

AAR AGENCY HOURLY RATES DATA 2016

HEADLINES AND HIGHLIGHTS



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Agency hourly rates data 2016 – headlines and highlights

By Paul Phillips

Advertising agencies buck the market by increasing their charge out rates unlike agencies from other disciplines

Mean rate card rates for advertising agencies have shown a 7% increase since the agency marketplace was last surveyed in 2014/15. Of the sectors surveyed, advertising agencies were

the only sector to increase their rates. Indeed the highest charge out rates for advertising agencies have increased by 17% but this has been tempered by a reduction of 5% at the low end.

Larger agencies (by headcount) have higher rate cards costs

Advertising agencies with over 150 employees have a mean rate card charge 11% higher than the all advertising agency market. The comparable figure for large multi-discipline agencies vs the total multi-discipline market is a premium of 6%.

Multi discipline and PR agencies have reduced their mean overall rate card rates

Unlike advertising agencies, average charge out rates for multi discipline agencies have reduced by 5%, with a marked reduction of 9% at the high end compared to an 11% increase at the low end. The reduction of 13% in mean rate card rates for PR agencies is more significant.

We think this has been driven by the realignment of PR agency rates that benefitted from accelerated growth on the back of the social media explosion and demand by brands for expertise in this space, of which PR agencies were major beneficiaries.

Since then, market forces have brought PR agency rate card rates back in line with 2014 levels.

Eight out of ten agencies charge Overhead Recovery Rates at 100% or less

The majority of agencies are charging ORR at less than 100% with less than one in five charging over 100%. This year is the first time that we have reported on ORR but we note from previous survey data collected that this marks a continued shift away from agencies charging their ORR at over 100%.

Performance related payment schemes don't deliver the additional income they were set up to

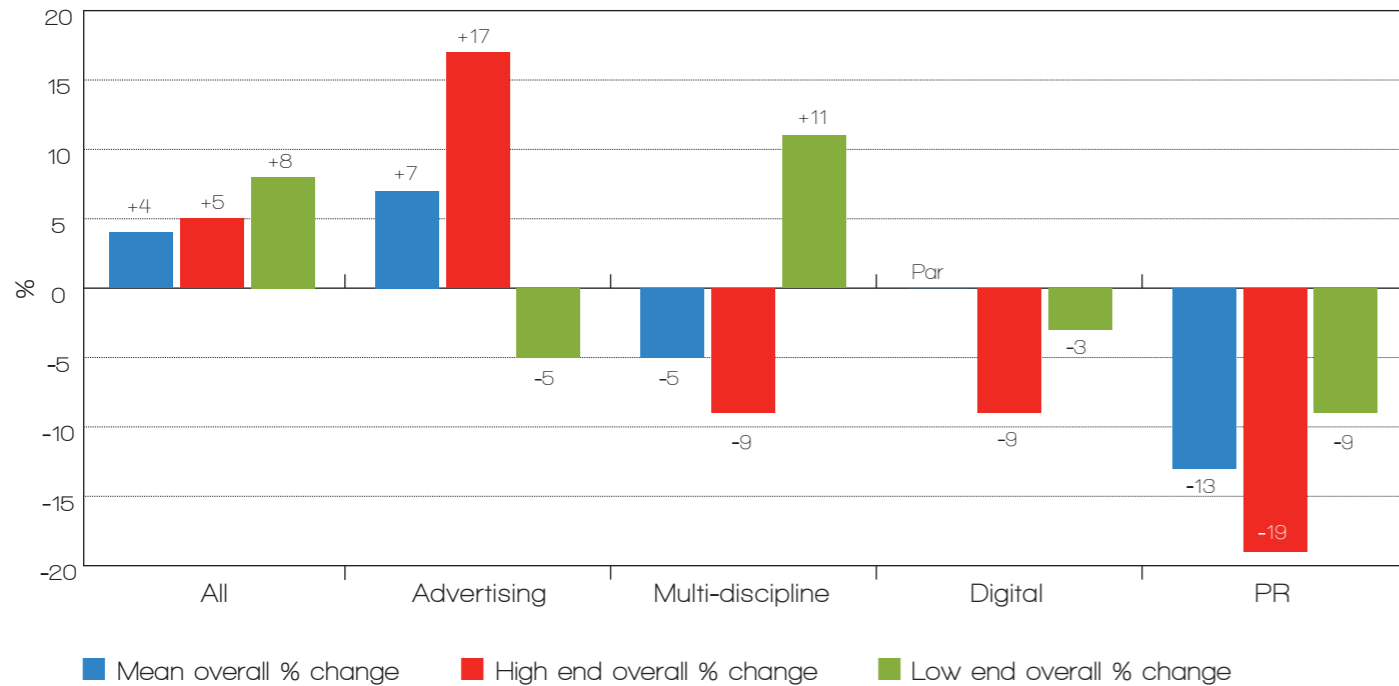
Our research indicates that where a PRP scheme is in place, the scheme only delivers additional revenue in less than 25% of cases and often not at all. We have observed that, over time, agencies have been forgoing margin in order to retain current business or secure new business and using the PRP scheme to get back to somewhere close to profitability and a meaningful margin.

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Benchmarking data 2016 v 2014 observations

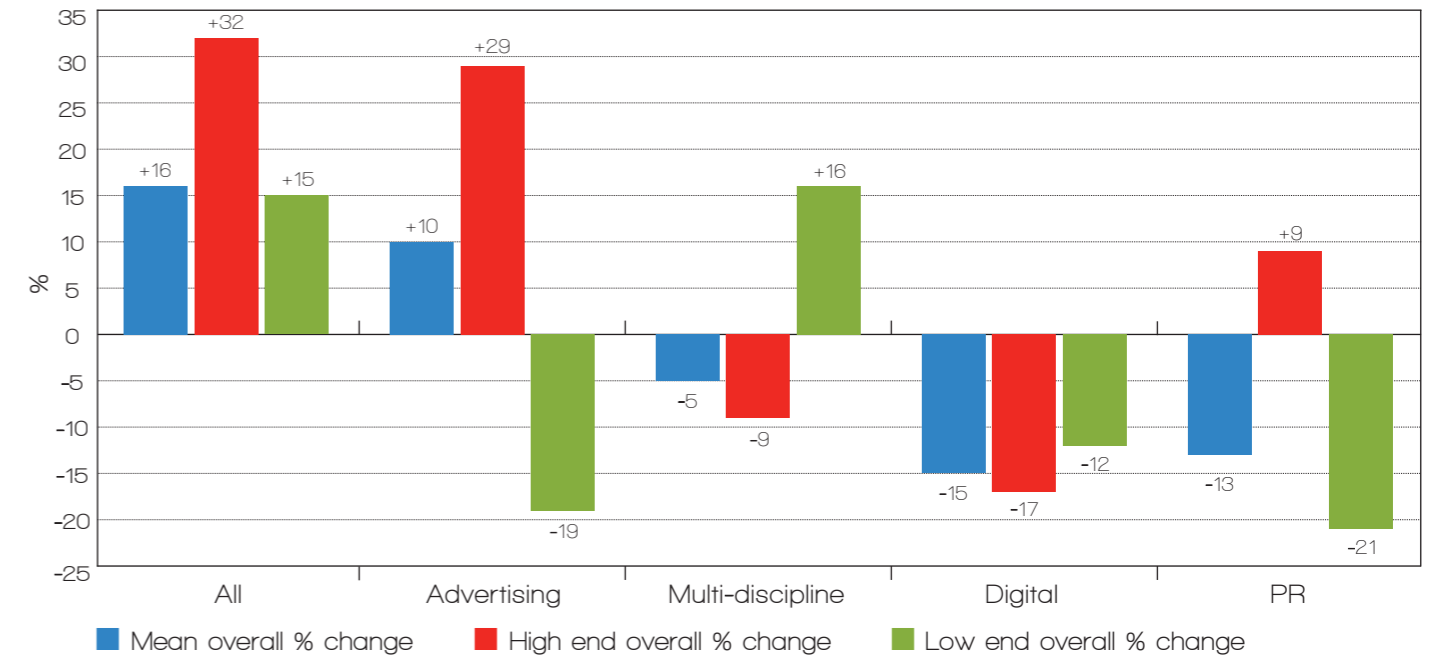
OVERALL SUMMARY – ALL AGENCIES, ALL DISCIPLINES



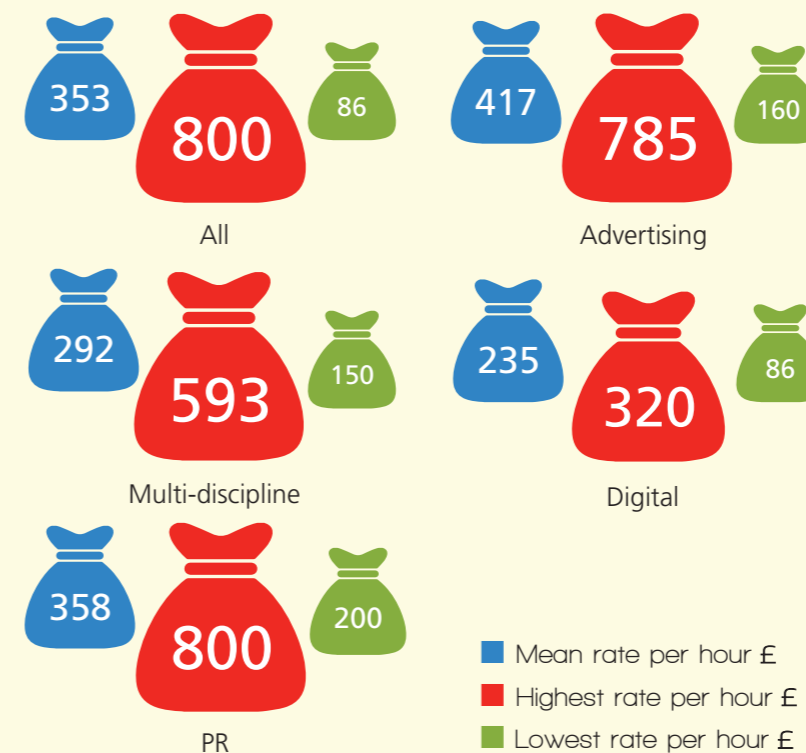
- Mean rate-card rates have increased by 4% since 2014 as agencies try to claw back some value and margin. But there are details in the figures that show the differences between different agency types.
- There's a clear distinction between the overall positive increases in hourly rates for advertising agencies and the general decrease in rates for those of other disciplines.
- Overall, only advertising agencies have increased their high end rates (+17% 2016 v 2014). This has been balanced by a reduction in advertising agency rates at the low end of the spectrum (-5%).
- The net overall impact is a 7% marginal increase in mean hourly rates for advertising agencies.
- By comparison all other disciplines have shown between single and double digit reductions in their agency rate-card rates, ranging from -5% to -13%.
- For multi-disciplined and digital agencies, this continues the downward pressure on hourly rates highlighted the last time this survey was undertaken in 2014.
- However for PR agencies, the mean drop of 13% brings hourly rates back to below 2014 levels. We interpret this movement to be driven by the realignment of PR agency rates following their accelerated growth on the back of the social media explosion, of which these agencies were a major beneficiary.
- Despite only advertising agencies showing an increase, the higher day rates charged by advertising agencies compared to those of other disciplines has driven the overall increase in mean rates by 4%.

