

THE SoDA Report On
IN PARTNERSHIP WITH Deltek.

Research Findings

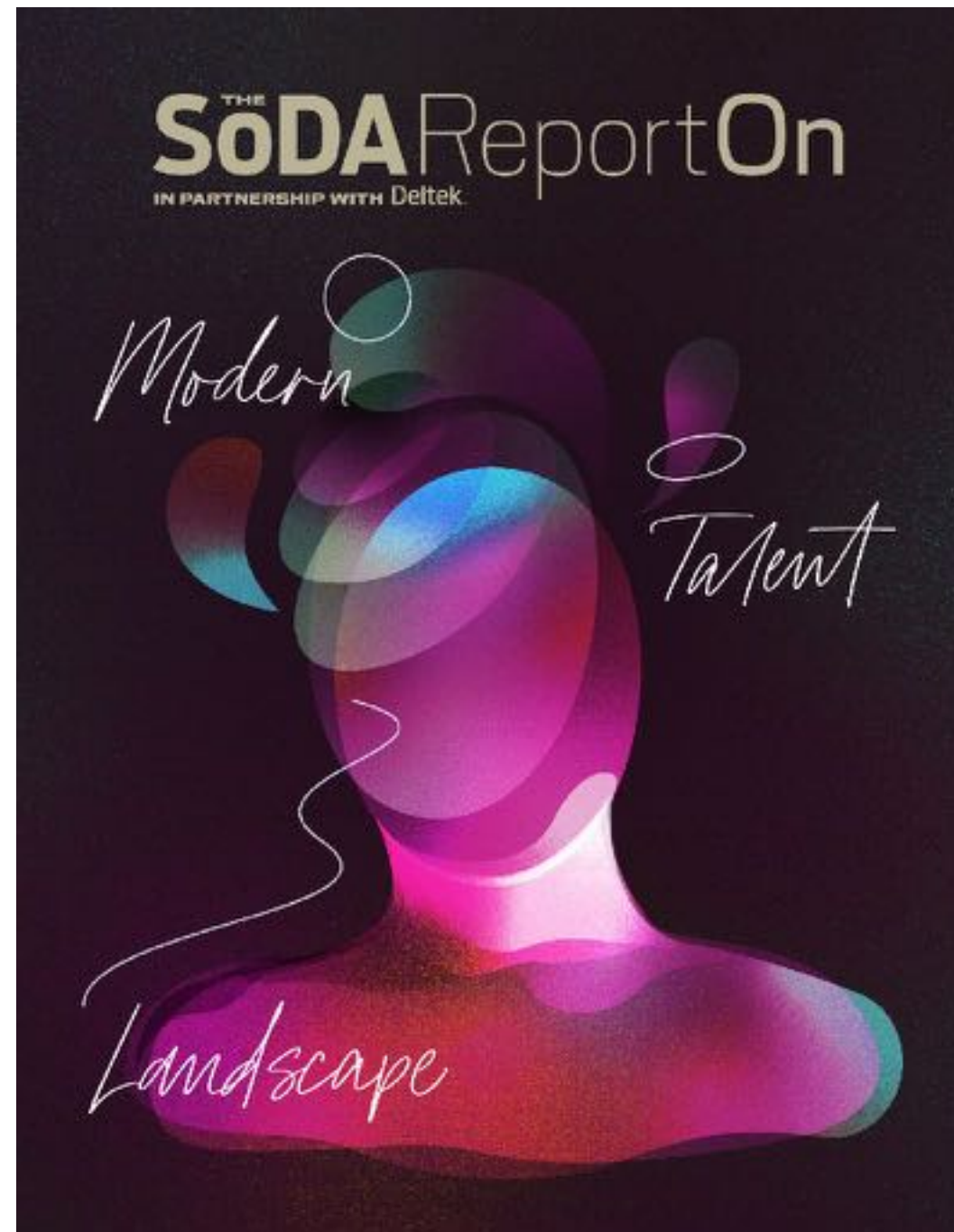
Culture, Talent and Operations Study

July 2022



Talent, Culture & Operations 2022

SoDA and Deltek partnered on a research study and thought leadership report to assess how the current talent landscape and a move to hybrid-remote working models has impacted agency culture, performance and investment priorities for the digital transformation of their own operations. The final report and research findings were released on July 26, 2022.



Three Steps Toward A More Efficient Agency in 2023

Regan Riddoch, Deltek

Want To Survive The Great Resignation?

Josh Ritchie, Column Five

Easing Into The Automated Era

Michael Balarezo, Media.Monks

Why Team Formation Is Critical

Michael Dingle, Reason

Research Highlights

Tom Beck, SoDA

Talent, Culture & Operations Study

Fielded from May 20 - July 5, 2022 with 94 respondents. The online survey explored margin performance, working models, current state of the talent market and investment priorities for digital transformation in the agency business.

