

Public Relations Tackles 'Crisis'



Public relations consultancy defied the onset of the global economic slowdown by continuing to grow in 2008, supported by a clear rise in demand for services in Crisis Management and Consumer / Brand Communications as well as a shift in budgets away from advertising and toward public relations.

Following record expansion of the market in 2007, 2008 proved a tougher environment both for public relations consultancies and their clients. Nonetheless, not one country providing growth rates for this survey saw negative growth. A majority enjoyed a modest increase over the previous year, with emerging markets still expanding rapidly at levels well above 10%.

And the outlook for 2009? Predictions vary by geography, but the general expectation globally is one of stable revenues for consultancies despite a downturn in local business conditions. Public relations, it seems, is managing 'crisis' well in more ways than one.

Continued Growth

Average growth for 2008 across the international markets reporting in this survey was 8.5%, continuing the expansion of public relations consultancy beyond the record highs of 2007. And the outlook for 2009 is for these high levels to be maintained.

Slightly more than half of the 22 countries recorded modest growth in revenues of less than 10% for 2008. One quarter witnessed substantial growth of 10% or more, while the remaining few did not have sufficient information to provide a reliable estimate (see table). Russia was the star performer, registering an impressive 33% increase in revenues.

This global rise in demand for public relations services seems to have come at the expense of advertising, a first port of call for budget cuts. A majority of countries report an increased share of marketing spend last year on public relations as compared to other disciplines, particularly as a means of fostering brands and reputation.

Country	2008: Revenue Growth vs. Prior Year	Average for Grouping	2009 Revenue Prediction
US	4%	---	stable
UK	7%	---	down 15%
Australia	1%	---	stable
Denmark	10%	Nordics: 8%	down 5-10%
Norway	9%		up
Sweden	5%		up 5%
Austria	3%	Western Europe: 3-4%	down 5%
Belgium	N/A		N/A
Germany	5-10%		stable (-)
Greece	N/A		N/A
Ireland	0-1%		down 25%
Italy	4%		stable (-)
Portugal	N/A		stable
Spain	6%		stable
Switzerland	0-1%	stable	
Czech Republic	N/A	Central/Eastern Europe: 12%	N/A
Slovakia	12%		stable (-)
Turkey	12%		stable
Brazil	20%	Fast Emerging Markets: 26%	up 5%
India	N/A		N/A
Russia	33%		stable
South Africa	N/A		---

Public relations consultancy even outpaced overall economic growth in the two largest markets for communications spending, the US and the UK.¹ The same is true across Europe (with the exception of Switzerland) and the emerging markets.

All in all then, the financial picture for 2008 was one of 'business-as-usual' for a healthy, growing industry. However, public relations professionals reported that the global financial crisis was already creating shifts in everything from strategic priorities to staff morale to budgeting and the nature of client accounts. The world changed, and public relations changed along with it.

For one thing, 2008 witnessed a further increase in awareness and exploitation of digital channels as clients continued to seek pervasive and innovative – yet more cost-effective – means of communicating. At the same time, tighter budgets and uncertainty about the future led to an overall increase in project work in lieu of traditional retainer work.

In terms of specific practice areas, 2008 was driven globally by core services in both Corporate and Consumer Communications. Marketing / Brand Communications to consumers proved to be the largest revenue producing area for consultancies in both the US and the UK, while Technology services also generated a significant income base in these countries.

Healthcare Communications, though of seemingly less importance globally last year, continued to prosper in the US (the largest healthcare market in the world) as well as in Russia, Greece and Austria.

Work in Crisis Management also played a significant role throughout Continental Europe, where the business climate in most of the mature economies became dominated in the second half of the year by news of corporate restructuring and record losses as well as a plunge in consumer confidence and spending. At the same time, Public Affairs work remained prevalent in countries like Austria, Belgium, Denmark, Greece and Sweden in addition to Russia.