2016 v 2014 Service department % variance and example hourly rate

ALL AGENCY PRINCIPALS AND SENIOR MANAGEMENT

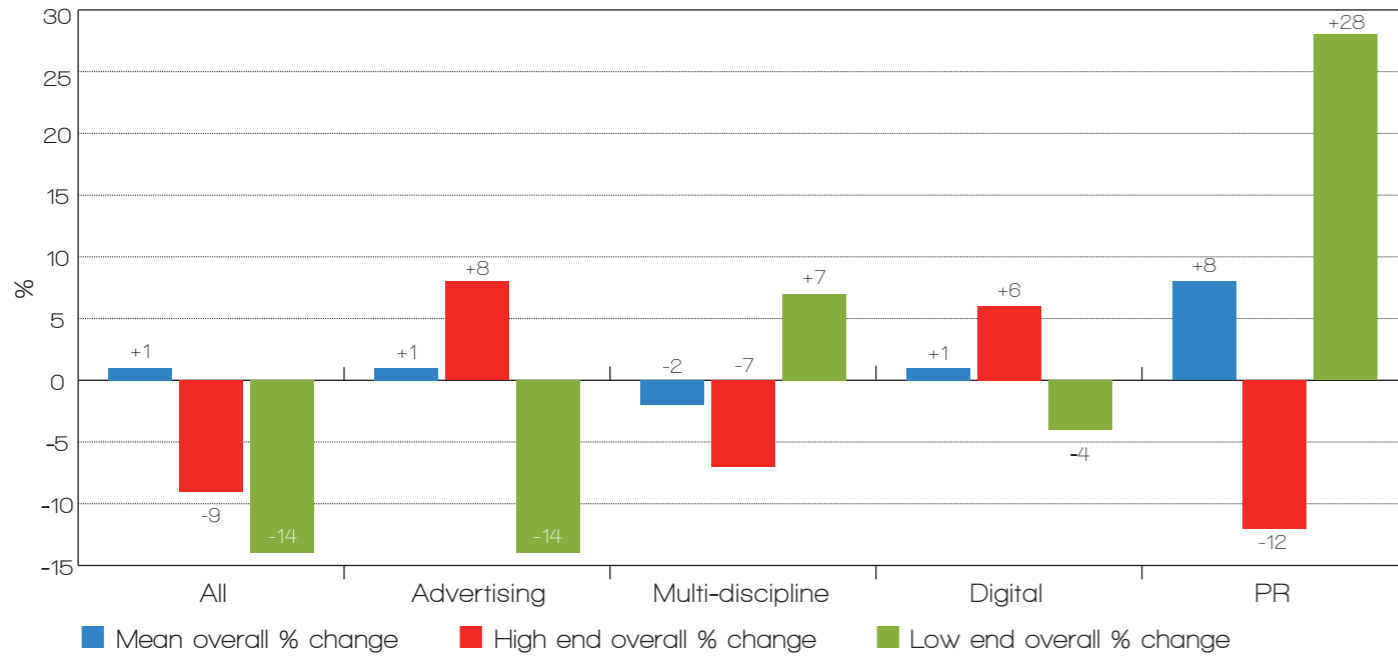


CEO 2016 HOURLY RATES

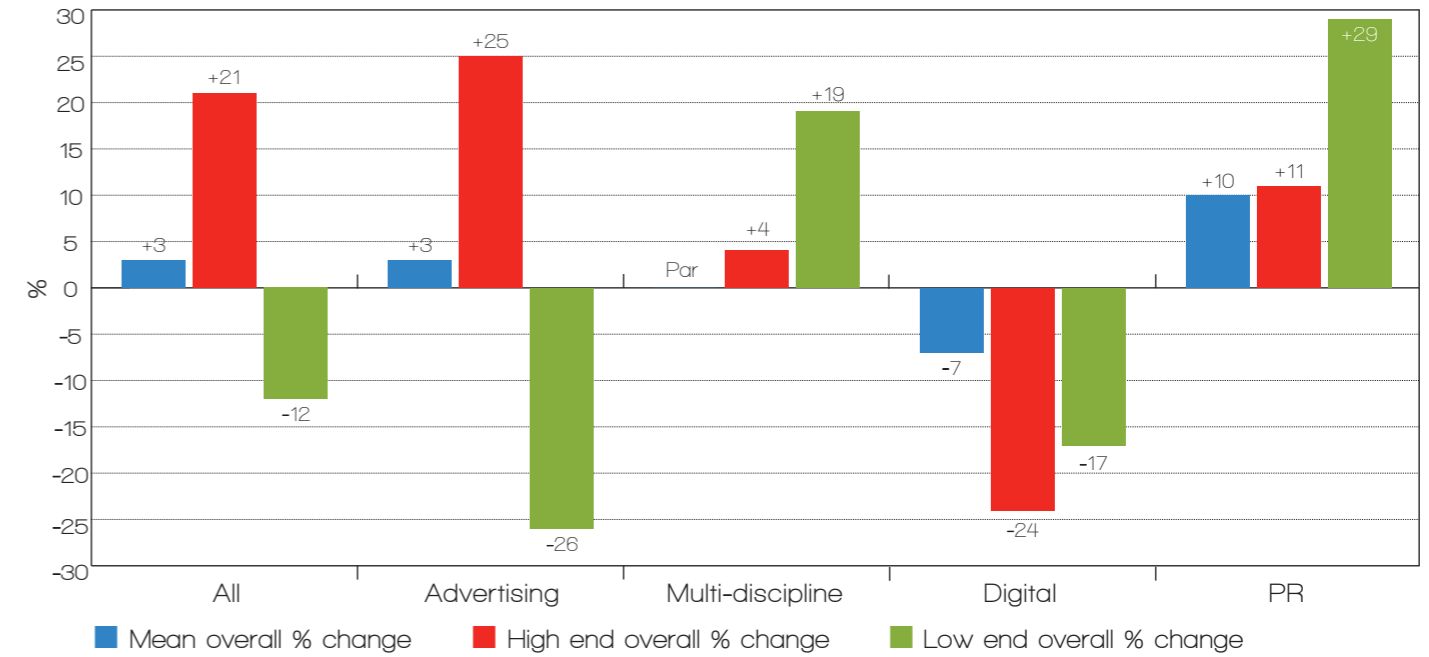


- A key take out from the survey is that advertising agencies are looking to realise the full value of their most senior talent, hence increases in hourly rates for principals and senior management.
- As the advertising agencies charge out their senior management at significantly more than all other disciplines, this has an impact on the All Agency changes, that show a positive increase despite the fact that most of their mean, high end and low end rates have shown a decrease when compared to the 2014 survey.
- However it's worth noting that advertising agencies will often waive their charges for senior management (recouping the cost though their overhead recovery rate), at least in the first year of a new working relationship.
- The decline in principal and senior charge out rates amongst the other disciplines suggests the pressure on margins and requirement to be cost competitive remains undiminished.

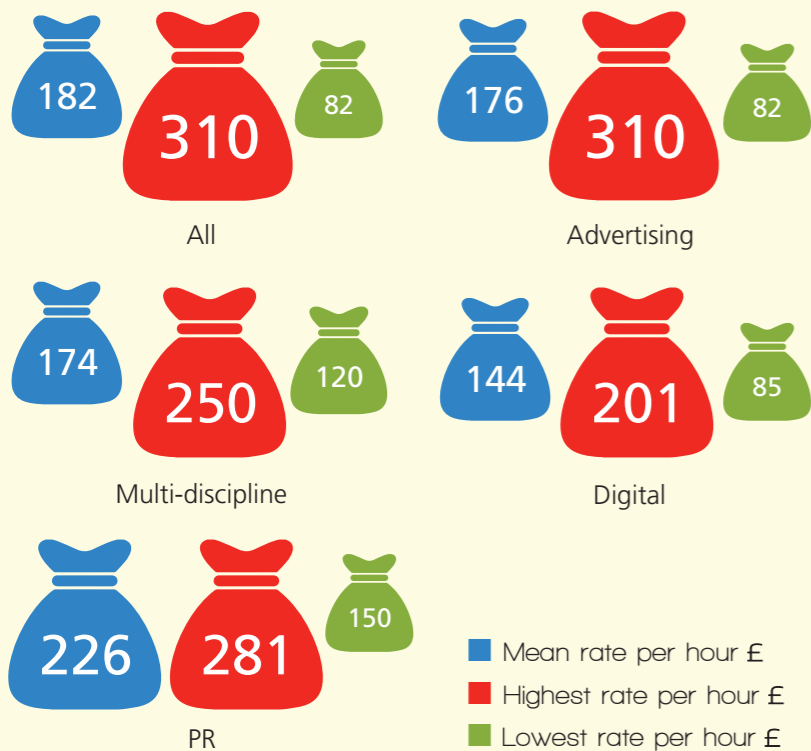
ALL BOARD LEVEL CLIENT SERVICE AND ACCOUNT HANDLING



