued need by companies and other organisations to address fundamental issues – especially reputational – brought about by the global economic downturn.

Consumer / Brand Marketing Communications were also cited by 12 countries as high-performing areas last year, while Media Relations (including Media Training) were cited by ten countries and Public Affairs by nine. Healthcare, Corporate Social Responsibility (CSR) and Digital Communications also received multiple mentions.

Marketers Turn to PR

Compared to other disciplines, PR's share of marketing spend continues to rise internationally. In 2009, 15 of 24 surveyed countries noted an overall increase in the proportion of client budgets dedicated to public relations, coming directly at the expense of other marketing options such as advertising. An additional seven countries reported that PR share remained stable on average, while only one country – Turkey – perceived a real reduction in spending on public relations relative to spending on other disciplines.

Predictions for 2010 are even rosier. All responding countries predict that PR's slice of the marketing pie will either remain stable or grow bigger in the year ahead. This evidence suggests that marketers across geographies are gaining ever more confidence in public relations as a cost-effective means of communicating with consumers and other target audiences.

Experts in Digital Communications

One contributor to PR's added momentum is the area of Digital Communications – alternately referred to as "New Media" or "New Technologies". Organisations around the world expanded their activities in this area in 2009, and all of the countries surveyed here expect the upward trend to continue this year. Most countries, in fact, expect double-digit growth in revenues from Digital Communications in 2010, though the percentage of overall fee income that PR consultancies currently derive from these services still appears to be small (those countries that had an idea estimated anywhere from 5%-15%).

As interest in the exploitation of digital channels grows, public relations consultancies are increasingly positioning themselves as experts in the field, especially when it comes to managing an organisation's reputation online. The extent to which consultancies have already established a cohesive digital offering, however, varies considerably from one country to the next.

In Sweden, for instance, companies prefer to meet their digital needs entirely in-house or via specialist sub-contractors, but in neighbouring Norway, communication via new technologies is the domain of external providers, and 100% of consultancies offer these services. Digital capabilities are also seen as prerequisite in the UK, so all PR firms have incorporated them in order to remain competitive.

Similarly, some 80-90% of public relations consultancies in Belgium, Denmark, Finland, Poland, Russia and South Africa are estimated to provide expertise in Digital Communications, with a somewhat lower percentage in Brazil, Germany, Italy, and Spain.

Only around half of consultancies in Portugal, Slovakia and Slovenia have an offering in place, and consultancies in the Czech Republic, India, and Turkey lag even further behind with somewhere between one quarter and one third positioning themselves in Digital services. In still-developing markets such as these, however, one might fairly speculate that supply will quickly rise to meet demand once client organisations (and consumers) increase their understanding and intensify their use of new media.

The Outlook for 2010

Any serious business discussion must take into account the fact that the world economy is still afflicted. A lack of investment from the private sector, burgeoning government deficits (the result of stimulus spending) and poor availability of credit continue to hamper economic growth in many regions, although each country must face its particular challenges.

In India, capital shortages are hitting investment projects particularly hard, while Brazilian companies struggle with burdensome tax legislation. In both Turkey and the Czech Republic, it is political crisis in the central government that prevents effective handling of existing economic woes and further undermines public confidence. Meanwhile, exceptionally high unemployment is the cause of major concern in countries like the US, Spain and Italy.

Despite all of these macro-economic setbacks, 2010 looks to be a more comfortable year than 2009 for doing business in most locations around the world. When asked for a general assessment of local market conditions, 12 surveyed countries expected to see an improvement this year with an additional eight noting a stable environment. Only three countries (Italy, Spain and India) felt that conditions will deteriorate further, in line with predictions for contracted GDP growth at home. In the remaining surveyed country, South Africa, the picture was too mixed to provide a clear indication for the rest of the year, with first quarter financial results of local consultancies ranging anywhere from -50% to +20%.

The optimists are basing their expectations on a number of factors, all of which mean good news for public relations. The first is that many countries around the world are already showing signs of a rebound in international business and foreign direct investment in particular. And as large, developing markets like Brazil and India continue to move towards greater liberalisation and privatisation, further globalisation will follow.

