

Global PR Agency Management Remain Optimist

But new threats may cause many to rethink their business strategy finds the Autumn 2006 edition of the ICCO World Report



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There is an almost universal belief amongst the management of PR agencies around the world, that prospects will improve for their agencies, but their optimism is tempered by a growing recognition of 'new' threats to their businesses. Most noticeable amongst these 'new' threats is a perceived growing trend by clients to take back in-house those duties previously considered the preserve of agencies.

Other threats that are acting as brakes on their growth include a worldwide lack of experienced staff and market/economic factors such as slowing economies.

But most PR agency management remains bullish. And a new macro-economic business driver has appeared on their radar screen for the first time; a noticeable change in attitude towards the need to communicate (at both an individual and corporate level)

that is fuelling a growing need for PR.

Unique Global Perspective From Fifteen Countries

These are the principal findings to emerge from the Autumn 2006 edition of the ICCO World Report, which includes responses from fifteen countries around the world, from as far afield as Australia and India, to Turkey and the US. The trade associations that took part in the Survey represent over 690 PR agencies, which collectively employ over 12,600 staff.

Healthcare Rules

For those agency leaders working on their 2007 business plans, healthcare continues to be the industry sector which offers the best growth prospects, followed by fi-

nance. And for the first time, the public sector has replaced IT as the next most desirable industry to target. Textiles remain rooted at the bottom of the growth league.

Moving up the Value Chain

Corporate reputation and corporate communications has emerged for the first time as the area of specialisation or 'agency line of business' which offers the best growth prospects, followed by lobbying and public affairs. But third placed media relations continue to be the earnings powerhouse for most agencies.

Interestingly, despite the hype, there are few agency leaders that see much growth potential for green-related issues, and 'environmental' joined

sponsorship at the bottom of the growth prospects table.

Majority of Agencies Remain Independent; for now

The majority of the world's PR agencies remain independent, but with significant regional variances. In Turkey, over 98% of the trade association's members were reported as being independent, whilst in Russia, this has dropped to just twenty-two per cent.

International Assignments will Generate New Revenues

Almost all the countries predicted that the level of fees generated from international projects would increase in 2007, predicted to grow by as much as forty five per cent in Germany. The average predicted increase was a very healthy twenty-five per cent.

Central And Eastern Europe and Asia Dominate Agency Thinking

Central and Eastern Europe and Asia remain key geographic areas of interest for most agency management, and all these regions are tipped to be the 'High Growth' areas for 2007.

Where to locate your Global 'Hub'? Where else but Asia!

For the first time, trade associations were asked which geographic regions would emerge as future global hubs. China, Singapore and Hong Kong emerged as the most popular choices, but admittedly, from a low response rate.

About the ICCO World Report

Each year the ICCO polls its twenty-nine trade association members to get feedback regarding the state of their local markets and to provide market information that will help each other. Each trade association submits a 'Country Report' based on a standard template. All these Country Reports can be downloaded from the ICCO website (www.iccopr.com).

The responses provided by the trade associations on behalf of their members are then compiled into the ICCO World Report which is published each Autumn.

These trade associations each represent independent PR consultancies in their own countries and the ICCO World Report therefore represents a useful barometer on the current opinions and attitudes of the global PR agency community.

This World Report includes data for the first six months of

2006 and predictions for the second two quarters.

Fifteen Trade Associations take part from across the Globe

Fifteen national trade associations took part in the 2006 survey. These trade associations are based around the world, including Central, East and West Europe; Asia (India); the US and, for the first time, Australia. They included:

- Austria
- Australia
- Czech Republic
- Russia
- Germany
- Greece
- India
- Ireland
- Italy
- Spain
- Sweden
- Switzerland
- Turkey
- UK
- USA

Trade Association Membership Up. Agency Staff Numbers Up

The fifteen trade associations that took part in the ICCO 2006 World Report report having between them 690 PR agency members in 2006. IDA (Turkey) recorded the largest growth in membership since last year, signing up thirteen new members, followed by

Russia, which added five new members. A total of seven countries recorded increases in membership, three saw no change and one recorded a drop.

The PRIA (Australia); PRCA (UK) and CPRF (USA) each have the largest memberships, with 150; 130 and 100 agencies respectively, whilst the PRCAI (Ireland) and PR Group Austria have the least number (fifteen members each).

These member PR agencies collectively employ 12,608 staff between them, a 6.95% increase over 2005, when they employed 11,788.