ALL CREATIVE TALENT

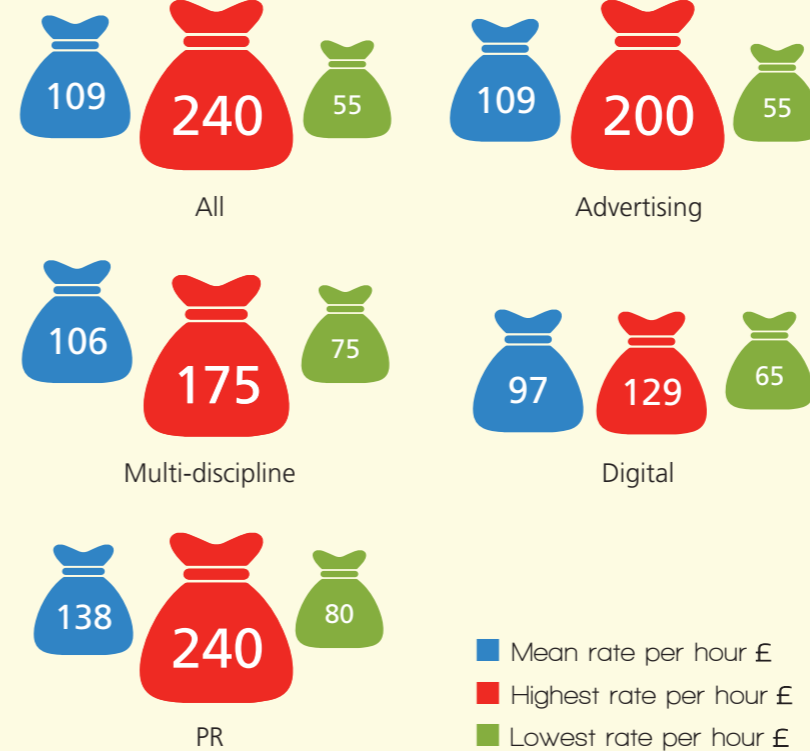


BOARD LEVEL CLIENT SERVICE AND ACCOUNT HANDLING 2016 HOURLY RATES



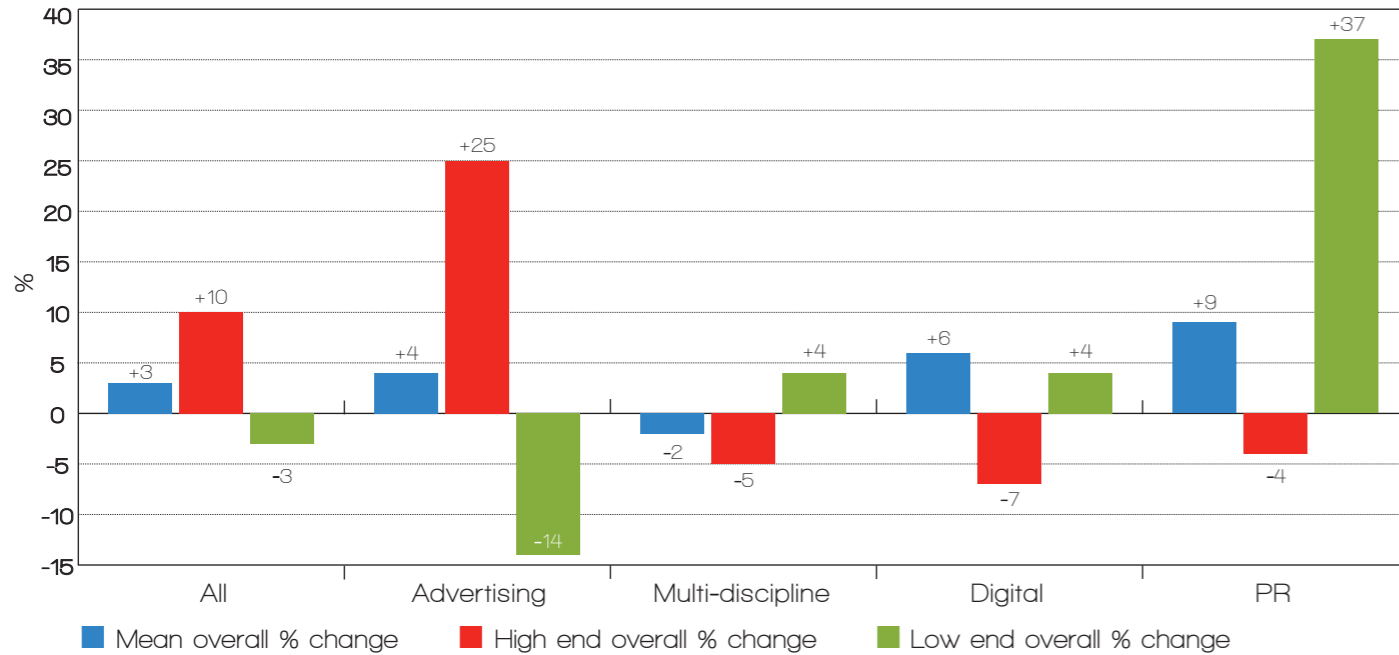
- At the all industry level there were negligible changes to what all agencies are charging for board level client service and account handling, with a mean increase of just 1%.
- When comparing all the disciplines PR agencies charge the highest mean hourly rate for board level client service and account handling, but the PR sector has reduced its highest rates by -12% and balanced this with an increase in its lowest rates by +28%.

MID-RANGE CREATIVE TALENT 2016 HOURLY RATES

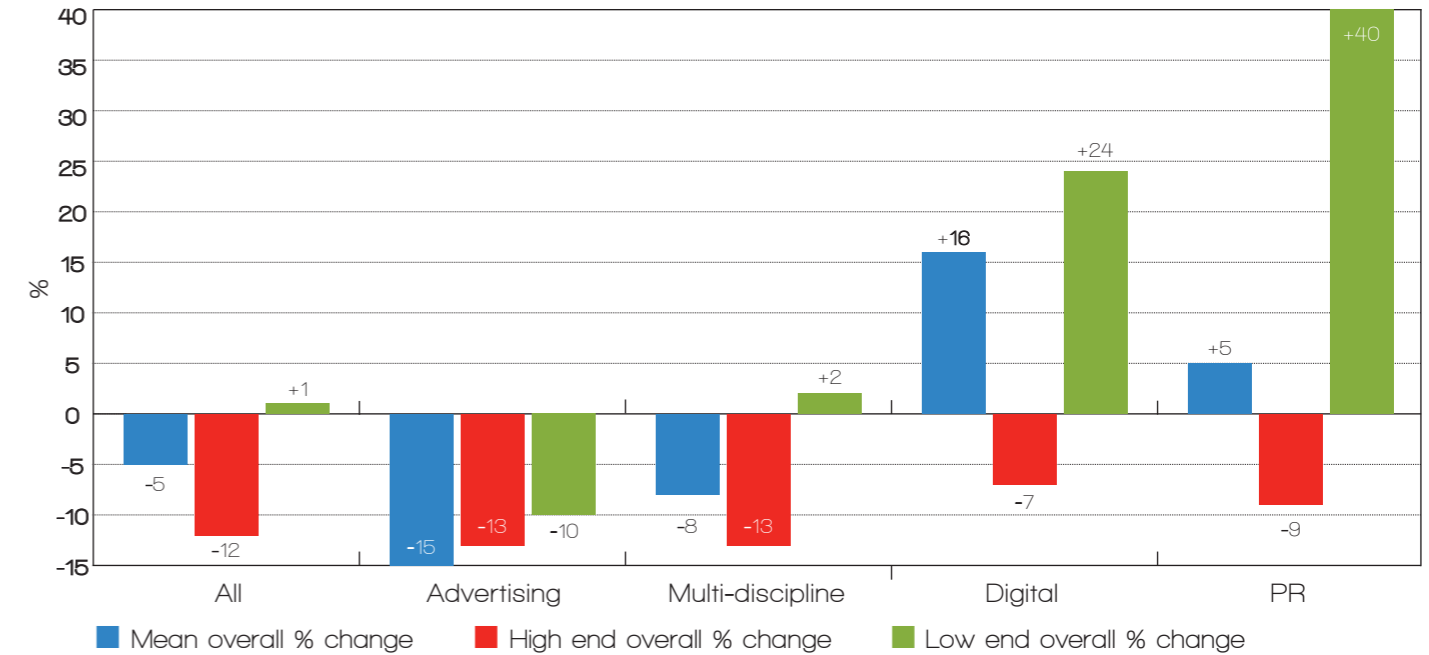


- Comparisons between all agency changes in creative talent reveals a mixed bag. Mean rates for advertising and PR agencies are up by 3% and 10% respectively, whereas digital agencies have reduced their mean rates for creative talent by 7%.
- At the top end, advertising agencies show a 25% increase in hourly rates charged, but this is counter-balanced by a similar reduction, -26% at the low end.
- Hourly rates for creative talent in PR and multi-discipline agencies have increased across the spectrum.
- It's only digital agencies that have shown a universal reduction in creative talent hourly rates charged since our last survey in 2014.