Secondly, the aftermath of global financial crisis means that any number of organisations need help in rebuilding their reputations after losing public, employee and shareholder confidence. This is accompanied by a greater need both for lobbying government entities on their behalf and for helping to restore trust in the financial institutions that form the backbone of the business environment. It also means creating social campaigns and exploiting new media channels to maximum effect.

Thirdly, some organisations will continue to struggle in the current environment, as old business models fail and new realities take hold. The same Crisis Communications services that bolstered PR consultancies throughout 2009 will still be sorely needed in the year to come if not beyond.

And lastly, the global trend indicates that corporate marketers and public entities alike will continue to shift budgets away from advertising and towards public relations in order to take advantage of PR's more cost-effective and targeted approach to communications.

Certain high-profile events will, of course, also influence the outcome for public relations in 2010, particularly locally. A few examples include: the FIFA World Cup in South Africa, new healthcare reform in the US and general elections in both the UK and Sweden.

Local Prospects for Industries and Services

In terms of services then, the above analysis suggests that Corporate Communications, Crisis Management, Digital, Healthcare and Public Affairs all have ample room to grow in 2010. This speculation is supported by direct predictions from the countries in this survey, as shown in the accompanying table, which is broken down by practice area and geographic location. It is also worth noting from the table that the relative level of demand for Financial Communications will depend very much upon the situation locally, while Event Management emerges as the only service area expected to show a clear decline in demand across several geographies.

But from which industries is demand for these services most likely to come? Again, the answer varies by geography (as seen in the next table), although a few industries stand out as rising in significance globally and can be expected to generate a growing demand for communications services.

| | Locations with Best Growth Prospects | Locations with Least Growth Prospects |
|--------------------------------|---|---------------------------------------|
| Consumer / Brand Marketing | Denmark, India, Norway, Spain, Turkey, UK, US | Slovenia, Switzerland |
| Corporate / Strategy | Denmark, Norway, Poland, Portugal, Russia, Slovenia, Sweden, Turkey, UK | |
| Crisis & Issues Management | Belgium, Czech Republic, Denmark, France, Ireland, Poland | |
| CSR | Poland, Russia, Slovenia, Turkey | Belgium |
| Digital / New Media | Brazil, Czech Republic, Finland, Italy, Poland, Portugal, Russia, Slovenia, Spain, UK | |
| Event Management | | Brazil, Poland, Portugal, Russia |
| Financial / Investor Relations | Brazil, India, Poland, Russia, Spain, Switzerland, Turkey | Denmark, Italy, US |
| Healthcare | Austria, Belgium, Czech Republic, India, Ireland, Poland, Russia, Slovakia, UK, US | |
| Image PR | Austria | Germany |
| Internal Communications | Brazil, Czech Republic, Turkey | Spain, Sweden |
| Media Relations | Brazil, Denmark, Finland, Norway, Poland, Sweden, Turkey | Germany |
| Media & Spokesperson Training | Czech Republic, Denmark | Denmark |
| Public Affairs | Austria, Belgium, Brazil, Czech Republic, Denmark, France, India, Russia, Spain | |
| Reputation Management | Germany, Norway, Poland | Belgium |
| Technology | Slovakia, India, UK | |

Most notable among these – and mentioned almost universally by surveyed countries as having among the best growth prospects – is the energy industry. As governments unite to tackle the threat of climate change and work towards finding sustainable energy solutions to support a hungry planet, public and private companies in the industry are thriving. Meanwhile, a socially conscious public is keeping track of their actions and expressing its own opinions on the best course for the future. The need for effective public relations is clear.

