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ICCO World Report Spring 2005: **Bright outlook for agencies as world economy recovers**

But expansion will challenge agency bosses to find new solutions to partnership and recruitment issues, finds the Spring 2005 edition of ICCO World Report

London, 4 July:

Agencies worldwide are doing better business than last year and are looking forward to new opportunities in the second half of 2005. There's a widespread upswing in confidence, and some solid evidence that PR is breaking out of its ghetto into a much wider acceptance.

In particular, the European Union has given a terrific boost to the business outlook. But optimism is not confined to ICCO members in the EU: associations from all parts of the globe reported improved conditions.

Countries as different as the United States and India were among 13 of the 19 ICCO regions reporting who said business conditions were improving.

PR's recognition is growing

A second major theme of the Spring 2005 poll is the continuing growth in PR's recognition as an effective marketing tool. Clients are using PR to add further weight or scope to advertisement

campaigns and, sometimes, to replace advertising.

These trends emerge from the ICCO World Report, which twice a year takes intensive soundings on the health of the PR industry among ICCO's global membership. World Report first noted the growing enthusiasm for PR as a marketing tool in the Autumn 2003 edition.

**'Clients are using
PR to add further
weight or scope
to marketing
campaigns'**

We commented again on this firming trend in Autumn 2004, and over the last six months it has gathered further pace. There is a trend towards small-medium enterprises (SMEs) trying PR for the first time, no doubt finding the cost of any advertising campaign a significant barrier to entry.

Unique industry perspective

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.

This report is based on reports from 19 ICCO member organisations in four continents, and consolidates the view of 586 companies employing a total of over 7500 employees.

It is the only survey of the worldwide public relations industry and one of the few industry surveys of any kind that publishes a consolidated value of local country/region markets. As such, ICCO World Report has a unique perspective on an industry in the throes of rapid growth and change.

The barometer of business

The agency PR sector is highly responsive to business at large: while PR is often among the first corporate expenditures to be

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shed when budgets are tightened, by the same token it is quickly restored when the same companies sense an upturn in business.

The more general recovery of the world economy has promoted a widespread feeling of optimism at PR agencies at mid 2005. This confirms our previously expressed view that sentiment within the PR business is an accurate predictor of overall economic health.

PR's linkage with governance

The health of PR is also closely linked to the overall healthy functioning of society: other new adopters of PR mentioned in this survey include non-government organisations (NGOs) and non-profit organisations (NPOs).

Rather than marketing goods or services, these are engaged in building awareness, promoting causes, and influencing opinion. They are increasingly looking to PR professionals to help them achieve this 'dialogue with stakeholders'.

But this is a two-edged sword. To meet the demand for lobbying

and advocacy services, larger agencies are either hiring well-connected former politicians, civil servants and journalists, or acquiring a lobbying capability by forming joint ventures with these influencers.

This drives up salary costs to the point where many small and

'An upsurge in business brings its own challenges of recruitment and retention'

medium agencies cannot compete; it also demotivates career PR practitioners, who see prized consulting roles awarded to those with no track record within the industry proper.

Experience is paramount

Of course, commercial enterprise also has a use for this quasi-political activity: we saw in the last edition how public affairs

and crisis management topped the concerns of agency bosses.

Though not explicitly mentioned as a growth area this time around, managing corporate reputation remains a preoccupation for commercial enterprises as well as not-for-profit organisations.

For major brands, corporate reputation is a key differentiator; managing it effectively, a constant focus. If agencies are to provide them with this high-value consulting work, they simply must be able to draw on the acumen and judgement of experienced practitioners.

Lessons going forward

The generally optimistic economic outlook brings the prospects of more business, with agencies reporting an increasing number of pitches. An upsurge in business brings its own challenges of recruitment and retention.

Worldwide, the PR industry recruits many beginners who are attracted by the variety and challenge of the work. For marketing campaign support, agencies can

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often cover the ground with relatively inexperienced people, if they are effectively managed.

But it takes time to produce experienced practitioners who can both advise clients on strategy and manage the P&L account effectively within the agency.

HR strategies will be key

As we noted in the last World Report, these account director-level individuals are in short supply. Agencies are increasingly having to compete for their services, with pay as top item for discussion. Higher salaries inflate the cost base and agencies will have to build this in to their plans. But money is not the only form of compensation.

High achievers are looking critically at the quality of professional positions on offer. They are negotiating for roles that offer diversity, intellectual and social fulfilment, and longevity – not just good pay for long hours, with the spectre of burn-out in early middle age.

Agencies who want to attract

and keep high-flyers will need to offer better rounded-out packages that comprise ongoing professional development and a sensible work-life balance, as well as a stake in the business that ties their compensation into the agency's performance over time.