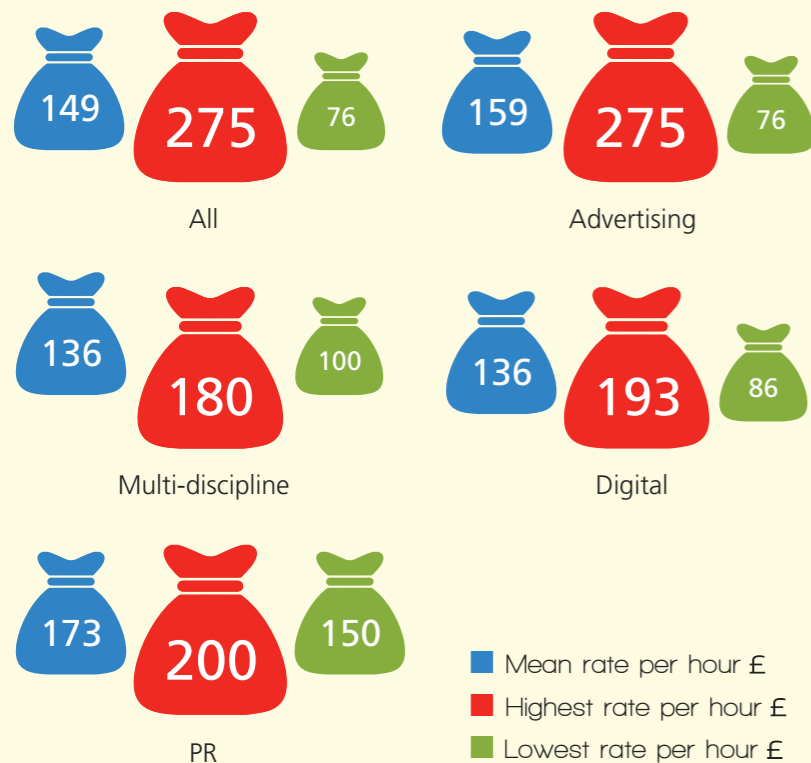
PLANNING



CONTENT

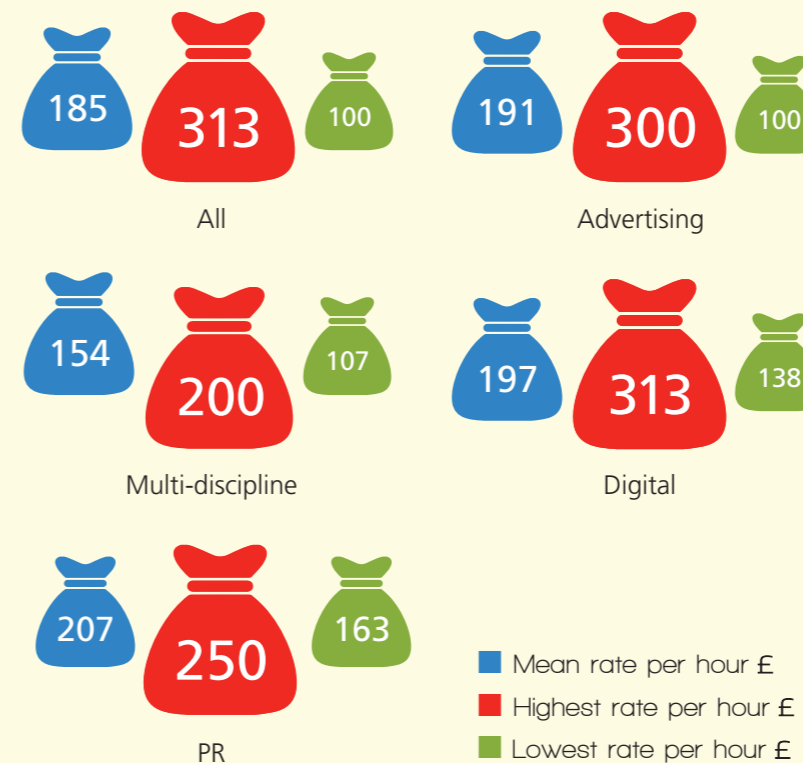


SENIOR PLANNING TALENT 2016 HOURLY RATES



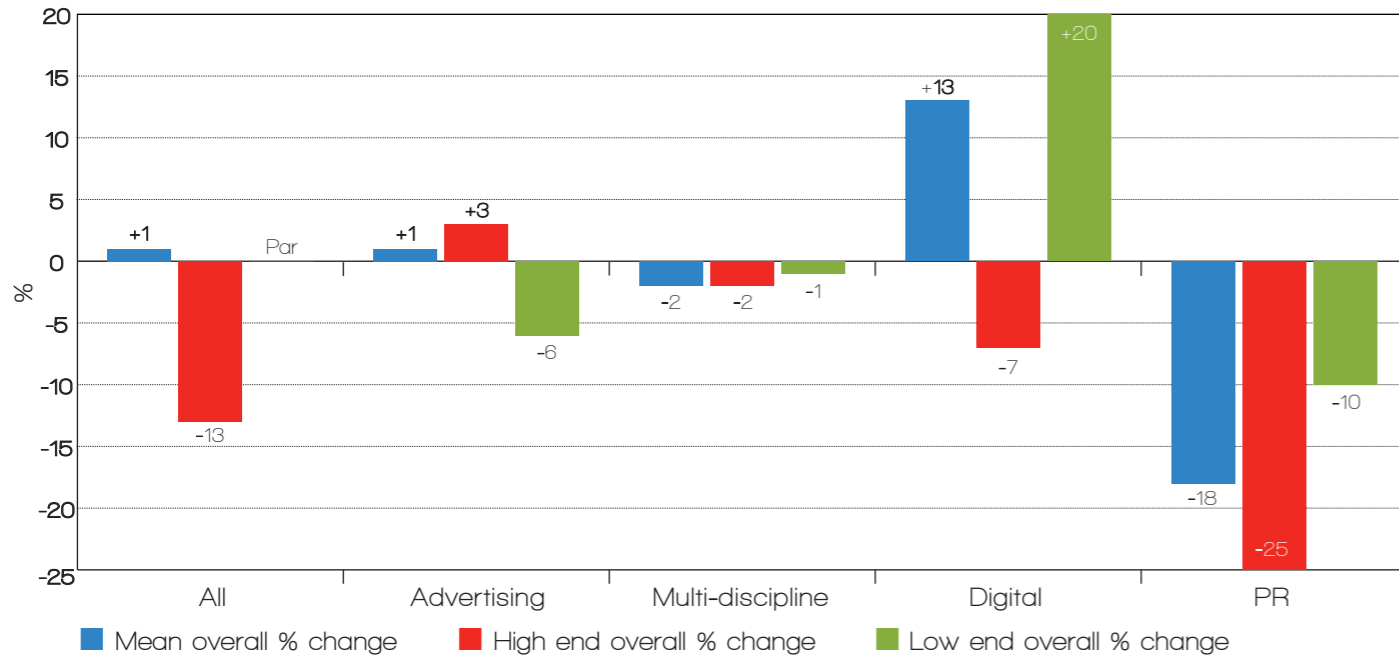
- Planning and strategy are areas of expertise that brand owners value highly, a fact recognised by agencies. This is reflected in the overall mean increase in hourly rates charged across all but one of the agency disciplines measured.
- Advertising agencies have been more bullish with a 25% increase at the top end, which is counter-balanced by a 14% reduction for charge out rates at the low end.
- With reductions in the mean and top end charges, the multi-discipline agencies appear to have slightly recalibrated their planning charge-out rates downwards, no doubt to meet the ever present challenge of delivering greater efficiencies.

HEAD OF CONTENT DEPARTMENT 2016 HOURLY RATES

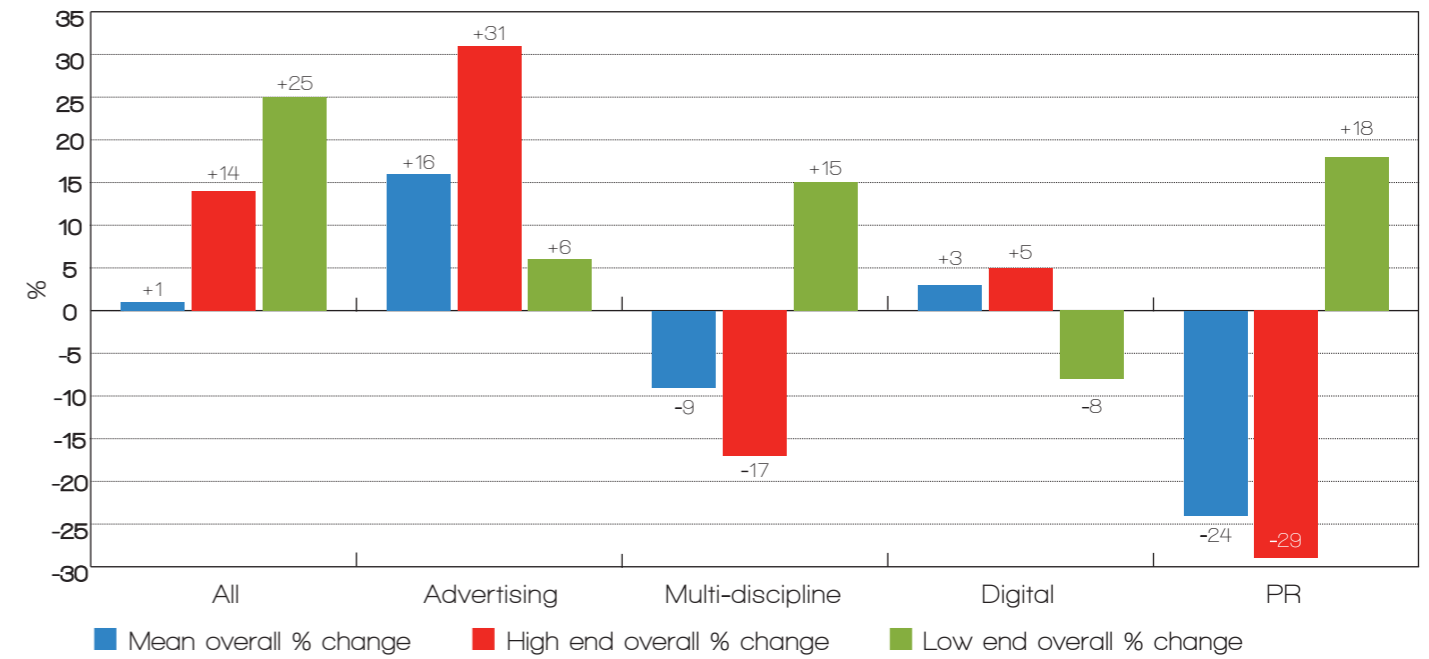


- As content has become an area of significant focus and increased investment for brands, so agency rates have, in general, become more competitive and cost-effective.
- A notable change is amongst advertising agencies where there was an across the board reduction in their rates for content, undoubtedly driven by competition from other sectors for these budgets, as well as the overall demand by brands for greater cost efficiencies. ▶

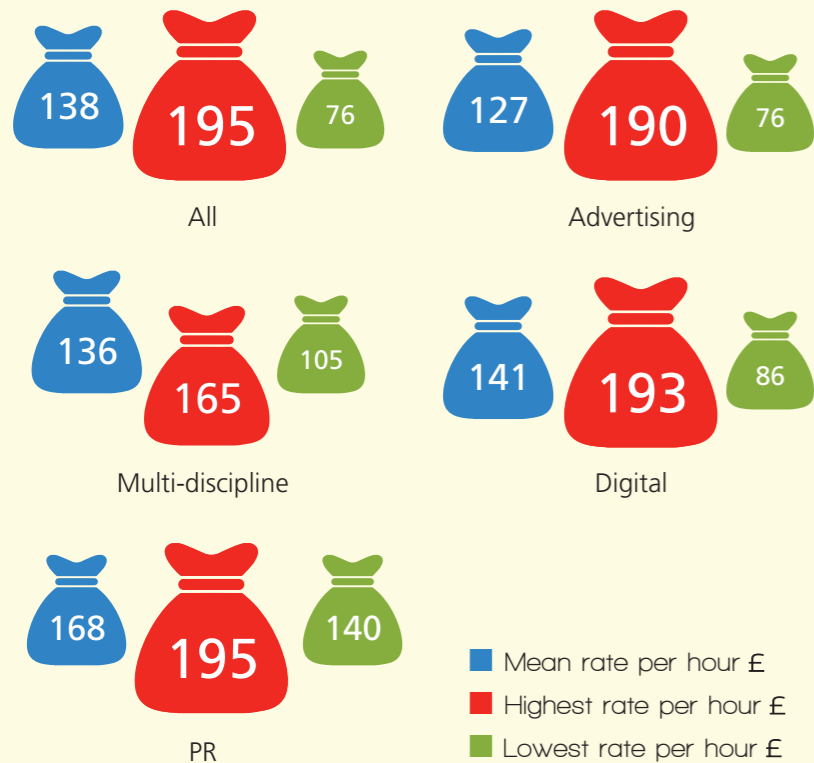
DATA SERVICES, BUSINESS ANALYTICS AND ECONOMETRICS