The trade associations whose members employ the greatest number of agency staff comprise the UK (whose member agencies collectively employ approximately 5000 staff);

Russia (1337); Germany (1300); and India (1000).

Russia showed the greatest growth in staff numbers over 2005, employing 417 new staff (a 50.8% expansion); followed by India (150 new staff members).

The average size of PR agency varies widely from country to country, ranging from over 300 in Russia, to just 11 in Austria. Five countries had average staff number in the 11 - 20 range.

Fee Billings Up Too

Several participating countries were unable to estimate the combined gross annual fee billing for their members, due to Sarbanes-Oxley legislation. Of the twelve countries that could, the aggregate billing amount was over €874m.

Of these, the largest markets were the UK (estimated fee billing of €594m); and Italy (€50m). The Czech Republic (€1.17m) and Greece (€1.15m) are the smallest countries in terms of fee billings.

Assessment of Local Conditions? Up in 12 Countries

With the exception of Italy and Switzerland, every participating country saw their members' predicted assessment of local market conditions for 2007 as being up.

Italy and Switzerland saw them both as stable only, whilst no country predicted conditions going down.

Local Employment Conditions - Good Staff Still Hard to Find

Each of the trade associations reported on their local employment conditions, and although a common theme emerged - a consistent lack of good people holding back the agencies - each country reported on slightly different aspects.

Macro Issues Preventing Growth; Find More Bodies

Staff issues continue to be the principal brake that holds

| Predicted Assessment of local market conditions | |
|---|----------------|
| 2007 | Country |
| Up | Austria |
| Up | Czech Republic |
| Up | Germany |
| Up | Greece |
| Up | India |
| Up | Ireland |
| Stable | Italy |
| Up | Russia |
| Up | Spain |
| Up | Sweden |
| Stable | Switzerland |
| Up | Turkey |
| Up | UK |
| Up | USA |

back agencies, mentioned by five trade associations as the main 'macro issue preventing growth'.

Insourcing, that is, transferring work previously done by agencies back to the client side, and the growth of in-house departments has emerged for the first time as a significant check on growth, whilst procurement departments continue to be mentioned by trade associations as a factor inhibiting growth.

Macro Issues Helping Growth; Attitudes Are Changing

Significantly, changing attitudes towards PR were cited by the trade associations as one of the top drivers that are now assisting their member agencies' growth. Amongst the groups mentioned whose attitudes have changed were Generation Y (Australia). Increased spending by SMES; public sector and clients was also driving growth, as were the improving general economic conditions.

Best Industry Sectors with Growth Prospects: Its Healthcare (again)

Healthcare remained the clear favourite as the industry sector offering the best growth opportunities for agencies, followed by finance and the public sector. IT, an

| Country | Reported Employment Condition |
|-------------|---|
| Austria | Shortage of experienced skilled staff; difficult for inexperienced staff to obtain regular employment |
| Australia | Tight labour market; growing demand for high quality candidates |
| Germany | Need for international expertise; need for university PR degrees, more understanding of business processes on client and agency sides |
| Greece | High unemployment rate. In PR sector, there is growing demand for experienced staff that is hard to find. Very good academic standards for newcomers. Low salaries, many working hours compared with other European countries |
| India | Skilled manpower and therefore the need for training is still a problem. Attrition is going up at mid-management level in larger firms. Employees with Management Degree(MBA/BBA) keep moving from an agency job towards a corporate entity. Corporate Communication Managers jobs are found to be more attractive as it entails more money and less pressure than an agency job. Too many choices in a burgeoning market |
| Ireland | Local employment prospects are good, particularly for experienced consultants |
| Italy | Stable but depending on new Italian labour law |
| Russia | Not enough professionals on the market |
| Spain | (Accordingly to 2005 ADECEC Study): 76.4% of employees are university graduates 33.2% men and 66.8% women Top managers: 63.5% men and 36.5% women Average annual salary: €22.522 |
| Switzerland | Comfortable situation for employer, super qualitative and quantitative response on employment advertisements |
| Turkey | Unemployment level is decreasing slightly. We are expecting employment increase in PR sector. We still have difficulties in finding qualified employees. |
| UK | Good. According to the Quarter 2 PRCA Trends Barometer, 59% of consultancies said they would increase the number of full-time employees on their payroll in the next quarter and 48% of consultancies said they would increase their graduate recruitment in the next 3 months. |
| USA | Most firms are hiring especially at the manager/supervisor level |