'Clients have come out of hiding and are actively scouting for new opportunities'

For established agencies, competing for a shrinking talent pool in the developed economies, human-relations strategies may come to be seen as the outstanding differentiator.

Strategies for growth

A second, related effect noted in the poll this time concerns the challenge of expansion. The general improvement in trading conditions has brought clients

out of hiding and many are now actively scouting for opportunities in new markets. Naturally they are also looking for associated marketing services to support new business drives. The agency sector is set for growth. How will agencies respond?

Plainly, any agency that plans to expand has to increase its headcount. How it does so depends on the nature of the planned expansion. Many smaller agencies tend to prefer an organic, low-risk approach, trying to produce the resources needed for growth from in house. But this can take too long and lead them to miss fast-breaking new opportunities, because they can't deploy the necessary resource quickly enough.

A failure to capitalize on a market that's looking for new services in new markets may in turn render them vulnerable to predators. And, as we have seen, competition for talented individuals is certain to grow. Can they afford to continue with a 'Not invented here' mentality?

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New markets, new partners

Merger, acquisition and partnership offer agencies quick routes to expansion, but throw up varying degrees of risk.

Integration can be problematic, especially if it is across national boundaries. And qualifying PR partners in new markets is not straightforward.

Last time, we observed the wealth of talent available at agencies in the fast-growing markets, mainly in the new EU member countries where education and training is well implanted, but the fee base for marketing services much lower than in 'western' economies.

The easternmost of these economies – Austria and Germany – are especially well placed to capture new business here, and are doing so through a mix of branch offices, joint ventures and affiliation agreements with local agencies.

Established agencies are looking to form relationships with reliable local partners who can help deliver a quality service locally. But they

must qualify new partners diligently.

Though English increasingly prevails for all forms of exchange (or in the markets discussed here, German), language, cultural and business differences can still lead to misunderstandings. When trying to extend their business into new markets, agencies must take care not to compromise hard-won brand values.

It is much easier to assure a good fit when the potential partner is engaged in robust qualification processes such as the Consultancy Management Standard (CMS) and recognized professional training.

The ICCO World Report poll was taken before the EU budget summit and the constitutional referendum in France and Holland.

Politicians in some accession countries fret that some core EU countries are de-committing from the European project. But we doubt that the effect on business will be significant in the short term.

Points to take away

- This edition of World Report reports on PR agency business in 19 ICCO countries/regions in Europe, America, Asia and Africa.
- Respondents answered the same questionnaire during May 2005, and also had the opportunity to give a free-form commentary.
- Sentiment was generally positive about business expansion, with only four of 19 countries expecting growth to be flat, and one, Greece, expecting decline.
- EU expansion is having a positive effect on PR business prospects throughout the Europe region. There is a growing awareness of global cross-border potential.
- PR is responding well to improved economic conditions and is increasingly being used to support brand marketing.
- Expansion will test agency bosses' ability to manage cultural change and plan effectively for growth.
- HR issues remain challenging, with too few really talented agency executives staying the course into their middle years.

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Local market conditions: getting better all the time

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

ICCO World Report findings: first half 2005

A total of 13 ICCO countries/regions reported that their local market for PR services is up in this period. This compares with just six out of 16 reporting in the ICCO World Report for November 2004.

Fee income of German agencies in the GPRA was up by an average of 5%. This is an encouraging result for this relatively undeveloped market, given the downbeat news-flow from Germany.

Neighbouring Austria also reports that the economic climate has improved, but that clients are cautious. In Belgium, business has picked up steadily but remains cyclic and project-driven.

In India, a growing market, a buoyant economy and the prospect of a 'good monsoon' boosting agricultural production all lead to the expectation of higher disposa-

ble incomes. In Ireland, growth remains buoyant, with the number of pitches increasing.

In Turkey, economic growth is boosting the market. In the USA, two-thirds of the Council of PR Firms reported that the first quarter of 2005 was better than the first quarter of 2004.

Four countries reported stability: Italy, where market growth has been sluggish; Russia; Slovenia; and Switzerland.

The Swiss again report that low activity in its key financial sector is inhibiting growth. But this is from a high base: average fee income per employee still far exceeds that of all other countries reporting.