PRODUCTION AND CREATIVE SERVICES: TRAFFIC AND PROJECT MANAGEMENT

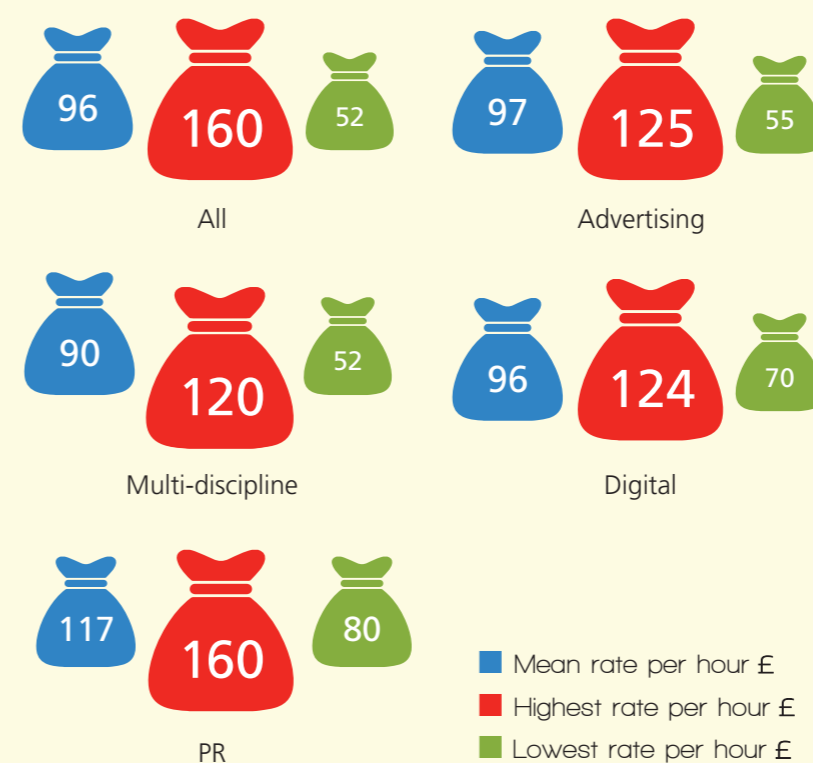


SENIOR DATA SERVICES, BUSINESS ANALYTICS AND ECONOMETRICS 2016 HOURLY RATES



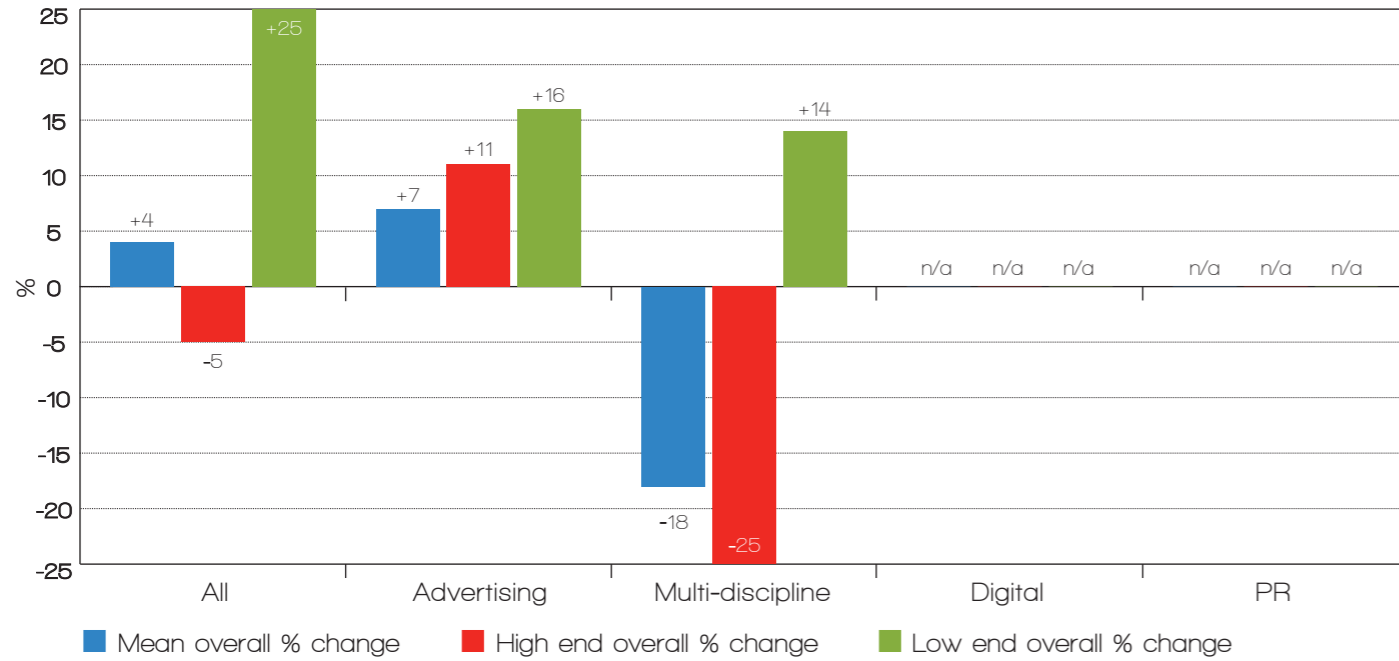
- Notable movement in this category is the reduction in hourly rates across the board for PR agencies. We put this down to the category looking to redress their charges for these services that, in 2014, were significantly greater than the market average.
- The example rates shown for senior talent indicates that different agency types are now relatively closely aligned to each other.

MID-LEVEL TRAFFIC AND PROJECT MANAGEMENT 2016 HOURLY RATES

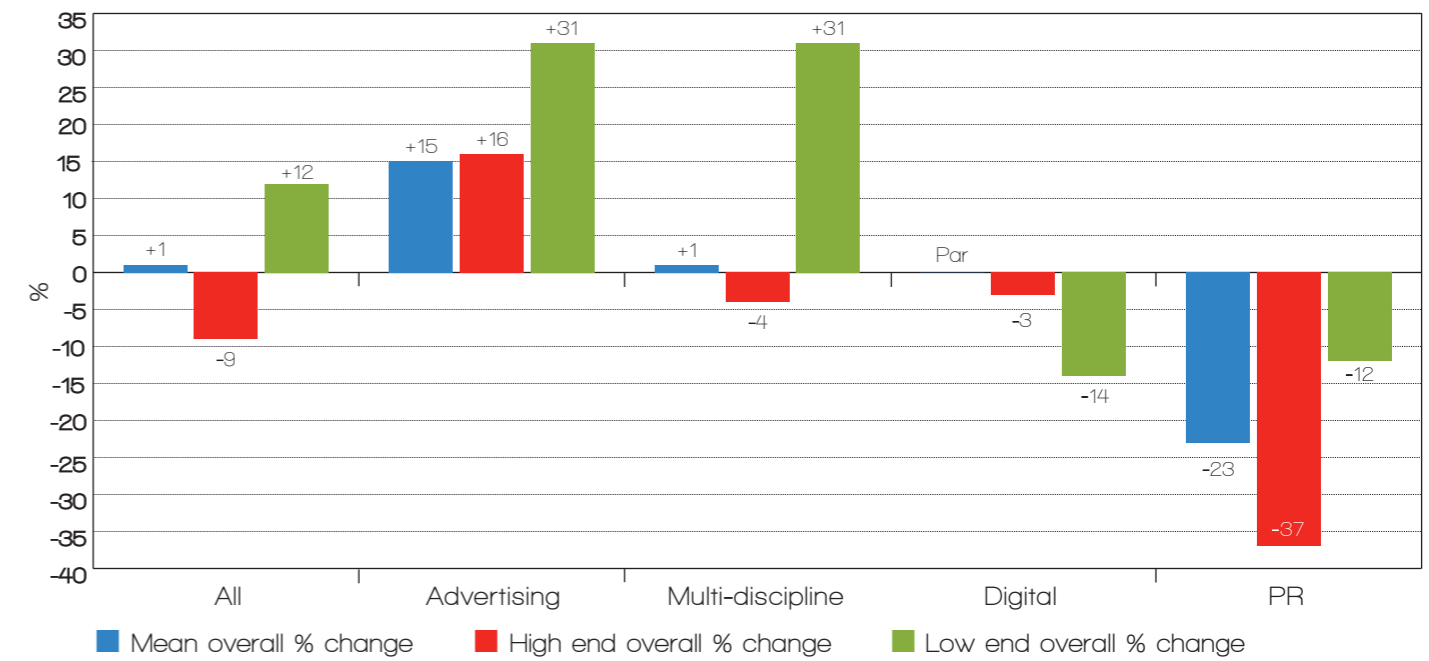


- A mixed picture for Traffic and Project Management with advertising agencies showing significant increases across the board, in contrast to multi-discipline and PR agencies both of which have reduced their mean and high end charges significantly.
- When looking at the actual rates for mid-level Traffic and Project Management, rates for advertising, multi-discipline and digital agencies are all closely aligned. The notable exception is PR agencies that have noticeably higher charge out rates.