Increasing Pressure on Business Performance

The amount of international business conducted – i.e. the globalization of services – does not seem to have had a measurable effect over the past year on the performance of public relations consultancies, although this is an extremely difficult element to quantify (especially if other factors can not be eliminated). Estimates from a majority of survey participants on the percentage of revenues derived from international work range from roughly 5 to 20%, with Belgium, Switzerland and the UK falling at the higher end of the range. Italian firms provided the highest estimate, at 30-35%, but did not as a group out- or under-perform their peers in the region.

Overall, 2008 profit margins were largely stable in reporting countries, with the US, Sweden, Norway, Denmark, Brazil, Greece and Russia all enjoying some improvement over the previous year. Australia, Switzerland and Turkey experienced a slight erosion in their margins, while Germany saw a decline of 5-10% amidst increased competition and pressure on the pricing of services.

Many countries, in fact, noted that price pressure began to increase in 2008 in response to changes in the competitive environment. Low-cost and niche players aggressively sought business previously courted by multinationals and vice versa. In some cases, communications departments of large corporations opted to retain their business in-house in order to accommodate tighter budgets, while in others companies were forced to downsize communications (and other) staff and seek help instead from external providers.

Such cross-industry “downsizing” has proven to be a matter of great concern in nearly all the regions surveyed. Overall employment conditions deteriorated in 2008, and the trend continues in 2009. Spain is among the countries hardest hit so far (following the collapse of its construction industry) with the current unemployment rate rising above 17% - the highest in the EU. Despite such tough conditions globally, countries like the US, Switzerland, Sweden, Brazil and Turkey report that the local job market for public relations remains fairly resilient.

¹ Estimated GDP real growth rate of 1.3% (US) and 0.7% (UK) – CIA World Factbook, updated 09/04/2009

A Changing Media Environment

Meanwhile, the media – integrally linked to the practice of public relations – continued to deal with pressure of its own. The shrinking circulation of traditional print media that began in earnest in 2007/2008 has accelerated dramatically, and the need for new business models is now universally acknowledged. Subscription-based digital media has filled the gap somewhat but by 2008 proved that it does not provide full remedy for what ails the media moguls. For in addition to the financial woes caused by loss of circulation (owing to crowding out by digital media, competition from free publications and changes in consumer behaviour), traditional media is also suffering from a massive loss of advertising revenues. The US reports that this year many local newspapers will continue to shed staff or simply cease to print. Ireland and Russia see similar scenarios happening in their respective markets, and the story is bound to repeat itself in many more locations across the globe – if not now, then soon.

One exception to this may well be India, where new publications and (analogue) television channels spring up almost daily. The explanation for this most likely lies with a combination of factors unique to this country, including: increased literacy rates and interest in political or international affairs, expanding infrastructure and distribution, growing consumerism, a burgeoning population within an already vast nation, and the sheer diversity of peoples in terms of language, religion and culture.

Survey comments from other emerging markets, however, focus on positive developments in the professionalism of their journalists (Brazil) and diversity of trade publications (Czech Republic), although there is concern that local media still bow to the pressure of political interests, especially in areas outside the major cities (Brazil and Turkey). This political influence is also evident to some extent in Spain, although the current, ongoing debate centres more on whether the media should act as a “filter” or a mere “facilitator” when reporting the news. In Greece, on the other hand, the media is widely viewed as being too liberal, focussing quite aggressively on scandals in the political and business arenas.

Other countries – especially smaller ones like the Czech Republic, Slovakia and Switzerland – have seen a high degree of consolidation in the media in recent times, notably amongst operations with print publications. This is hardly surprising given the financial and competitive pressures cited above.

Around the world, though, new digital media (especially online channels, social media and digital television) continue to expand their offering, thanks in part to lower overheads and barriers to entry, access to niche consumers and a guaranteed global reach. In the UK, as in other places, the world of social media in particular is booming – even if the business models behind it remain unclear – and public relations consultants are quickly coming to grips with how best to leverage it.