| Macro issue mentioned as preventing growth | No of times mentioned |
|---|------------------------------|
| Staff issues, including 'recruitment/retention of quality staff'; 'lack of experienced senior agency staff'; 'lack of educated personnel'; insufficient trained manpower'; and 'recruiting AMs & Ads' | 5 |
| Market constraints including 'competitive market'; 'lack of market transparency'; 'undeveloped consultancy market'; 'unethical behaviour'; increased specialisation required'; and 'overservicing' | 4 |
| Insourcing & growth of inhouse departments | 3 |
| Economic factors including 'general slackness of the economy'; lack of foreign investment'; complicated tax structure'; and bureaucracy'; | 2 |
| Budgetary constraints including 'clients' discount shopping mentality'; 'pressure on budgets'; and public sector budget restrictions' | 3 |
| Impact of Procurement Departments | 2 |
| Political uncertainty | 1 |

| Macro issue mentioned as assisting growth | No of times mentioned |
|---|------------------------------|
| Change in attitude including 'Generation Y demands more communications'; 'change in attitude on client side'; 'more understanding/openness for PR; increased awareness & demand for communications; 'improved understanding on the value of reputation'; 'increased need/understanding of value of PR'; | 6 |
| Increased spending, including 'SMEs increasing spend on PR; 'public sector increasing spend'; increasing no of foreign companies require PR support'; 'increasing no of IPOs'; 'clients eager to increase PR in marketing spend'; 'companies increasing use of PR as part of company strategy'; increased demand for corporate/regulatory compliance' | 6 |
| Economic growth | 5 |
| EU expansion including 'expansion in Balkans and Europe' | 4 |
| Changing market including 'PR leading the new media'; 'need for top consultancy'; 'government tackling corruption'; active NGOs' | 3 |

expected favourite was held back by two countries that believed it offered the worst prospects.

Healthcare was the only area where no country mentioned it as a 'worst growth' prospect. The automotive and textile industries represented the least appealing sectors in terms of growth opportunities.

Lines of Agency Business – Best and Worst Growth Prospects

High value corporate reputation and corporate communications support emerged as the 'line of agency business' offering the best growth prospects for PR agencies, with no trade association mentioning it as a 'worst growth prospect'.

Financial and investor relations were marked down as an agency line of business. There is a clear anomaly here as the finance industry sector had been seen as offering the second best growth prospects to agencies.

Marketing communications pushed media relations to one side to claim the second spot. Interesting new lines of business began to emerge as well from the UK and US including social media, and the 'gray pound' (marketing to senior citizens).

| Industry Sector | No. of times mentioned as best growth | No. of times mentioned as worst growth | Balance | Top 5 Rank |
|--|---------------------------------------|--|---------|------------|
| Healthcare and/or pharma | 12 | 0 | 12 | 1st |
| Finance (including retail banking; M&A; banking and insurance) | 10 | 3 | 7 | 2nd |
| IT | 5 | 2 | 3 | 4th |
| Public sector (including state sector and government) | 5 | 0 | 5 | 3rd |
| Telecoms | 3 | 1 | 2 | 5th |
| Media & entertainment | 2 | 0 | 2 | 5th |
| FMCG (including luxury goods) | 2 | 3 | -1 | |
| Retail | 2 | 2 | 0 | |
| Energy | 2 | 0 | 2 | 5th |
| Tourism | 2 | 1 | 1 | |
| Property & construction | 2 | 0 | 2 | 5th |
| Environment | 1 | 0 | 1 | |
| Food & beverage | 1 | 2 | -1 | |
| Manufacturing | 1 | 1 | 0 | |
| Auto | 1 | 3 | -2 | |
| Education | 1 | 0 | 1 | |
| Textiles | 0 | 3 | -3 | |

Independence Remains the Dominant Model

With the exception of the Czech Republic, Greece, and Russia, the majority of the trade associations participating in the 2006 World Report have

a membership comprising PR agencies that are independent, as opposed to being part of an international network.