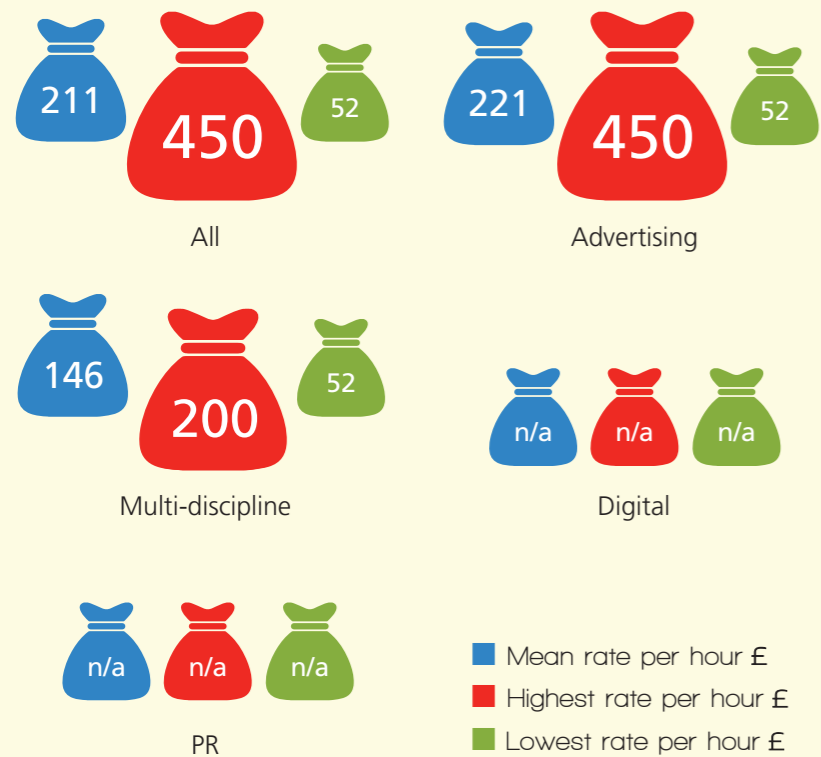
PRODUCTION AND CREATIVE SERVICES: TV



TECHNOLOGY FRONT END

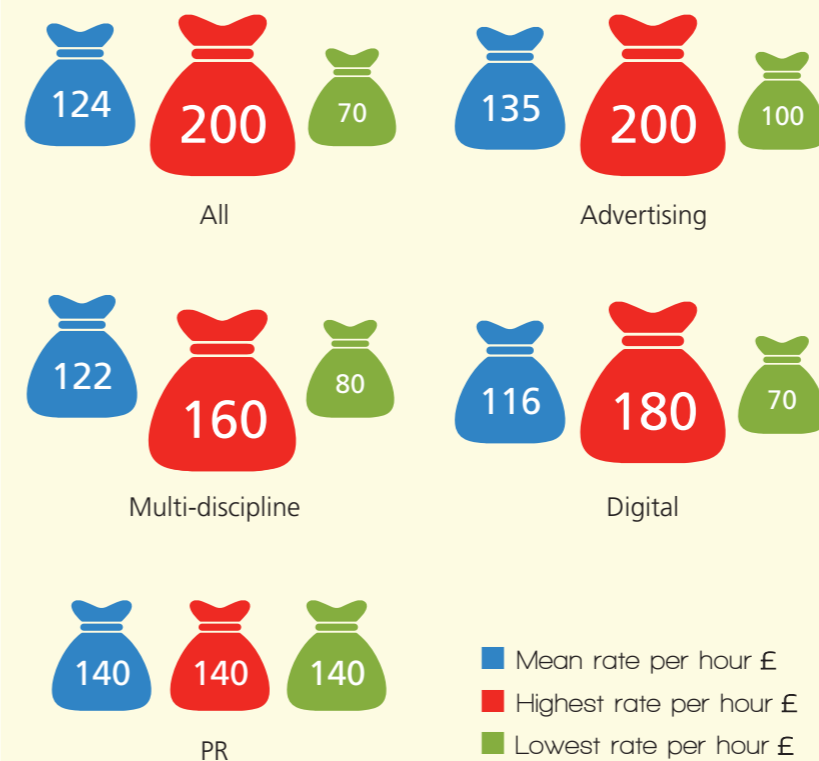


HEAD OF TV DEPARTMENT 2016 HOURLY RATES



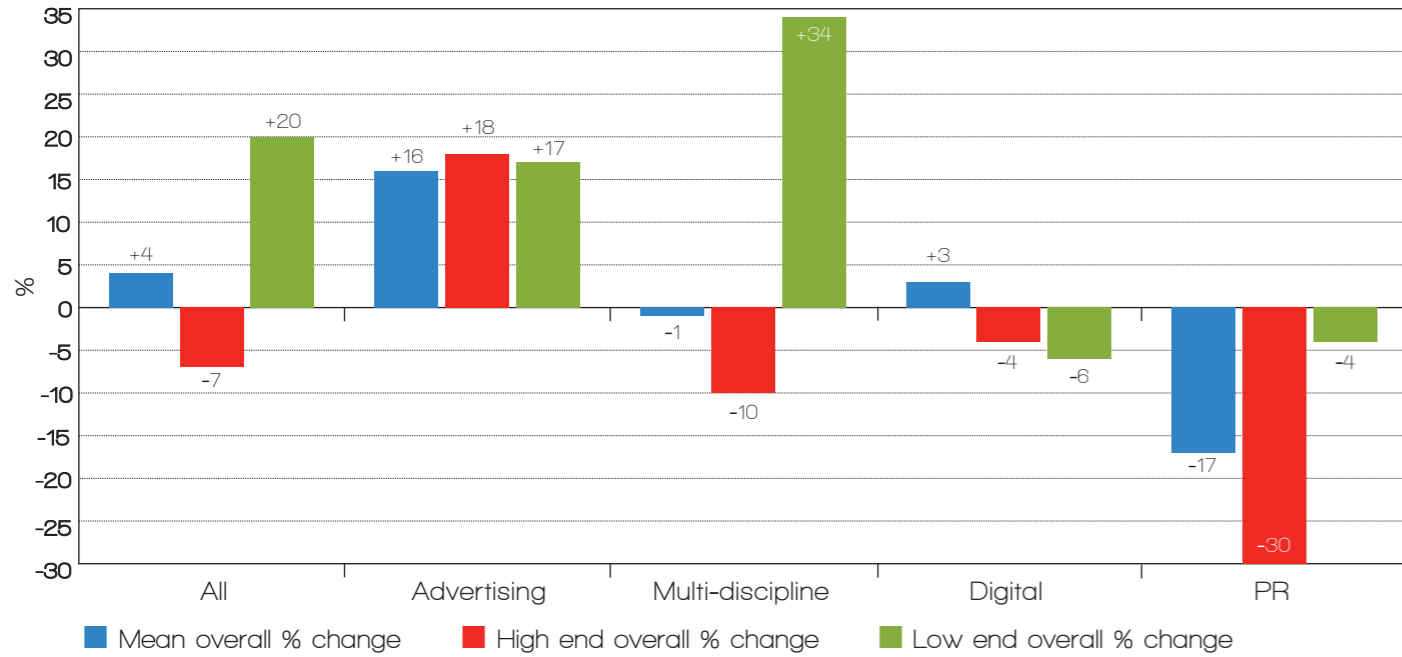
- In house TV production remains the domain of advertising and multi-discipline agencies (insufficient information was recorded from Digital and PR agencies).
- This specialist expertise commands close to the highest hourly rates charged by agencies across all service departments.
- Advertising agencies have increased their rates across the board whereas multi discipline agencies have reduced their mean (-18%) and high-end rates (-25%), the only evidence of an increase is at the low end (+14%).

SENIOR FRONT END TECHNOLOGY 2016 HOURLY RATES

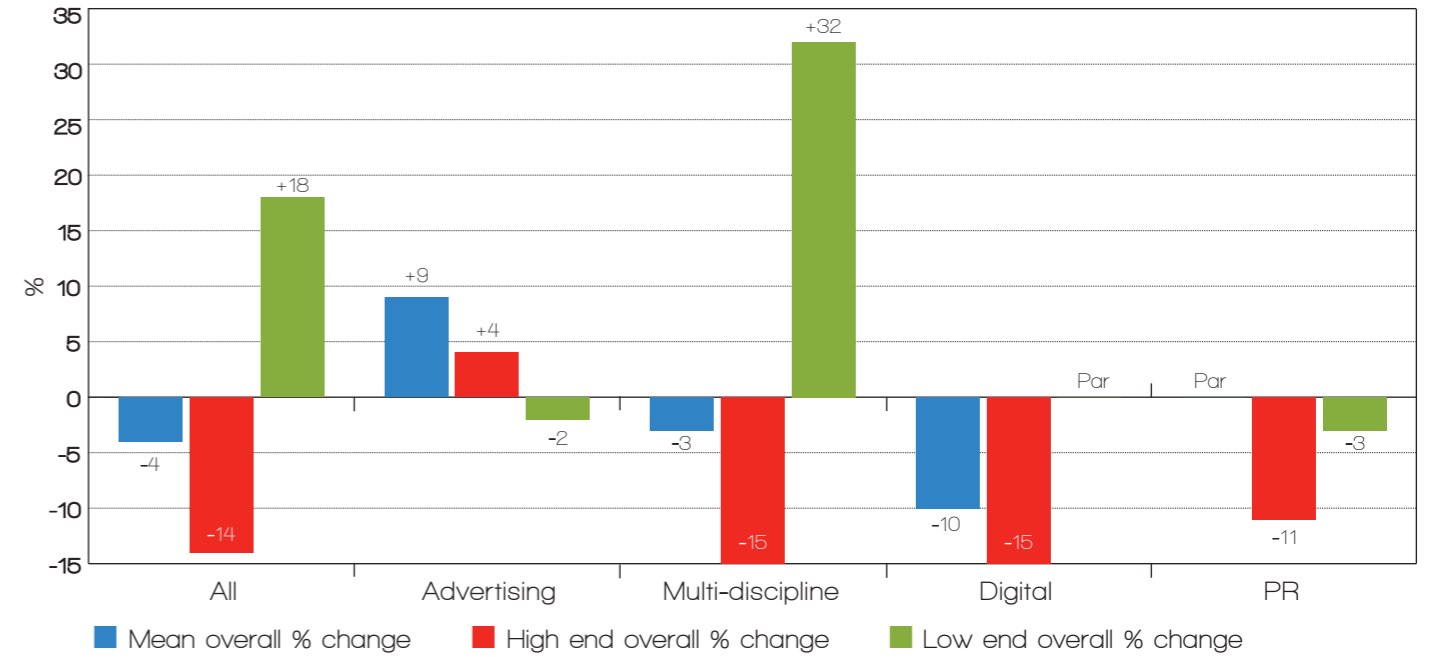


- Advertising agencies have increased their charge-out rates for Front End Technologists whereas by comparison PR agencies have significantly reduced theirs, perhaps reflecting that this is not a core agency skill.
- It also worth noting that advertising agencies charge the highest hourly rates for a senior front end technologist which may be due to this sector's overall higher cost base.