Outlook For Services

Country	Industries with Best Growth Prospects	Industries with Least Growth Prospects
Australia	(N/A)	Financial
Austria	Pharmaceuticals	Automotive
Belgium	Energy / Environment, Public Sector / Government	Automotive, Chemicals, Manufacturing
Brazil	Automotive, Infrastructure, Telecommunications, Trade & Services	Mining, Financial
Czech Republic	Automotive, Energy, Financial, Heavy Industry, IT / Technology, Lifestyle & Nutrition,	(N/A)
Denmark	Environmental Technology, Renewable Energy	Energy, Financial, Retail
Germany	Legal Services, Public Sector	Automotive
Greece	Consumer Goods, Retail, Telecommunications	Automotive, Construction, Financial, Pharmaceuticals, Tourism
India	Construction, Energy, Healthcare, Infrastructure, Legal Services, Manufacturing, Retail, Telecommunications, Tourism	(N/A)
Ireland	Energy	(N/A)
Italy	Energy	Automotive, Financial
Norway	Public Sector	Agriculture, Fishing, Real Estate
Portugal	Consumer Goods, Energy / Environment, Healthcare	Financial, Services
Russia	Energy, Healthcare, IT	Automotive, Consumer Goods, Financial, Manufacturing, Real Estate, Retail
Slovakia	Consumer Goods, Energy, IT, Public Sector (EU Funding), Telecommunications	Healthcare, Financial
South Africa	ICT, Pharmaceuticals, Services	Automotive, Financial, Manufacturing, Mining, Travel & Tourism
Spain	Energy, ICT	Automotive, Real Estate, Retail, Travel & Tourism
Sweden	Food, IT / Technology, Pharmaceuticals	Entertainment, Financial, Telecommunications
Switzerland	Energy, Healthcare	Financial
Turkey	Consumer Goods, Energy, Financial, Food, Healthcare, Telecommunications	Construction, Real Estate, Manufacturing, Retail, Textiles
UK	Digital, Retail	M&A, Public Sector / Government
US	Healthcare, Infrastructure, Public Sector, Technology	(N/A)

2009 will clearly be a tougher year for public relations. Like everyone else, consultancies must operate in a more difficult – and largely unpredictable – economic environment. Although the outlook for fee income is largely stable (see table on page 1), profit margins look somewhat less secure. A handful of countries are predicting a stable picture for the year, but the majority expect margins to be slightly down compared to 2008. Meanwhile, businesses in Germany foresee a more significant drop of up to 10% in profitability. And in Ireland, where the overall economic situation is especially dire thanks to the very same policies that fuelled the boom of the last decade, consultancies predict a 25% contraction in annual revenues to be accompanied by a 20% decrease in profitability.

Not all the news is bleak, however. Looking at the prospects for growth in different industries on a geographic basis (see table), it appears that Energy (especially renewable), IT, Telecommunications and other infrastructure related sectors will all do well. Emerging economies will continue to attract business away from mature markets in Automotive, Manufacturing and Financial industries, although the latter is largely seen to be in decline globally. The Public Sector should gain momentum in many countries, including the US, Belgium, Germany and Norway, as governments step up spending on public projects and invest in stimulating the economy.

On the flip side, boom-time industries like Tourism, Real Estate and Construction are likely to suffer over the medium-term – especially in holiday destinations like Greece, Spain, Turkey or South Africa. Prospects for the Mining industry are also gloomy since the crisis negatively affects global demand for goods.

How does this picture translate into service areas offered by public relations consultancies?

For one thing, Crisis, Digital and Public Affairs are all on the rise. Internal Communications is also an area to watch as clients seek help in dispelling uncertainty from within about the health of the organisation in order to quell fears about job losses and align internal stakeholders towards the light at the end of the tunnel.