Agency Type

- 37% – Digital Agency
- 16% – Integrated Agency
- 11% – Consultancy
- 10% – Digital Product Studio
- 9% – Brand Creative Agency
- 5% – Experiential Agency
- 4% – Production Company
- 8% – Other

Revenue (USD)

- 48% – Less than \$5MM
- 26% – \$5-10MM
- 16% – \$10-20MM
- 6% – \$20-50MM
- 4% – More than \$50MM

Role

- 54% – Founder/Partner
- 15% – C-suite
- 12% – SVP/EVP/VP
- 16% – Director/Practice Lead
- 3% – Other

Geography

- 68% – North America
- 15% – Europe
- 15% – APAC
- 2% – LATAM

Margins Improving for Many in 2022

Agencies experienced a strong financial performance in 2021 and that momentum appears to have carried into the first half of 2022. 44% of agency leaders reported that their margins had improved from an already strong baseline in 2021. That said, 26% reported that margins were declining. This may be an early indication that rising costs in the talent market are beginning to take a toll.

2022 Margin Performance	
Significantly Improved net margin up by 5 points or more	24%
Improved net margin up between 1-5 points	19%
About the same as 2021	30%
Declined net margin down between 1-5 points	20%
Significantly Declined net margin down 5 points or more	6%

Net Profit Margin	2017	2019	2021
Greater than 20%	18%	16%	36%
15-20%	15%	24%	22%
10-15%	36%	30%	22%
Up to 10%	24%	27%	16%
Break-even or net loss	6%	4%	4%

Note: Data above is from previous benchmarking studies and SoDA's Global Agency Landscape Study in February 2022.

44% of agency leaders point to margin gains in 2022.

Reasons for Margin Changes

Agency leaders pointed to increased billing rates and improved utilization as the key factors driving their margin improvements. For those reporting declines, increased staffing costs and investments back into the business have eroded margins in 1H 2022. Just 24% pointed to “poor utilization,” suggesting that demand for services has been strong even for those with declining margins.

Top Reasons for Margin Gains

Increased billing rates	44%	Increased use of freelancers	22%
Improved utilization	41%	Streamlined production process	20%
More accurate project estimation	32%	Better managing scope creep	12%
Team skills well aligned to projects	32%	More accurate forecasting	12%
Using a different pricing model	27%	Lower staff costs	12%

Top Reasons for Margin Declines

Increased staff costs	48%	Scope creep	16%
Investing more into the business	40%	Poor client management	16%
Poor utilization	24%	Misaligned team skills for projects	8%
Inaccurate project estimation	24%	Other	20%
Inefficient production process	20%		

Talent Costs vs. Rate Increases

Inflationary pressure and a highly competitive talent market have pushed up the cost of salaries and benefits and placed pressure on the agency P&L. While many agencies have simultaneously raised their billing rates, the data suggests that for 48% of agencies, billing rate increases have not kept pace with compensation pressure. For many agencies, this is an issues that may become become magnified when the market slows and utilization rates drop.

Salary & Benefit Increases	
Increase 25% or more	5%
Increase 10-25%	37%
Increase up to 10%	47%
Flat/unchanged	10%
Decrease	1%

Billing Rate Increases	
2%	Increase 25% or more
29%	Increase 10-25%
37%	Increase up to 10%
31%	Flat / unchanged
1%	Decrease

48% of agencies report that billing rates have not kept up with comp increases.

Primary Contract Models

Project / Fixed-Fee contracts and Retainers remain the most prevalent pricing model but there is no movement in any single direction. Most agencies are diversified across several pricing models with an average of 2.5 models each accounting for 30% or more of annual net revenue in 2021. Value-based pricing appears to be gaining traction.

30% or More of Revenue in 2021

Project / Fixed Fee	82%
Retainer	64%
Time & Materials / Day Rate	35%
Increment / Fixed Fee	32%
Value-based	16%
Commission / % of media spend	10%
Licensing / rev from own products	4%
Incentive / performance-based	1%
Other	2%

Greater Share of Revenue in 2022

53%	Project / Fixed Fee
43%	Retainer
21%	Time & Materials / Day Rate
23%	Increment / Fixed Fee
22%	Value-based
4%	Commission / % of media spend
3%	Licensing / rev from own products
3%	Incentive / performance-based
3%	Other

Working Models

Despite recent chatter around “return to office,” very few agencies have made steps in that direction. 76% of agencies remain fully remote or primarily remote with flexibility as to whether employees come into the office. Furthermore, 83% say that the overall sentiment towards their current working model is positive, suggesting that a shift back to the office is not on the horizon

Working Model	
Fully or primarily remote	31%
Hybrid-Remote (Flexible) <small>(employees discretion as to when they are in the office)</small>	45%
Hybrid-Remote (Mandatory) <small>(2 more mandatory days in office per week)</small>	13%
Mix of models depending on team/office	10%
Fully or primarily in office	2%

Sentiment On Working Model	
46%	Very Positive
37%	Somewhat Positive
16%	Mixed
1%	Somewhat Negative
0%	Negative

Data shows little desire or movement to return to the office.

