

A guide to running a business in the Marketing & Communications sector.

The Creative Industries Innovation Centre (CIIC) supports the business of creative enterprise. The CIIC is part of the Australian Government's Enterprise Connect program, and is supported by the University of Technology, Sydney.

This Forensic Report summarises the insights drawn from our interactions with this sector. Overall, the CIIC has worked with more than 800 creative enterprises (2009-12).

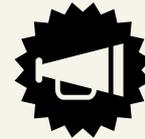
Talking point

By reimagining their business models, can marketing and communications agencies stay relevant in a fragmented and evolving media landscape?

With the rise of digital media, many agencies in Australia have rushed to extend their offering to include digital strategy, social media, web development, market data and other 'non-traditional' services. Agencies that were once reliant on fee-for-service also began exploring alternative revenue models.

For many agencies, the transition from fee-for-service to more scalable revenue streams has been a bumpy one. Core business strategies are constantly challenged as agencies struggle to keep pace with technology and clients' new and varied demands.

As this CIIC Forensic Report reveals, the challenge is to manage this evolution as part of a determined business strategy as opposed to relying on organic, reactionary change. Overcoming deficiencies in sales, leadership and strategic planning is also vital.



Marketing & Comms

\$1.5m

Annual turnover

7%

Profit before interest & tax

9

Employees

10

Years in business

A typical CIIC client in the marketing and communications sector has an annual turnover of \$1.5 million, with profit before interest & tax of 7%. It employs 9 people and has been in business for 10 years.

Pressure points

Challenges specifically impacting marketing and communications agencies:



+ 0.1% p/a

2007 - 2012

+1.4% | \$2.19bn

Growth p/a 2012 - 2017 & forecast revenue

At a time of economic decline and weak consumer spending, over the five years through to 2011-12 industry revenue grew by a meagre 0.1% per annum. IBIS World forecasts that from 2012-2017 the sector will experience only modest growth of 1.4% per annum to reach \$2.19bn.

Lack of formalised business practices

Many agency principals do not devote enough time to strategic planning and goal setting; managing staff; and generating new business. Over-servicing current clients and poor cash-flow are common repercussions.

Media fragmentation

Agencies must continually evolve their service offering as new digital and online channels (notably social media) emerge; and utilise data to demonstrate advertising spend accountability.

Ad hoc reinvention

In an attempt to service the changing media environment, firms often incorporate new or additional services without addressing the impact on the business as a whole.

Economic downturns

Businesses in this sector are exceptionally vulnerable to changes in the economy, with

advertising revenue tracking household consumption expenditure and business confidence indices.

Poor marketing and sales strategy

Many agencies neglect their own brand and marketing, resulting in low sales or a limited client list. Without a defined sales strategy, fear of losing clients is pronounced.

Weak financial management & systems

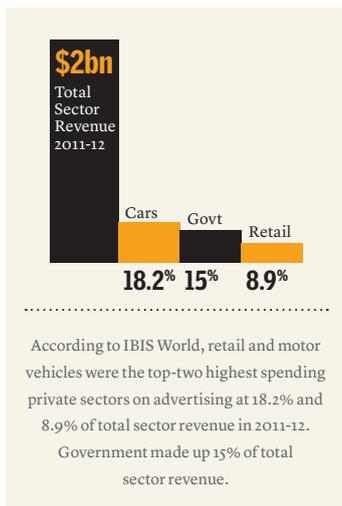
Poor job and profit tracking systems are common, particularly in small and mid-sized agencies.

Skills relevance

At the SME size, agencies are commonly short on staff and specialist skills, leaving many employees feeling stretched as they struggle to keep pace with new technologies and shifting client demands. Morale suffers, resulting in high staff turnover.

Steps towards sustainable growth

The CIIC has identified the following steps to help marketing and communications agencies exploit market opportunities and achieve sustainable growth:



Step 1 Grow your digital services

Exploit digital opportunities in social media, mobile, market data analysis, and interactivity by upskilling or hiring staff with digital expertise. The CIIC uses the Business Model Canvas (developed by Alexander Osterwalder and Professor Yves Pigneur) to help marketing and communications agencies examine their business models in line with technological change.

Step 2 Step away from day-to-day issues

Agency principals must allocate time to managing the business strategically. To increase your agency's efficiency, consider staff restructuring and requisite training; online work management and dashboards; and developing systems to leverage campaign and client data.

Step 3 Weigh up scale v niche

Offering a full suite of services can bring benefits of scale and operational efficiencies. Routes to expansion include forming strategic partnerships with other agencies or specialists, hiring staff with specialist expertise, or merging with another company. Alternatively, an agency may tap into niche markets and benefit from increased margins for specialist expertise.

Step 4 Address business development

Consider employing a manager to formalise business development and implement a consistent sales effort.

Step 5 Don't chase unwinnable work

Systemise the tendering and pitching processes to enable more accurate job quoting, better manage unpaid pitches, and spot unprofitable work or working beyond scope.

Summary

There is a pressing need for marketing and communications agencies to adapt their business models to a fragmented media landscape. Agility is vital, but it must be supported by thorough internal systems and a formalised sales approach.

Success depends on having formal management procedures in place, and focusing on quality assurance, data analysis and financial management.

Agency principals should exploit digital opportunities as part of a well-considered strategy, and balance creativity with the practicalities of running a business.