Demand for services in Event Management, by contrast, is weakening nearly everywhere. Anecdotal evidence suggests that the number of planned gatherings for 2009 has declined in parallel with the reality that potential delegates now face tighter travel and training budgets and that some of these conferences are moving online in order to cut costs and broaden their reach.

Interest in Financial Communications services is also in decline in many places owing to a drastic reduction in the number of initial public offerings, mergers and acquisitions.

Moreover, the aforementioned trend of clients shifting away from retainers and towards project-based work looks set to continue given ongoing uncertainty about both funding and communications needs in the future.

Practice Area	Locations with Best Growth Prospects	Locations with Least Growth Prospects
Consumer / Brand & Product Marketing	India, Russia, South Africa, Switzerland	Denmark, Greece, Ireland
Corporate / Strategy	Portugal, Russia, Slovakia, Spain, Sweden, Turkey, UK; US	Ireland
Corporate Social Responsibility (CSR)	Germany, US	Belgium, Ireland, Turkey
Crisis & Issues Management	Australia, Austria, Brazil, Denmark, Greece, Ireland, Italy, Portugal, Russia, Spain, Sweden, Turkey, US	---
Event Management	---	Australia, Austria, Brazil, Denmark, Greece, Ireland, Portugal, Russia, Slovakia
Financial / Investor Relations	India, Spain	Belgium, Greece, Ireland, Italy, Norway, Russia, Switzerland, UK
Healthcare	Czech Republic, Greece, India, Russia, Switzerland, UK	Ireland
Image PR	---	Austria, Germany
Internal Communications	Brazil, Germany, Norway, Russia, Slovakia, US	Spain, Switzerland
Digital / New Media	Australia, Belgium, Brazil, Czech Republic, Germany, Italy, Russia, Slovakia, UK, US	---
Public Affairs	Austria, Denmark, Greece, India, Russia, Spain, Sweden, UK, US	Ireland, Italy, UK
Real Estate Development	---	Czech Republic, Russia
Reputation Management	Greece, Portugal	Ireland
Spokesperson / Media Training	---	Brazil
Sponsorship	---	Germany, Portugal, Turkey
Technology	Australia, Czech Republic, India	Ireland, Switzerland
Media Relations	Turkey	---

New – and Old – Challenges

When asked which macro issues are affecting growth in public relations, every country surveyed pointed first to the global economic crisis, which has dramatically slowed spending and filled the minds of both consumers and businesses with uncertainty. The follow-on effects of economic turmoil mean that many countries also need to be concerned about currency fluctuations, new tax burdens, lack of investment in development or even a destabilized political environment.

Specific challenges for consultancies in this environment, in order of frequency of mention, include:

1. Shrinking client budgets
2. Staffing
3. Maintaining growth / profitability
4. Client expectations
5. Competition and price pressure
6. Keeping up with industry change

Difficulty in recruiting and retaining talent has been an issue for some time now but clearly remains an obstacle. The good news for public relations consultancies, however, is that the pool of available talent is actually growing in some places thanks to corporate layoffs, hiring freezes and a more competitive market for job-seekers. There has also been a marked improvement in the availability of communications training programmes in many countries, especially in terms of providing basic (i.e. less strategic) skills. It remains to be seen whether consultancies will choose to invest in obtaining skilled staff under the current conditions, but some strategic hiring during a downturn may help address what is essentially a long-term challenge to the future of the industry. The available talent pool may present only a partial solution, though, as surveyed countries still report a broad deficit of high-level professionals.

The category “client expectations” also warrants further explanation. Developing countries in particular still complain that clients fail to understand the potential value of public relations to their organisations, opting instead for lower-level services like media relations (and monitoring) or publicity for events. Requests to demonstrate value strictly in terms of ROI can also prove challenging and prolong the debate as to which forms of measurement best apply. In mature economies, where public relations may well enjoy a higher profile, and clients grasp how communications are integral to the success of the business, the problem is often one of clients expecting more and more service for less compensation. In the current climate, consultancies must also deal with a high degree of volatility in client marketing plans, making it difficult to keep up with expectations much less plan adequate resources. Challenging indeed.