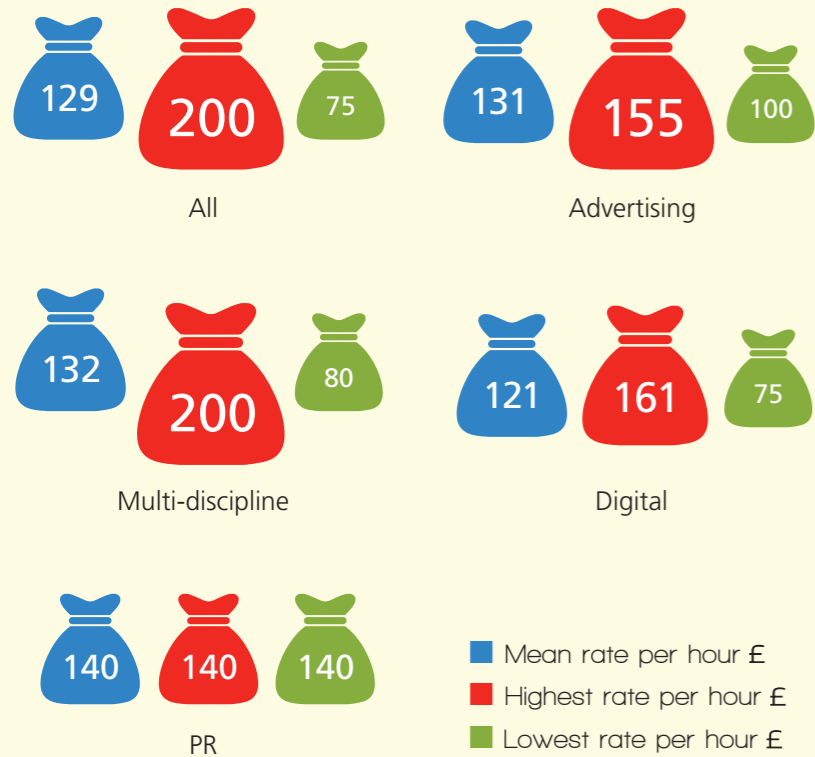
TECHNOLOGY INFORMATION ARCHITECTURE



SOCIAL MEDIA COMMUNITY MANAGEMENT AND MODERATION

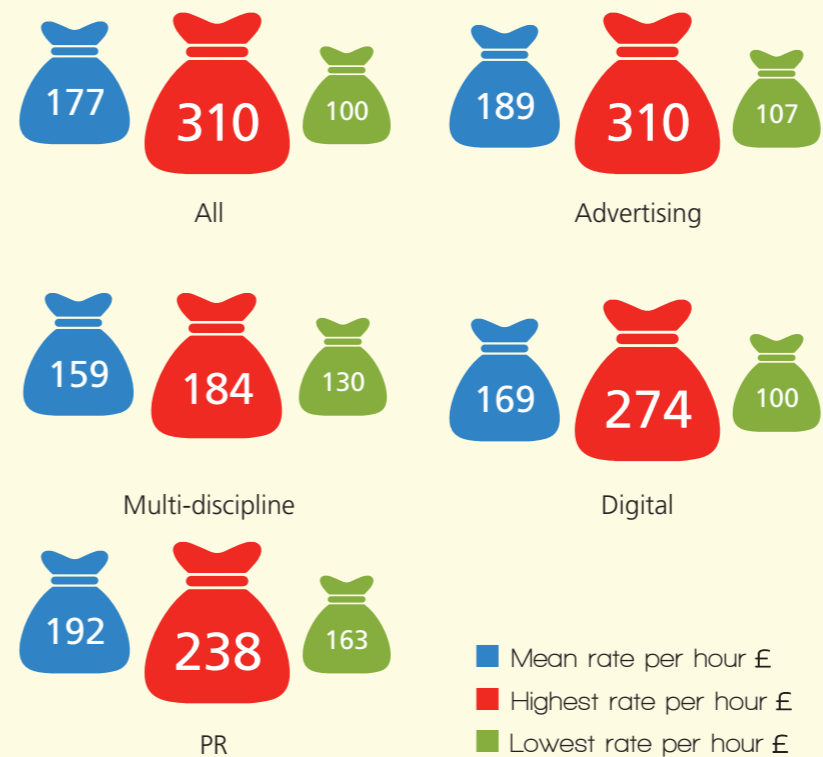


SENIOR INFORMATION ARCHITECTURE 2016 HOURLY RATES



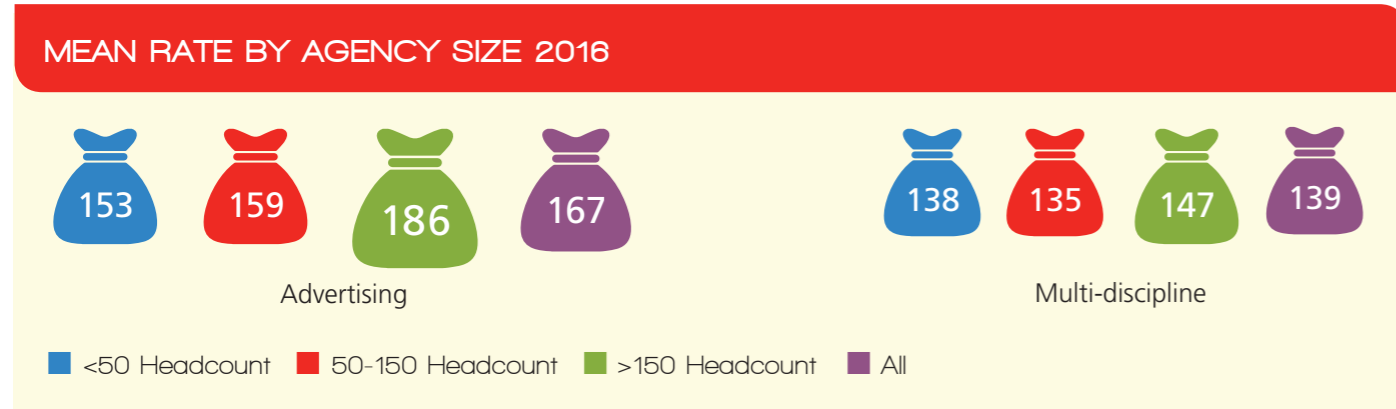
- The overall message is that agencies are charging more for their IA technology talent compared to when the survey was last undertaken two years ago. The exception being PR agencies, which, as with other services and disciplines have reduced their hourly rates.
- Across the different agency types, mean rates are broadly similar.

HEAD OF DEPARTMENT SOCIAL MEDIA COMMUNITY MANAGEMENT AND MODERATION 2016 HOURLY RATES

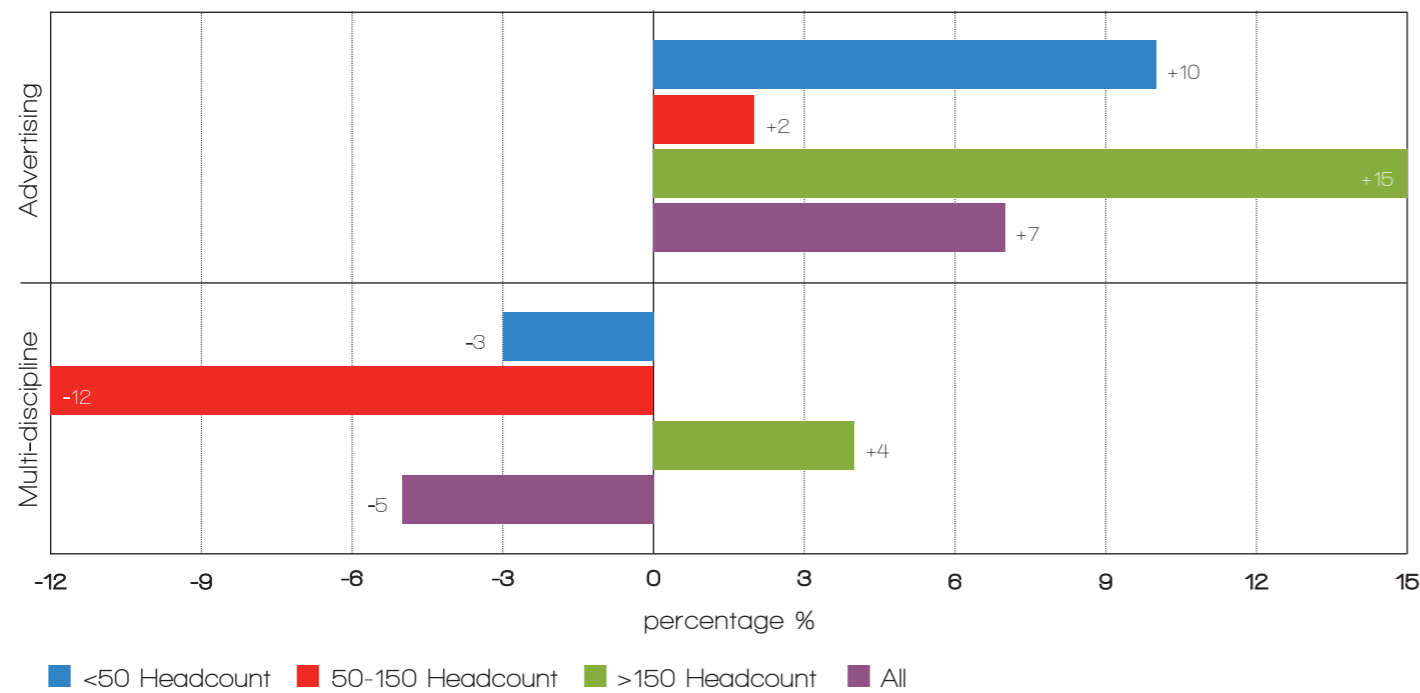


- Changes to overall rates for social media, community management and moderation are most significant at the low end (+18% overall and +32% amongst multi-discipline agencies).
- By contrast the biggest fall in hourly rates is amongst high end staff in the multi-discipline, digital and PR sectors.

