

2020 Client Budget Erosion Not Hindering the Sale of PR Agencies

Buyers Still Willing to use 2019 Numbers as a Start

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Aside from revenue erosion, PR agency principals have taken another major hit in 2020. Those PR agency owners who wanted to sell their agencies have for the most part put this exercise on hold. Why sell your business when the purchase price is predicated on continuing revenue and profit increases?

Would prospective buyers consider that many prospective PR agency acquisition candidates are going through a blip year even if they did well the previous three years? Would they consider this track record to be in keeping with the times or would they consider it an alarming trend? Would they consider such an agency acquisition a distress merchandise sale or would they forgive the unusual circumstances that drove revenues down for most agencies?



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Our experience in both facilitating acquisitions and helping agencies generate new revenues from existing clients tells us that the acquisition marketplace is reflecting forgiveness, understanding and a continuing rush for agencies that have demonstrated strong growth prior

to 2020.

The assumption is that agencies that grew prior to 2020 will continue to bounce back and get back to the growth they were exhibiting during Q1 of 2020. And if that is the case the traditional earn out formula will benefit them if they were to be acquired.

The traditional earn out formula consists of a payment up front usually based on the current annualized net fee revenue. But if the target seller has eroded to the tune of 10 percent or more in 2020, then buyers are willing to use the 2019 numbers instead as a starter.

So, an upfront payment would be based on 2019 net fee revenues rather than 2020. And the earn out would be based on results going forward. Thus, a seller has nothing to lose by putting his agency up for sale. She/He will be rewarded for the agency's best years and 2020 will simply have a historic asterisk next to its numbers.

The key, then to a maximum purchase price will come as a result of a fair and reasonable earn out multiple. The better revenue growth is the better the earn out and what better way to generate additional revenue than through existing clients.

Too few agencies are attuned to increasing budgets from existing clients. It is only natural to focus on net-new business. But a reasonable combination of both will generate maximum numbers for PR agency sellers. Enter organic growth as

your revenue and agency-building approach.

Organic growth compared to net new business is more profitable, there is less turnover of your people and your clients, and more importantly, there are fewer diminishing returns. According to *Marketing Metrics* it is about 50 percent easier to sell to existing customers than to brand new prospects.

A recent report by Bain & Co. stated, "Acquiring a new customer is anywhere from five to 25 times more expensive than retaining an existing one." Additionally, the Bain & Co. report stated, "...increasing customer retention rates by 5 percent increases profits by 25 to 95 percent."

Here are five things you can do now:

1. Organize Your Giving – Evaluate what you are doing for your clients in totality, what you get paid for and what you do not get paid for. Now, how do we effectively plan to get paid for what you have already been doing.
2. SWOT Analysis – For your clients, look at their competitive sets. Where are they winning, and where are they losing? Identify the true challenges and then attack those deficiencies.
3. The Junior Inquisition – Who are the stars on the account? Have you asked them what they would do? Either differently or in addition to what is already being done?
4. Lateral Learning – Look at what other industries are doing for ideas for your client. Those ideas make spark the one for you and your client that will make a true difference.
5. Problem Solve – What are your clients' two to three strategic imperatives, whether they have to do with your scope or not? Offer the solutions, or better yet a free brainstorm, together with the client to problem-solve. You will walk out of the room with an assignment.

So, regardless of the year, it is always the right time to harvest the financial rewards of selling your agency, and investing in growing your business organically is more profitable in the interim to the bottom line and operations, and in maximizing your earn-out. The buyer is interested in one financial target: The bottom line, either net income or EBITDA, and organic growth is the easiest and most profitable way to get there.

About the Authors:



Art Stevens literally knows the PR industry at every level and in every aspect, from the inside out and from foundation to pinnacle. Art knows what makes a PR business successful, profitable and valuable. A prolific writer as well as a dynamic executive, Art is subtle, observant and quietly creative, yet not opposed to a good measure of “brandstanding” when appropriate.

He has been valuing agencies, brokering mergers and acquisitions, and providing strategic advice for ten years. Art is a former owner and CEO of LobsenzStevens, a Top-20 independent PR agency, which Publicis Groupe acquired.



J. Mark Riggs is the founder and CEO of **TPC Growth** which is management consultancy that exists to be the go-to resource for marketing/communications agencies to discover and reveal pathways to organic growth while changing the mindset of an RFP-obsessed industry.

Before starting TPC Growth, Mark spent 20 years in the agency world working for IPG's Mullen Lowe, an Ad Age A-List Agency, Taylor, the Holmes Report's Consumer Agency of the Decade, MWWPR and French/West/Vaughan, the Southeast's largest independent agency where on multiple occasions he grew small accounts into multi-million-dollar accounts.

Mark has a reputation as a business-builder and a strategic counselor and has experience in leading client services, insights and planning functions, as well as developing talent. A creative thinker and problem-solver, Mark believes that great thinking can "come from anywhere," it's the ability to harness it and leverage it for clients that makes the intellectual property of the agency valuable and an integral part of the marketing mix.