Only Greece reported a downturn in the general assessment of its local market. It continues to suffer from a 'hangover' after the end of the Olympic Games.❖

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Industry market sectors with best growth prospects

Sector	Mentions
IT/telecoms/technology	16; 14; 3
Health	10; 10; 10
Finance	9; -; -
Public sector	6; 9; 9
NGOs	4; -; -
Pharmaceuticals	4; 3; 2
FMCG	3; 6; 2
Transport & tourism	3; 3; -
Retail	3; -; -
Energy and oil industry	2; 4; 1
Environment	2; -; -
Manufacturing/logistics	2; -; -
Motor industry	2; 2; -
Consumer	1; 3; 3
Cosmetics	1; -; -
Education	1; -; -
Food & alcohol	1; 2; 2
Industry	1; -; -
Real estate	1; 2; 1
Science/ R&D	1; 1; 1
Tobacco	1; 1; -

The combined IT, telecommunications and technology sector continues to climb out of its post-Y2K trough. Last time it re-emerged as the principal engine for growth. This time its recovery has picked up pace, with 16 out of 19 ICCO countries/regions mentioning it as one of their best growth prospects.

The public sector has dipped as a growth engine to fourth place behind healthcare and the financial sector. Healthcare dipped in late 2004 but has strengthened again in this latest survey, with 10 ICCO countries/regions saying it is a sector with some of the best growth prospects.

The finance sector, generally an accurate barometer of economic conditions, surged back after over two years of sluggish prospects, with mentions for growth from nine ICCO countries/regions.

These two sectors are replacing the growth previously provided by

the weakening public sector.

It might be inferred that non-government organisations, which four ICCO countries/regions mention as a growth sector, are also poised to take up this slack.

Arguably PR budgets that are transferred out of the public sector into NGOs disappear from public view and can be deployed with greater flexibility. However we have insufficient evidence to assert with any confidence that this is happening.

The pharmaceutical sector is also clawing its way up the growth table with four mentions for growth. This is compared with three mentions from a smaller base of reports in November 2004 and two from a larger base in late 2003.

The growth prospects from the FMCG sector weakened. But the tourism, energy, retail, the environment and manufacturing/logistics sectors all entered as growth sectors for the first time. ♦

(2005 mentions from 19 region reports;
2004 mentions as 2005; late 2003
mentions from 21 reports)

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Industry market sectors with least growth prospects

(no table)

Trends in low growth are not so easy to discern. But one PR sector with few prospects is, paradoxically, IT/telecommunications/technology – nominated for low growth by five ICCO countries/regions.

Elsewhere flying high, the sector is expected to produce least growth by Finland for telecommunications; Greece for IT; Italy for IT; Slovenia for telecommunications; Turkey for technology; and the USA for technology.

There may be particular and disparate factors at work here: for example, Finland is heavily exposed to Nokia, currently in the throes of a major strategy rethink.

The textile sector is second for low growth with four mentions: Greece, India, Slovenia and Turkey. These traditional low-cost labour areas find themselves in turn undercut by the prodigious growth of industry in China. ♦

Lines of business with best growth prospects

Media relations	7; 4
Corporate relations and marketing	7; 7
Crisis management	5; 8
Consultancy/coaching/training	4; 1
Lobbying/public affairs	4; 3
Internal comms	3; 2
Events	2; -
Creativity/innovation	1; -
Political counsel	1; -
Product launch	1; -
Quality systems	1; -
Rol measurement	1; -
Strategy counsel	1; 3

(2005 mentions from 19 region reports; 2004 mentions as 2005)

Media relations has grabbed equal top spot for the line of business with best potential. Seven ICCO countries/regions mentioned it as their line of business with the best growth prospects.

In equal first place was the com-

bined line of business of marketing and corporate relations.

Crisis management, top of agency bosses' preoccupations last time, dropped back from first to third place, with five mentions.

The one is probably the counterpoint of the other, reflecting the return of confidence among clients after the corporate scandals of the dotcom boom fade from the headlines.

Consultancy/coaching/training won four mentions as a line of business with best growth prospects, the same as lobbying/public affairs, both reflecting the growing acceptance of PR as a 'senior skill' with astuteness and persuasion at its core.

Internal communications was mentioned by three ICCO countries/regions as a line of business with the best growth prospects, up from one mention in November 2004.

This accords with evidence from the field that the audiences corporate clients most urgently need to convince are their own people. ♦

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Issues promoting growth: it's the economy again

General economic growth	9
New membership of EU or closely related	6
Better understanding of value of PR	5
Better value of PR vs. advertising 'clutter'	4
NGOs and SMEs turning to PR	4
Heavier use by public sector	2
Use of country as regional HQ	2
Banking growth	1
Impact of CMS 2 (UK)	1

(2005 mentions from 19 region reports;
2004 mentions as 2005)

General economic growth is the largest factor in promoting the higher use of PR among nine ICCO countries/regions. New membership of the European Union, the prospect of new membership, or the proximity to new members raises growth in six ICCO countries/regions.