Employee Turnover Rates

Despite concerns for employee retention amid the “Great Resignation,” 71% of agencies reported voluntary turnover rates of less than 15% in 2021. With market pressure starting to ease, agency leaders expect turnover rates to be flat or even decline in 2022. A deeper look into the data revealed that larger agencies tended to struggle with retention more than smaller agencies.

Voluntary Turnover Rate in 2021	
0-5% turnover	35%
5-10% turnover	21%
10-15% turnover	15%
15-20% turnover	11%
20-25% turnover	9%
25-30% turnover	6%
Greater than 30% turnover	3%

Expected Change In Turnover Rate 2022	
Significantly Increase turnover rate up by 5 points or more	5%
Increase turnover rate up between 1-5 points	11%
About the same as 2021	56%
Decrease turnover rate down between 1-5 points	15%
Significantly Decrease turnover rate down 5 points or more	13%

In 2021, agencies over \$20MM in revenue tended to see higher turnover rates than agencies under \$5MM in revenue.

People & Culture

Finding new talent and the associated costs of recruiting and hiring have certainly been primary pain points for agency leaders. Far fewer, however, appear to be struggling with other related issues such as retention, onboarding of new employees or even work disruptions due to staffing shortages. Fostering agency culture and creating a sense of belonging remains a top concern.

Top Challenges – Talent & Culture			
Culture/creating sense of belonging	62%	Onboarding new talent	33%
Finding/hiring new talent	53%	Producing work efficiently	22%
Team comms/collaboration	45%	Managing employee performance	22%
Employee well-being / burn-out	39%	Creating great work	21%
Retaining talent	36%	Revising comp/incentive programs	20%

Biggest Impact – Current Talent Market			
Staff costs are rising	76%	Turning away work	12%
Spending more time/money on recruiting	41%	Work quality is suffering	7%
Morale/culture is suffering	30%	None of these	5%
Efficiency is declining	19%		
Project delays/disruption	17%		

Agency Ops + Technology

When it comes to the digital transformation of their own operations, agency leaders show little commonality in areas of maturity and planned investments. Team management/remote collaboration stands out as one domain where a majority say they are most developed and digital transformation in agency sales and marketing appears to be limited for most agencies.

Most Mature: Agency Ops + Tech	
Team mgmt / remote collaboration	55%
Production / resource mgmt	35%
Finance / revenue forecasting	26%
Agency performance tracking / analytics	21%
Productivity / task automation	19%
Sales / pipeline mgmt / CRM	18%
HR / people ops / performance mgmt	15%
Marketing automation / outbound	11%

Least Mature: Agency Ops + Tech	
45%	Marketing automation / outbound
35%	Sales / pipeline mgmt / CRM
32%	Agency performance tracking / analytics
24%	Finance / revenue forecasting
22%	Productivity / task automation
21%	HR / people ops / performance mgmt
12%	Production / resource mgmt
7%	Team mgmt / remote collaboration

Top Areas for Investment	
Production/resource mgmt	36%
HR/people ops /performance mgmt	33%
Sales/pipeline mgmt/CRM	32%
Marketing automation/outbound	23%
Agency perf tracking/analytics	21%
Team mgmt /remote collaboration	18%
Finance/revenue forecasting	16%
Productivity/task automation	15%

Impact of Technology on Agency Ops

As agencies leaders look ahead to the next 2-3 years, they believe that emerging technology will have the biggest impact on the efficiency of agency operations and enabling remote teams to work more effectively together. 34% see an important role for emerging tech to augment or improve their core services or capabilities. Automation of routine tasks falls lower on the list.