| | Industries with Best Growth Prospects | Industries with Least Growth Prospects |
|----------------|--|---|
| Austria | Pharmaceuticals | Automotive |
| Belgium | Energy & Environment, Food, Industry, Pharmaceuticals, Public Sector, Wellness | Automotive, Construction, IT, Logistics, Professional Services |
| Brazil | Financial, Government, Industry, Professional Services | Construction, Retail, Technology |
| Czech Republic | Energy & Environment, Healthcare, IT / Technology, Wellness | Automotive, Financial |
| Denmark | Energy, Government, Special Interest | Construction, Financial, IT, Real Estate, Retail |
| Finland | Energy, IT, Professional Services, Public Sector | |
| France | Energy, Healthcare, IT | Financial |
| Germany | Legal Services, Public Sector | Automotive |
| India | Energy, Healthcare, Infrastructure, Legal Services, Manufacturing, Retail, Sports, Telecommunications, Tourism | Textiles |
| Ireland | Energy | -- |
| Italy | New Media, Utilities | Automotive, IT, Financial |
| Norway | Energy, Public Sector | Agriculture, Fisheries, Real Estate |
| Poland | Energy, Financial, FMCG, Healthcare, Infrastructure, IT, Logistics | Automotive, Entertainment, <u>Pharmaceuticals</u> , Retail |
| Portugal | Energy, Healthcare | Financial, Leisure |
| Russia | Energy, Healthcare, Technology | Financial, Public Sector, Real Estate |
| Slovakia | Energy, Healthcare, ICT | -- |
| Slovenia | Energy, Financial, ICT, New Media | Automotive, Food & Beverage, Trade |
| South Africa | Construction, Infrastructure / Transport, Sports | Agriculture, Financial, IT, Leisure, Mining, Real Estate, Tourism |
| Spain | Energy, IT | Automotive, Real Estate, Travel & Tourism |
| Sweden | Energy, Food, Infrastructure, Pharmaceuticals | Automotive, Retail |
| Switzerland | Industry | Luxury |
| UK | FMCG, Retail, Utilities | Public Sector |
| US | FMCG, Healthcare | Financial |

The healthcare industry is also of growing significance around the world. Many European markets with ageing populations and longer life-spans are struggling to contain the rising costs of caring for the elderly as the working population that supports them shrinks. Other developed markets, like the US, are battling for system reform and a means of providing healthcare coverage for all.

Meanwhile, emerging markets with fast-growing populations but limited infrastructure (like India) face an urgent need to make healthcare more accessible to a majority of their citizens. And third-world nations are fighting to provide any sort of systematic healthcare at all. Rampant disease and short life-spans in these countries place an unsustainable burden on their development as well as on the rest of the world's resources.

In all of these environments, public relations has a clear role to play in helping governments, charities, medical establishments and private companies to meet their healthcare objectives.

On the opposing end, the business area seen almost universally as contributing the least opportunity for growth in public relations is the automotive industry. Over the past few years, vehicle manufacturers have revealed obsolete business models and products that fail to meet consumer needs along with heavy losses from falling sales and hefty pension burdens. Many have implemented drastic cutbacks in staff and facilities, tried to sell off dying business units or consolidate the promising ones and recalled faulty products on a mass scale. Perhaps most damagingly, they have consistently lost consumer confidence in their brands, and the vertical chain of suppliers that depends upon them has suffered the consequences right along with them.

As a result, one could argue that the need for strong public relations in the automotive industry certainly exists, but the resources to dedicate to these services do not. Until the automotive industry as a whole manages to reinvent itself by controlling costs and offering a viable (and environmentally-sound) product range, the situation is unlikely to change.

A Word on Talent

In order for public relations to continue to grow, it needs talent. Luckily for PR firms, the availability of that talent now appears to be stable or on the rise in a majority of countries. This is especially true across Europe and in the US, where current unemployment levels are unusually high, but less so in emerging markets like India, South Africa and Brazil, which still have less experienced or less educated workforces from which to draw.

A word of caution is needed, however, as the surge in supply of skilled employees is likely to be temporary. Given that it stems largely from layoffs and hiring freezes both in the communications field and in other sectors, a return to GDP growth and buoyant world economies will gradually absorb any over-supply of talented workers. The moral of the story? Consultancies with foresight and reserves will take advantage and hire now.

The Challenges Ahead

According to surveyed countries, the greatest challenges ahead for PR firms, in order of frequency of mention, are:

1. **Client expectations / budgets**
2. **Pricing and profitability**
3. **Competition**
4. **Staffing**

In an environment of tighter communications budgets and fewer accounts up for grabs, the balance of power between consultancies and clients has shifted. While it is true that many clients are pushed to achieve the same level of results as in previous years with a smaller investment, they now have more providers competing for their business and hence greater choice as well as greater leverage over the relationship. The end result noted by consultancies is that, increasingly, clients demand more service for the same or less money. Managing these expectations is proving to be one of the biggest challenges facing consultancies today.