A better understanding of the value of PR generally is a factor for growth in five ICCO countries/regions. Four ICCO countries/regions report that clients are shifting budgets into PR from advertising because advertising has become cluttered and less effective as a marketing tool.

The rising use of PR among small and medium enterprises (SMEs), non-governmental organisations (NGOs) and non-profit organisations (NPOs) is another factor for growth in four ICCO countries/regions.

A growing general economy is

seen as a key issue assisting growth in: Austria, Finland, India, Ireland, the Middle East, Poland, Russia, Slovenia and Turkey.

The beneficial impact of the EU for members and those close to them is seen as an assistance to growth in: Austria, the Czech Republic, Greece, Poland, Slovenia and Turkey.

The increasing potential impact of PR, compared with advertising, or the use of PR in new sectors which have not used it extensively in the past, is an aid to growth in Belgium among SMEs and NGOs/NPOs; Germany; Greece which asserts PR has become a better alternative to advertising; Italy, where the public sector and SMEs see PR growing in effectiveness; the Middle East; Poland; Portugal as the economy continues to squeeze budgets; Sweden, as advertising becomes less trustworthy; and Turkey. ♦

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Fee income and employees: agency headcount and billing

The average PR agency among ICCO countries/regions which reported their income or employment figures employs 23.4 employees and has an annual fee income of €1.1 million.

This average fee income is reached by Austrian, Czech, Finnish, Irish, and Polish agencies.

The employment average is pulled up by high average employment levels per agency in Germany with 40 employees; India with an estimated 50 per agency; and Russia with an average of 70 per agency.

The highest average fee income is earned in Switzerland with €2.2 million a year from an average employee level of 15. Its agencies also earn the highest fee income per employee: €147,000. The next productive are Austria and Finland with €111,000 per employee.

The average fee income per employee among those ICCO coun-

Country/ region	Average fee income/year € million	Average number of employees	Average fee income per employee/ year €
Austria	€1.0	9	111,000
Sweden	€2.1	20	105,000
Greece	€0.9	-	-
Germany	-	40	-
Italy	€1.9	20	95,000
Switzerland	€2.2	15	147,000
Slovenia	€0.6	16	37,500
Ireland	€1.0	12	83,000
Czech Rep	€1.0	15	66,000
India	€0.8	50 est	16,000
Middle East	€0.625	15	41,700
Poland	€1.1	18	61,000
Russia	€0.5	70	7,200
Turkey	€0.8	23	34,800
Average	€1.1	23.4	47,000

tries/regions reporting fee income and employment levels is €47,000.

The average number of employees is slightly down on November 2004's report when it was 24.7.

The larger employers, Russia at 70 and India at 50, have the same average employment per agency as then. The average employment level in Italy, Slovenia, Austria and Sweden has dropped. It has risen

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Issues constraining growth: as ever, economic conditions

Economic conditions	6; 5
Involvement of a procurement department/ buying on price	4; 3
Budget pressures	3; -
Low/slow public sector	3; -
PR not seen as long-term investment	3; -
Price pressures/ price dumping	3; 6
Recruitment problems/ lack of talent	3; 3
Agency consolidation	2; -

A softening or even downturn-
ing economy is the main factor
constraining growth, men-

tioned by six countries/regions.
Lower PR budgets among clients
are said to be retarding growth in
three ICCO countries/regions.

A weakening economy is a factor
retarding growth in Belgium,
Germany, Greece, Italy, Portugal,
Slovenia and the UK.

The increasing use of procure-
ment/purchasing departments
among clients is a factor retarding
growth in Austria, Germany, Ire-
land and the USA.

Three ICCO countries/regions
see price dumping as an issue. ♦

Local employment conditions

The majority of ICCO coun-
tries/regions reporting on local
employment conditions say
they are stable or slightly down.

Five report that employment
conditions are up. In the UK this
is causing staff churn. In the USA
90% of firms are hiring, especially
at AE, SAE and AS levels. Other
countries reporting an increase in
employment are Finland, Slovenia
and Sweden.

Employment is stable or down
in Austria, Germany, Greece, In-
dia, the Middle East, Portugal,
Russia, Switzerland and Turkey.

Germany and Russia specifically
reported the need for experienced
professionals.

Again, and uniquely, Portugal
says the supply of freshly-gradu-
ated professionals exceeds de-
mand. Perhaps ambitious young
Portuguese looking to kick-start
their PR careers should be heading
north to Germany and Russia? ♦

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 con-
sultancies through their trade associations in 24 coun-
tries, employing a total of more than 25,000 people.

ICCO is the forum to discuss issues facing PR con-
sultancies 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.