Turkey has the highest proportion of members who are independent, with 98% independent membership, followed by Switzerland (88%)

| Line of Business | No. of times mentioned as best growth | No. of times mentioned as worst growth | Balance | Rank |
|--|---------------------------------------|--|---------|------|
| Corporate reputation & corporate comms | 7 | 0 | 7 | 1st |
| Lobbying & public affairs | 5 | 3 | 2 | 4th |
| Media relations | 5 | 2 | 3 | 3rd |
| Marketing comms | 5 | 1 | 4 | 2nd |
| Crisis management | 3 | 0 | 3 | 3rd |
| Internal comms | 3 | 2 | 1 | |
| Financial PR & investor relations | 3 | 5 | -2 | |
| Strategic Consultancy | 3 | 0 | 3 | 3rd |
| Event management | 2 | 2 | 0 | |
| Integrated | 2 | 0 | 2 | 4th |
| New media including social media | 2 | 0 | 2 | 4th |
| CSR | 1 | 1 | 0 | |
| Community relations | 1 | 1 | 0 | |
| 'Gray pound' | 1 | 0 | 1 | |
| Personal coaching | 1 | 0 | 1 | |
| Environmental | 0 | 1 | -1 | |
| Sponsorship | 0 | 2 | -2 | |

International Fees on the Increase

The proportion of fees earned from international assignments (as opposed to fees earned from local organisations) varied widely from as little as 5% (Austria) to as high as 50% (Russia). Two other

countries (US and Turkey) reported figures of 40%.

The average percentage for the nine countries which answered the question was 25.3%.

Six countries expected this figure to increase; none re-

ported a decline. Estimates percentage increases varied from 1-2% (India) up to 45% (Germany). Two countries estimated increases of between 10-15% (Turkey) and 15-20% (Russia).

CEE Emerge as Primary Geographic Areas of Interest

Trade Associations were asked which geographic areas they believed their members were most interested in. Central and Eastern Europe; Asia and the Middle East appeared the clear winners.

CEE and Asia Ride High as Predicted 'High Growth Areas'

Trade associations were then asked which geographic regions they believed represented 'high growth' regions. Again, Central and Eastern Europe and Asia dominated.

Where to Site Your Future Global PR Hub?

For the first time, trade associations were asked which geographic regions they believed could become global or regional hubs. Of the six members to respond, China appeared twice as did Hong Kong and Singapore.

| Country | % of members who are independent | % of members part of international network |
|----------------|----------------------------------|--|
| Austria | 75 | 25 |
| Czech Republic | 8 | 15 |
| Germany | 77 | 23 |
| Greece | 41 | 59 |
| India | 75 | 25 |
| Ireland | 60 | 40 |
| Italy | 80 | 20 |
| Russia | 22 | 78 |
| Spain | 75 | 25 |
| Sweden | 67 | 33 |
| Switzerland | 88 | 12 |
| Turkey | 98 | 2 |
| UK | 64 | 36 |
| USA | 84 | 16 |

| Region | No of mentions |
|-----------|----------------|
| China | 2 |
| Singapore | 2 |
| Hong Kong | 2 |
| India | 1 |
| Germany | 1 |
| Latam | 1 |
| London | 1 |
| Dubai | 1 |

Appendices

National trade associations taking part in the 2006 World Report

Country (Trade association)

Austria (PR Group Austria)
Australia (PRIA)
Czech Republic (APRA)
Russia (AKOS)
Germany (GPRA)
Greece (HACA)
India (PRCAI)
Ireland (PRCAI)
Italy (Assorel)
Spain (ADECEC)
Sweden (Precis)
Switzerland (BPRA)
Turkey (IDA/ICCO Turkey)
UK (PRCAI)
USA (CPRF)

| Trade Association | Geographic region of interest to members |
|-------------------|--|
| Austria | German-speaking countries; CEE |
| Germany | Eastern-Europe; China, Emirates |
| Greece | Balkans, Eastern Europe, Cyprus, ME, China |
| Italy | Eastern Europe |
| Russia | Ukraine, Kazakhstan, Europe |
| Spain | LatAm & Europe |
| Switzerland | Germany, Austria, UK, Netherlands, Italy |
| Turkey | Europe, Eastern Europe, EMEA, Eurasia, Bulgaria, US, UK, Germany |
| UK | SE Asia, Eastern Europe, North America |
| USA | Asia |

| Region | No of mentions |
|-----------------------------------|----------------|
| Asia (including SE Asia) | 3 |
| Central and Eastern Europe | 3 |
| ME (Middle East, including Dubai) | 2 |
| Latam (Latin America) | 2 |
| Ukraine | 1 |
| Russia | 1 |
| Austria | 1 |