Summary of mean rates by agency size for 2016 and 2014 variance

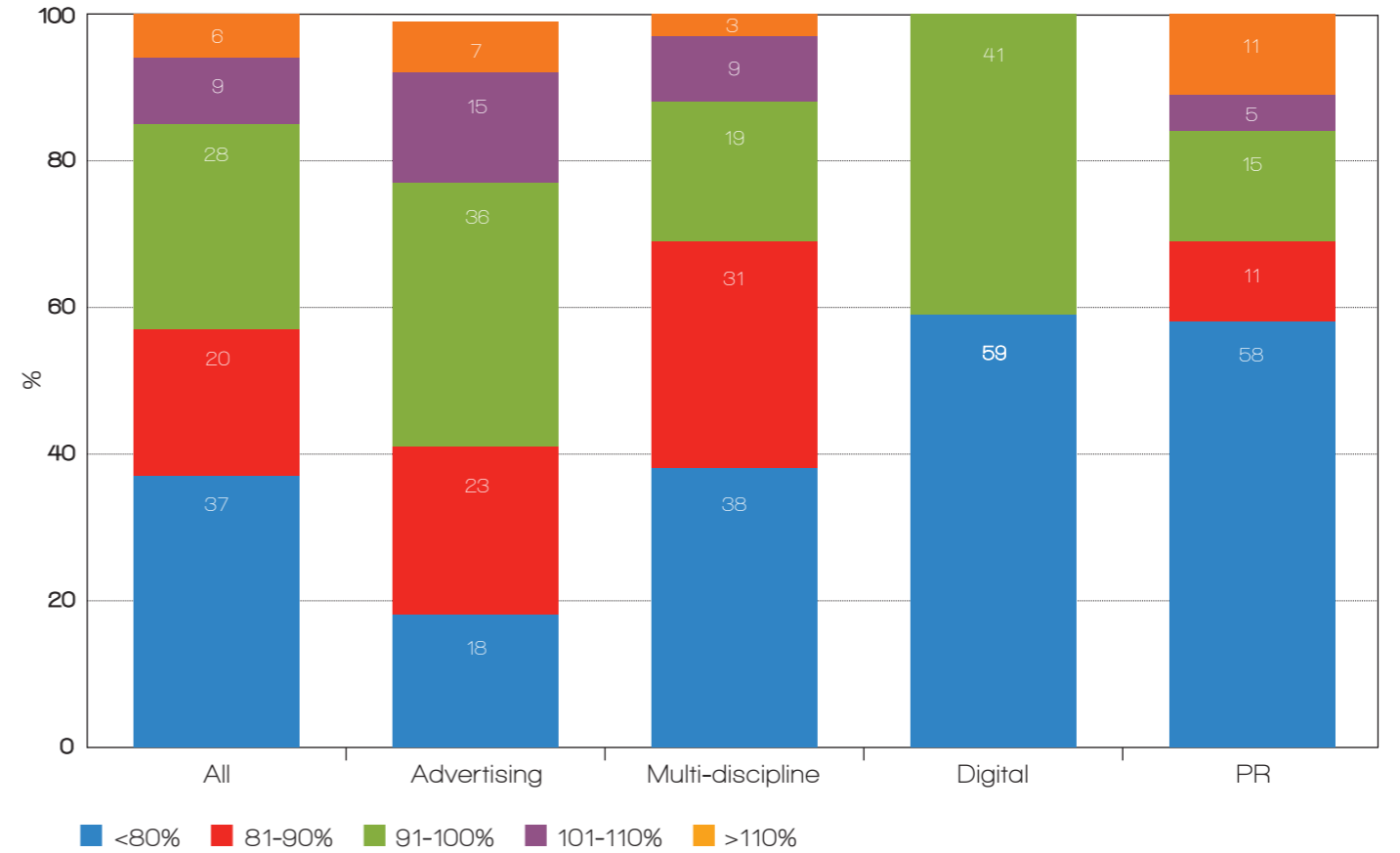


MEAN RATE BY AGENCY SIZE, VARIANCE 2016 V 2014



Figures for PR and Digital agencies not included as sample sizes not robust

ALL AGENCIES OVERHEAD RECOVERY RATE



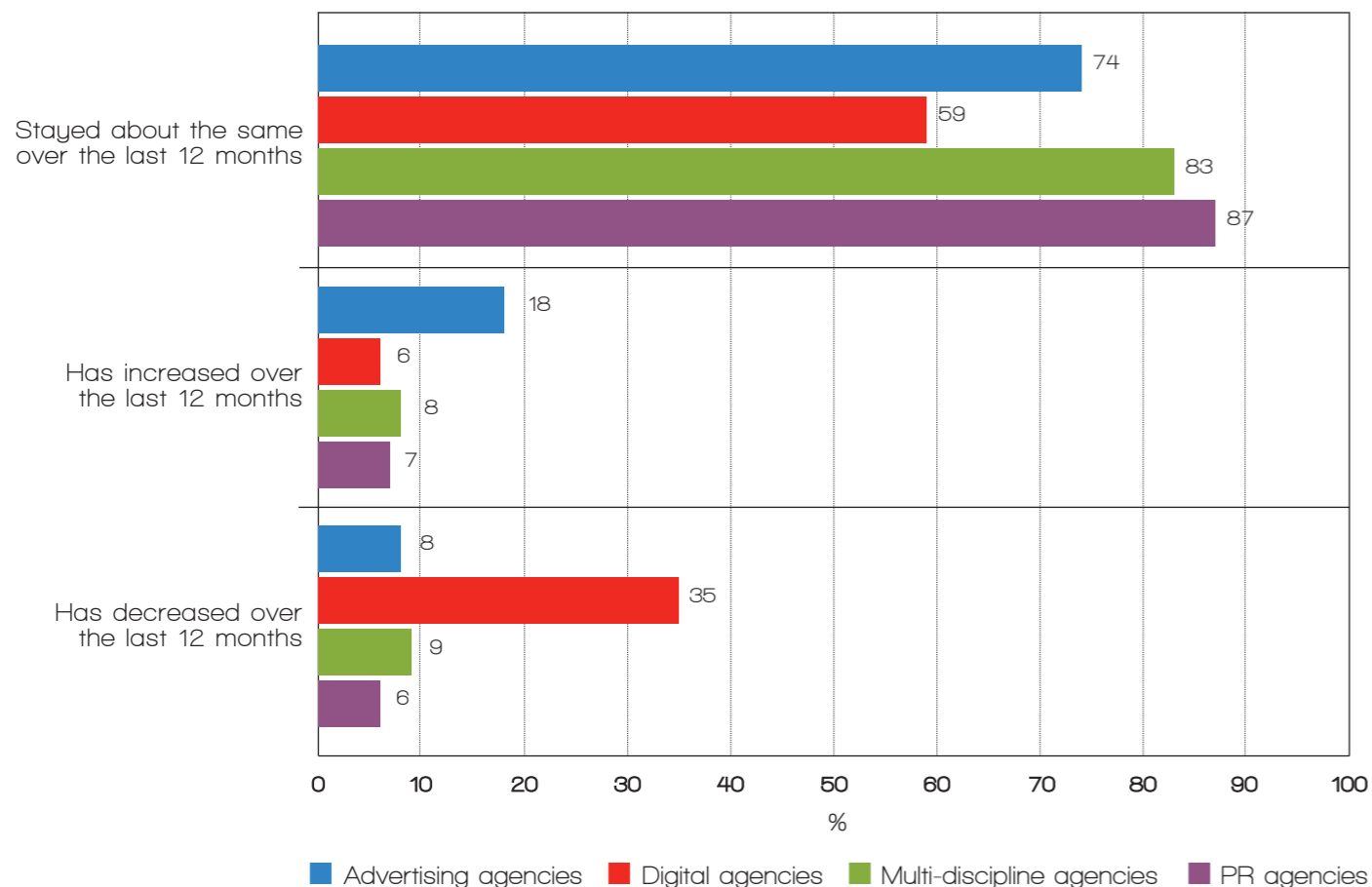
- The majority of agencies have Overhead Recovery Rates that are less than 100% and almost two thirds of PR and Digital agencies charge less than 80%.
- Only 15% of all agencies charge their ORR at more than 100%, with 11% of PR agencies and 7% of advertising agencies charging more than 110%.

Performance related pay

By Vicky Gillan

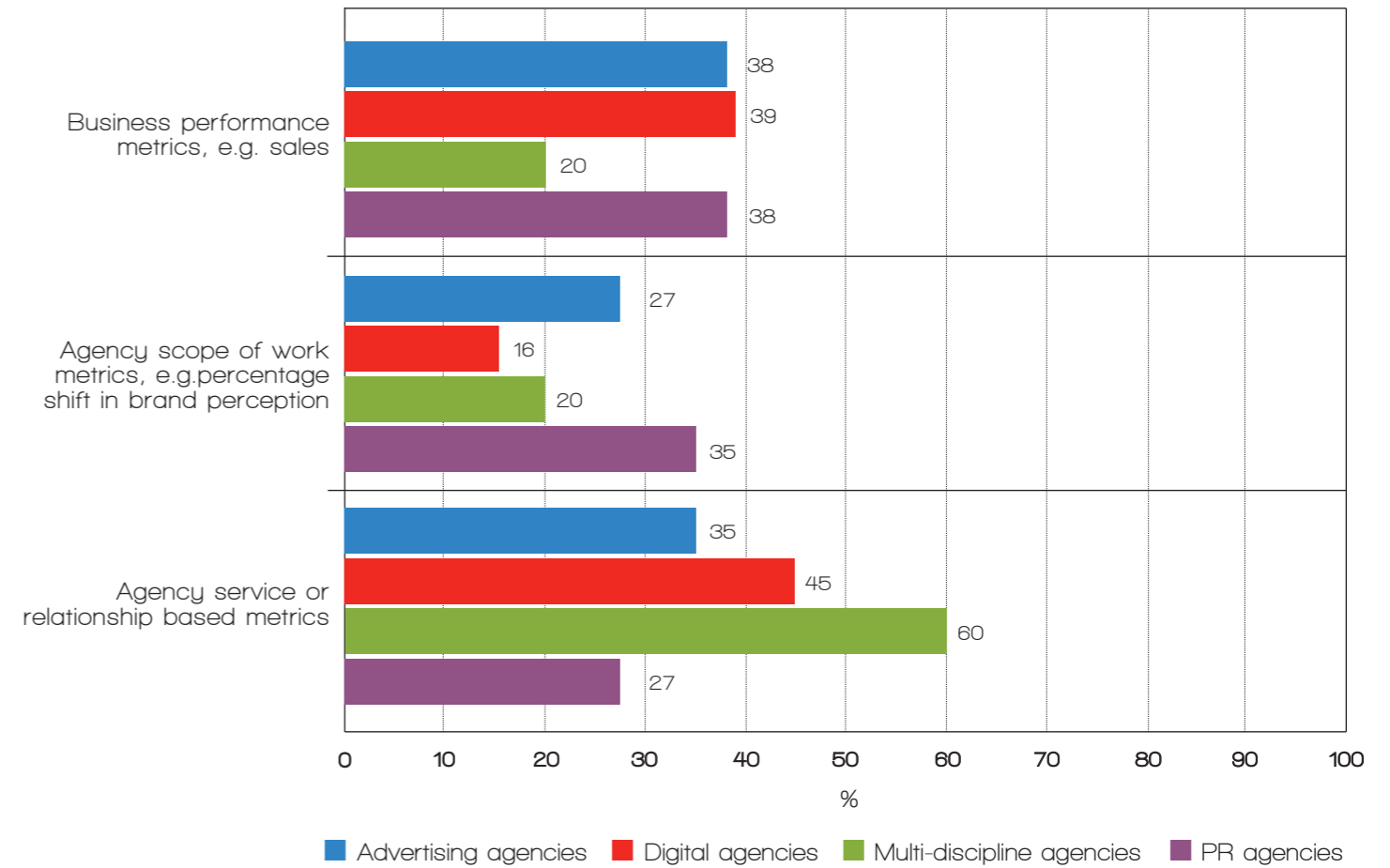
- Our survey found that advertising agencies, closely followed by multi-discipline agencies, are most likely to have an element of Performance Related Pay (PRP) within their remuneration arrangements.
- Only 23% of advertising agencies and 38% of multi-discipline agencies said they had clients without a PRP agreement in place. The opposite is true for digital and PR agencies, who reported they didn't have commercial agreements with an element of PRP in place for 71% and 67% of their clients respectively.
- When considering trends over the last 12 months, our survey found that advertising agencies have seen the biggest increase in the number of commercial arrangements that do include an element of PRP, with digital agencies seeing the largest decrease.

IN TERMS OF THE NUMBER OF COMMERCIAL ARRANGEMENTS THAT INCLUDE AN ELEMENT OF PERFORMANCE RELATED PAY (PRP) WOULD YOU SAY THAT:

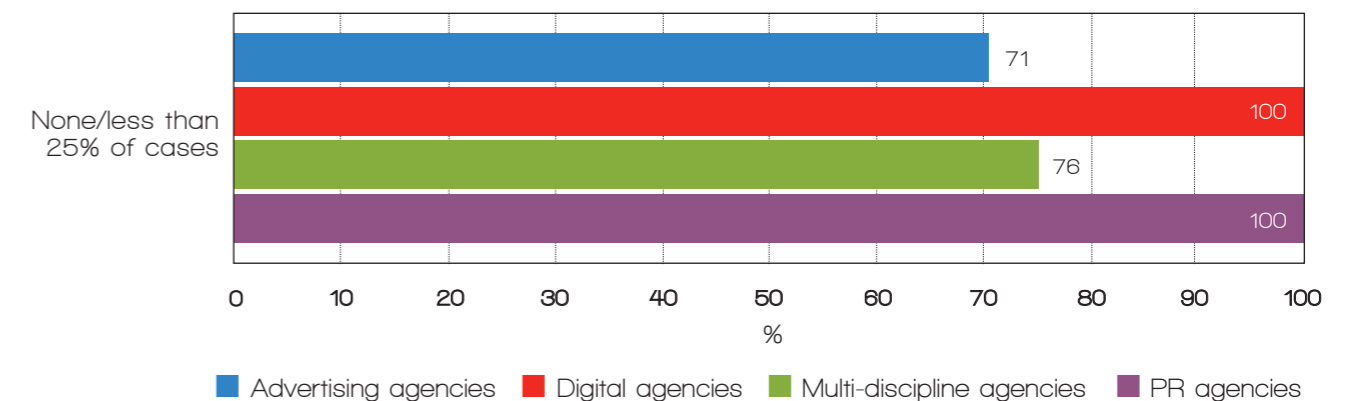


- The opportunity to build in a PRP element has always had its complications and raised numerous debates about measurement, attribution and establishing what the right base and uplifts should be.
- Of those agencies with an agreement in place, most are a mix of business performance, agency scope of work, agency service or relationship based metrics. Although, as you can see, the mix varies across the agency groups.

TYPICALLY, HOW ARE YOUR PRP AGREEMENTS SPLIT BY % FOR AGREEMENTS THE AGENCY HAS IN PLACE?



IN YOUR EXPERIENCE, WHAT % OF PRP AGREEMENTS HAVE DELIVERED ADDITIONAL INCOME TO THE AGENCY?



- Most interesting is what percentage pay out. Our survey found that where a PRP agreement is in place, the scheme only delivered additional revenue in less than 25% of cases and often not at all.

We like feedback!

We hope you have enjoyed reading this report and found it informative. If you have any questions about the content or want to give us feedback – positive or otherwise – then please contact:

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