However, with challenges come opportunity. Already mentioned in this report are the rising demand for Crisis Management work and a gradual shift in client budgets away from advertising. However, there also appears to be considerable room for expanding work in the public sector, particularly in those countries with plans to implement large economic stimulation packages or receive EU funding for infrastructure projects. In many locations, this is coupled by a trend towards outsourcing by organisations large and small, which clearly works to the advantage of consultancies. Respondents also point to more general opportunities for innovation, particularly in the application and optimisation of digital channels.

The competitive field will certainly change as well, with weaker or less focused consultancies disappearing and thus easing pressure on pricing and perhaps salaries along with it.

Conclusion

Public relations consultancy has continued to grow in revenues and in importance, however the industry has changed significantly. These changes were driven not just by economic circumstances but also by developments specific to the communications landscape.

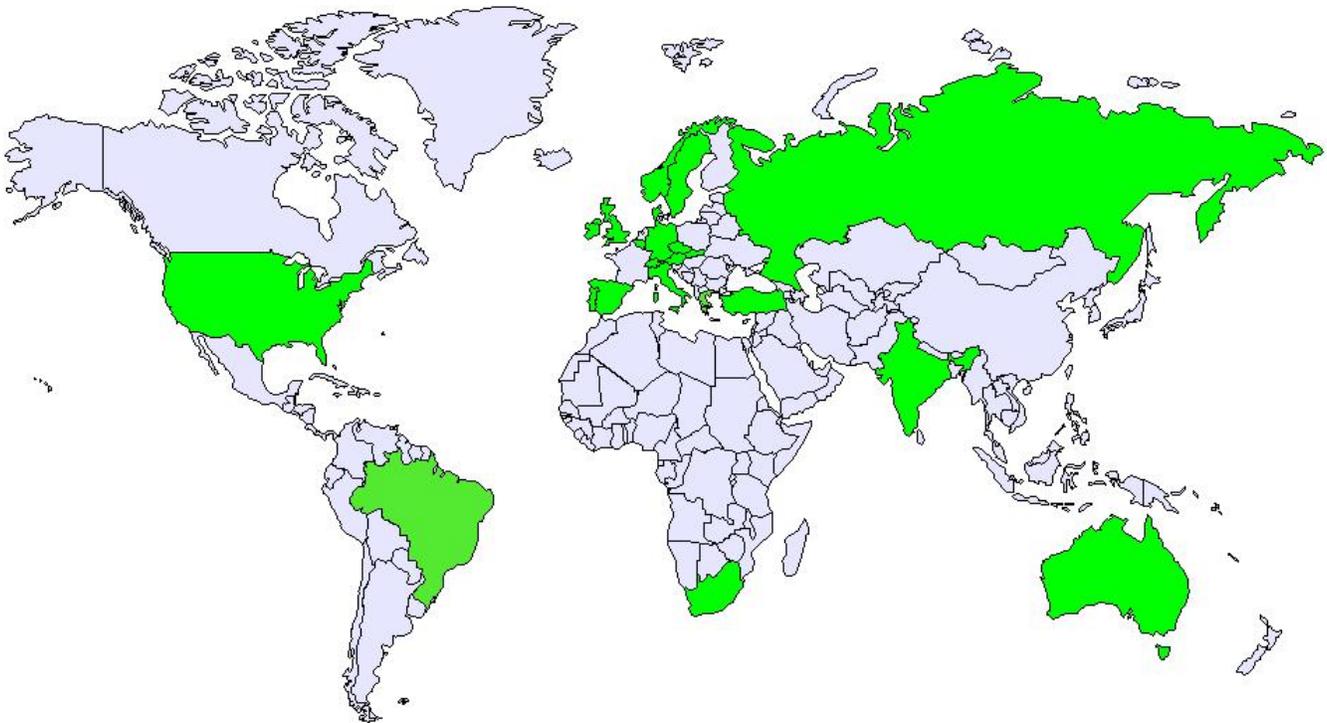
It may have been said many times, but it remains true that the last few years have brought a dramatic increase in “transparency”. Messages from organisations and individuals alike can travel the globe digitally in a matter of moments, impacting on audiences that were previously oblivious to their effect and creating repercussions in ways that were unimaginable only recently. Not only are there no more secrets, but also (and perhaps more importantly) messaging can no longer be tightly controlled.