In order to survive, however, public relations firms must avoid the temptation to win or retain business “at all costs” by under-pricing their services, over-servicing accounts or sacrificing the quality of their work. Naturally, pricing must to some extent adjust to follow the laws of supply and demand, but consultancies must still weigh this against fixed costs – especially in human resources, which are the heart of the business – and longer-term objectives for the type and quality of service they wish to provide. The challenge, then, is to adhere to business strategy while still maintaining profitability.

Nonetheless, the competitive field continues to evolve, changing the rules of the game. Across all geographies, public relations practitioners now face growing competition from other, previously distinct or complementary disciplines. As advertising budgets shrink, advertisers are scrambling to broaden their offering to include PR. The same applies to media and marketing agencies and, to a lesser extent, to management consultancies, legal and accounting firms. Journalists have also joined the fray en masse in some countries following large-scale layoffs from traditional media. And then there are the “specialists”: those individuals or smaller agencies that emerge to capture niche services, particularly in the Digital arena or in other growth areas like Healthcare and Energy.

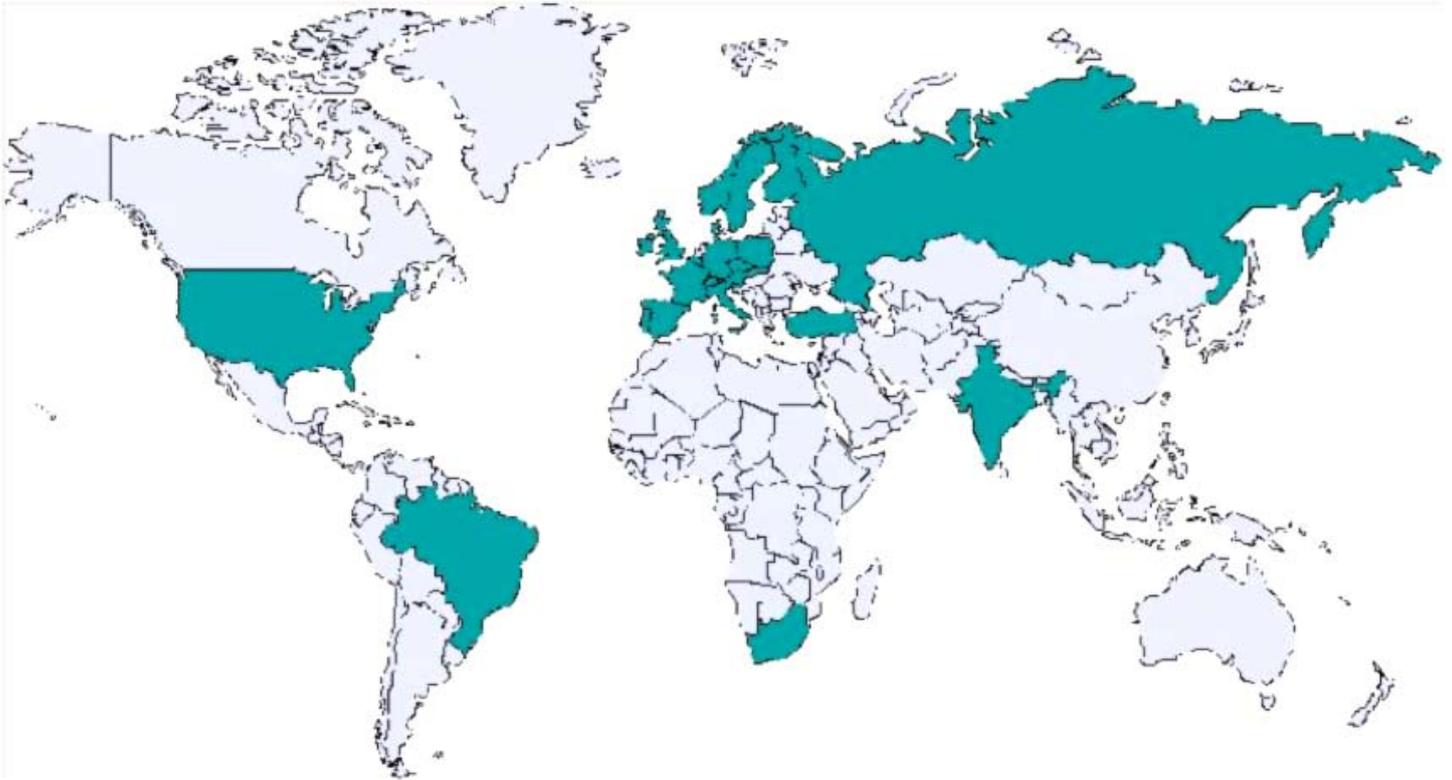
In order to ward off these new competitors, public relations firms will have to “do it better” than the rest. They will have to rely on their unique skills and experience in managing real-time conversations with multiple audiences, in building consensus, in providing a global view of the issues and in embracing a wide range of communications tools.

This, of course, makes meeting the staffing challenge all the more fundamental to success. The better PR consultancies become at attracting and retaining the right talent with the right skill sets, the better positioned public relations will be to take the lead in integrated communications.

Appendix 1 – Map of participating countries

24 national trade associations contributed data for this report, representing a broad geographic spread and

including the largest markets for public relations. The countries they represent are highlighted in a darker colour on the map below.



Appendix 2 – Table of ICCO trade associations surveyed and local market size

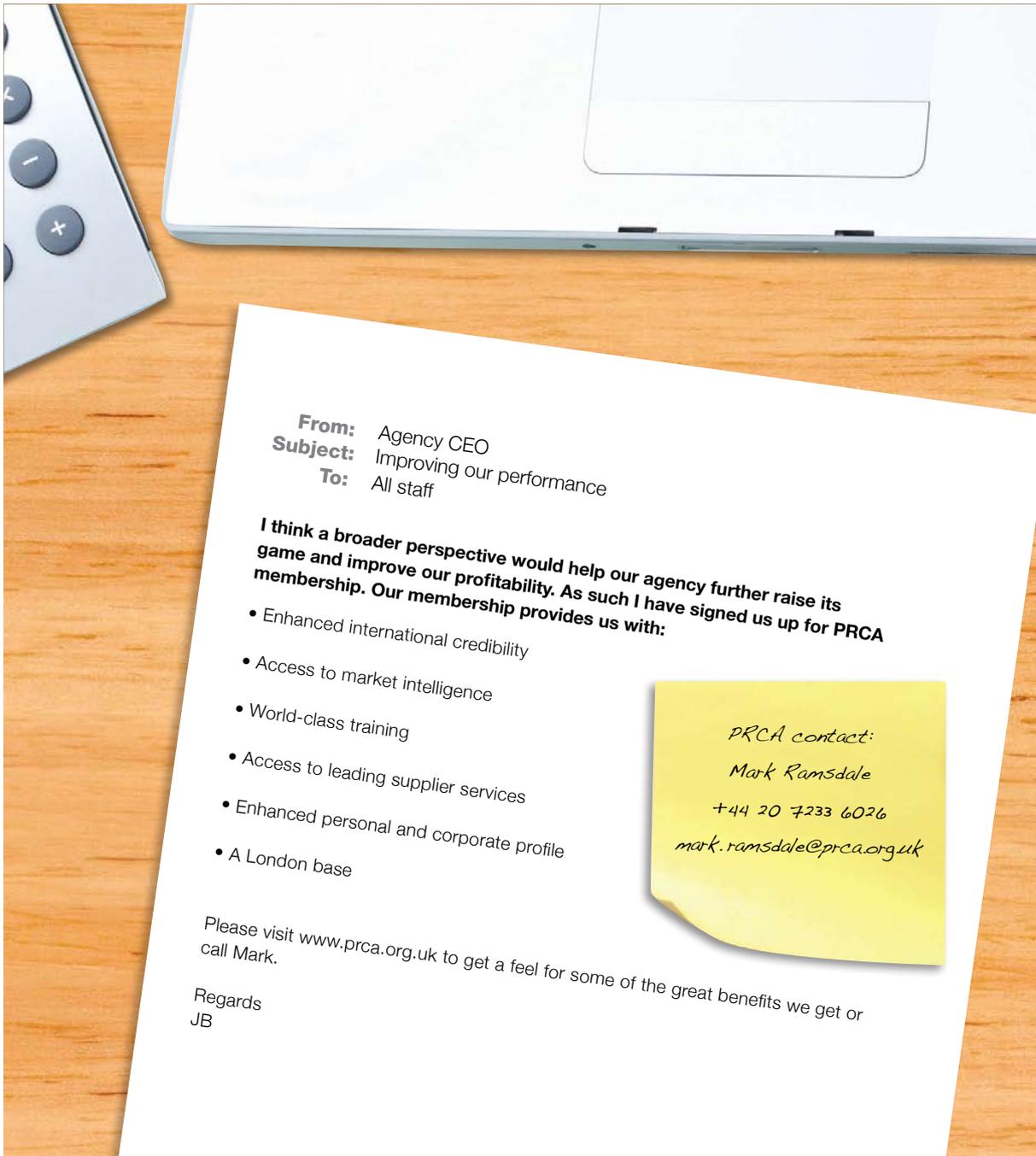
| Country | Trade Association | Number of member firms | 2009 fee income of members ² | Estimated % of total market ³ |
|----------------|--|------------------------|---|--|
| Austria | PR Quality Austria | 15 | € 34 m | 33% |
| Belgium | Belgian Public Relations Consultants Association (BPRCA) | 25 | € 28 m | 60% |
| Brazil | Brazilian Association of Communications Agencies (ABRACOM) | 330 | € 500 m | 36% |
| Czech Republic | Association of Public Relations Agencies (APRA) | 20 | € 25 m | 65% |
| Denmark | Public Relations Branchen | 33 | € 39 m | 60% |
| Finland | Finnish Association of Marketing Communications Agencies (MTL) | 28 | € 42 m | (N/A) |
| France | SYNTEC Conseil en Relations Publiques | 37 | € 160 m | 35% |
| Germany | Association of Public Relations Agencies (GPRA) | 34 | € 185 m | 50% |
| India | Public Relations Consultants Association of India (PRCAI) | 20 | N/A | 60% |