Advertising and other traditional “push” marketing channels are not equipped to deal with this lack of control and the ensuing dialogues that emerge. Enter public relations, the only discipline accustomed to operating – and thriving – in this type of environment, and thus best positioned to take the lead in communications strategy.

On a practical level, this means that public relations consultants as a collective find themselves undergoing a transition and need to continue to evolve not just in terms of the services they offer but also in terms of how they perform those services. Increasingly the role of the consultant is shifting from “tactician” to that of “advisor”. This is already true in markets with a mature industry and where client expectations are high. For the evolution to continue its geographical spread, however, it is up to consultancies to help clients understand the value of public relations and its importance in setting strategy – regardless of whether they are facing downturns or boom times.

Appendix 1

22 national trade associations contributed data for this report, representing a broad geographic spread and including the largest markets for public relations. All ICCO members, they are shown in green on the map below:



Appendix 2

Country	Trade association	Number of member firms	2008 fee income of members (millions)	Estimated % of total market in revenues
Australia	Public Relations Institute of Australia, Registered Consultancies Group (PRIA / RCG)	175	€ 180 m	35%
Austria	PR Quality Austria	15	€ 33 m	33%
Belgium	Belgian Public Relations Consultants Association (BPRCA)	26	(N/A)	(N/A)
Brazil	Brazilian Association of Communications Agencies (ABRACOM)	306	€ 350 m	35%
Czech Republic	Association of Public Relations Agencies (APRA)	21	(N/A)	(N/A)
Denmark	Danish Association of Public Relations Agencies (BPRV)	32	€ 41 m	80%
Germany	Association of Public Relations Agencies (GPRA)	34	€ 185 m	50%
Greece	Hellenic Association of Communications Agencies (EDEE)	22	€ 45 m	(N/A)
India	Public Relations Consultants Association of India (PRCAI)	21	(N/A)	(N/A)
Ireland	Public Relations Consultants Association (PRCA Ireland)	33	€ 50 m	75%
Italy	Assorel	51	€ 134 m	25%*
Norway	Norwegian Public Relations Consultants Association (NIR)	23	€ 45 m	40%
Portugal	Portuguese Association of Communications and Public Relations Consultancies (APECOM)	31	€ 36 m	65%
Russia	Russian Public Relations Consultancies Association (AKOS)	27	€ 80 m	50%+
Slovakia	Public Relations Association of Slovakia (APRSR)	11	€ 6m	78%
South Africa	Public Relations Institute of Southern Africa, Public Relations Consultants Chapter (PRISA / PRCC)	60	(N/A)	(N/A)
Spain	Association of Public Relations and Communications Consultancies (ADECEC)	31	(N/A)	(N/A)
Sweden	PRECIS Association of Public Relations Consultancies in Sweden (PRECIS)	42	€ 110 m	80%
Switzerland	Association of PR Agencies in Switzerland (BPRA)	16 +5 obs	€ 40 m	73%
Turkey	Communications Consultancy Companies Association (IDA)	15	€ 12 m	50%
UK	Public Relations Consultants Association (PRCA)	144	€ 640 m	70%
US	Council of Public Relations Firms (CPRF)	103	€ 2500 m*	75%

*Includes "in-house" corporate communications departments