| Ireland | Public Relations Consultants Association (PRCA Ireland) | 33 | € 37 m | 75% |
| Italy | Assorel | 47 | € 134 m | 30% |
| Norway | Norwegian Public Relations Consultants Association (NIR) | 23 | € 75 m | 65% |
| Portugal | Portuguese Association of Communications and Public Relations Consultancies (APECOM) | 32 | €40 m | 65% |
| Russia | Russian Public Relations Consultancies Association (AKOS) | 28 | € 68 m | 50%+ |
| Slovakia | Association of PR Agencies in the Slovak Republic (APRSR) | 11 | € 6 m | 75% |
| Slovenia | Chamber of Public Relations (ZOJ) | 15 | € 60 m | 50% |
| South Africa | Public Relations Consultants Chapter, Public Relations Institute of Southern Africa (PRCC / PRISA) | 51 | (N/A) | 33% |
| Spain | Association of Public Relations and Communications Consultancies (ADECEC) | 25 | (N/A) | (N/A) |
| Sweden | PRECIS Association of Public Relations Consultancies in Sweden (PRECIS) | 37 | € 130 m | 80% |
| Switzerland | Association of PR Agencies in Switzerland (BPRA) | 21 | € 50 m | 80% |
| Turkey | Communications Consultancy Companies Association (IDA) | 17 | € 15 m | 50% |
| United Kingdom | Public Relations Consultants Association (PRCA) | 173 +25 ⁴ | € 750 m | 45% |
| United States | Council of Public Relations Firms (CPRF) | 99 | €4,000+ m ⁵ | 75% |

2. Estimated figures at March 2010 exchange rates to the euro, in millions

3. In terms of total revenue

4. 173 PR consultancies plus 25 in-house teams

5. Entire US market, from Veronis Schuler Stevenson's Communications Industry Forecast, 2009-2013



From: Agency CEO
Subject: Improving our performance
To: All staff

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