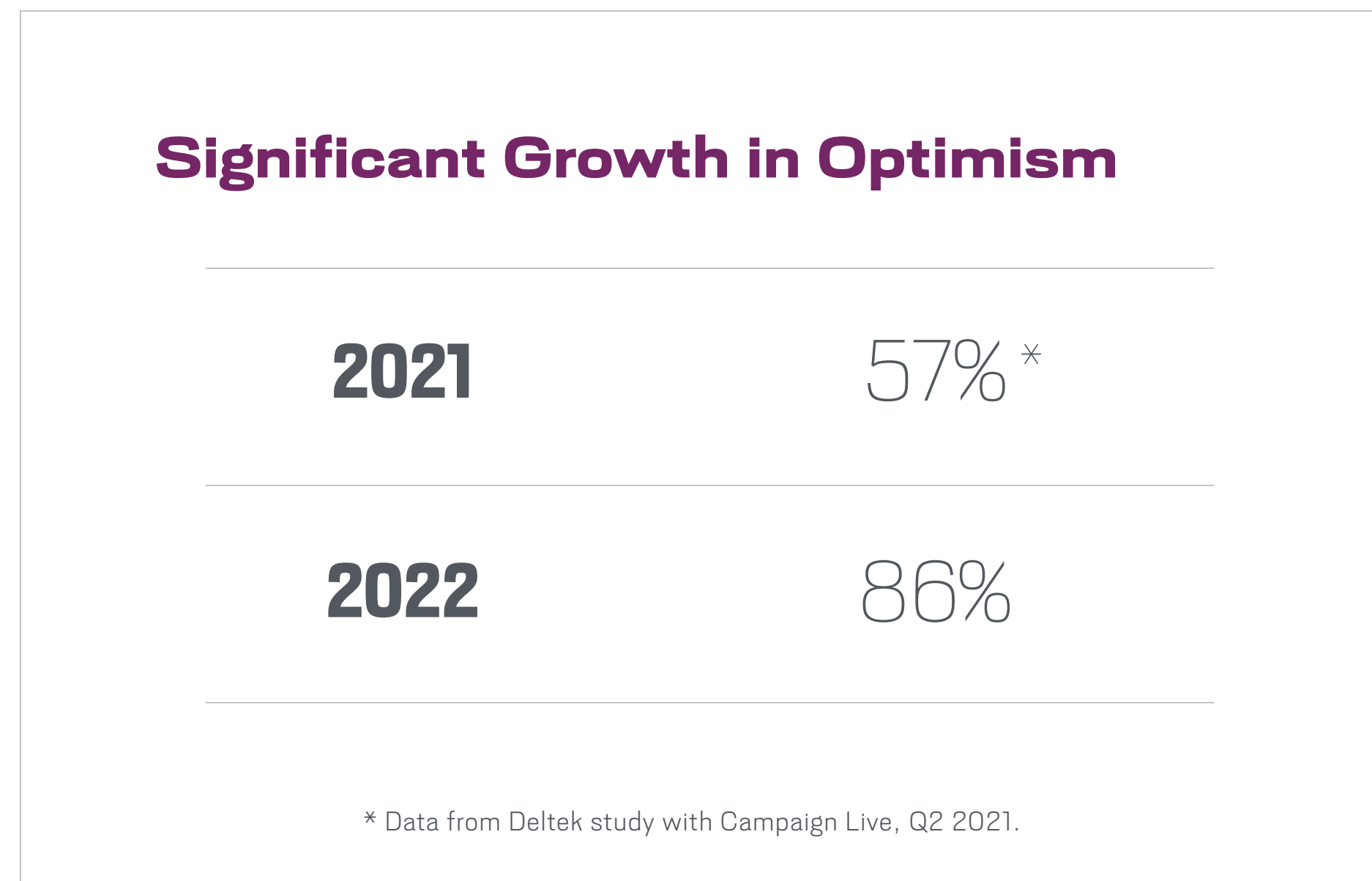
Top Areas of Impact on Agency Ops	
Improving Operational Efficiency	40%
Enabling remote teams to work more effectively	34%
Augmenting/improving our core svcs/capabilities	34%
Enabling us to develop entirely new capabilities	26%
Automating routine tasks	23%
Delivering more accurate forecasting of future needs	18%
Providing deeper insight into company performance	14%
Improving the health/well-being of our employees	11%

Top Areas for Investment	
Production/resource mgmt	36%
HR/people ops /performance mgmt	33%
Sales/pipeline mgmt/CRM	32%
Marketing automation/outbound	23%
Agency perf tracking/analytics	21%
Team mgmt /remote collaboration	18%
Finance/revenue forecasting	16%
Productivity/task automation	15%

Outlook and Optimism

After more than two years of serious disruption, agency leaders appear to be returning to pre-pandemic levels of confidence and optimism. In this study, 86% of agency leaders said they were optimistic about the future growth and health of their business... up almost 30 points from another study that Deltek conducted a year ago in Q2 2021. Despite the strong rebound in optimism, agency leaders point to growing concerns around inflation and a global economic slowdown. [See verbatim comments on next slide.](#)

Future Growth & Health of Business	
Very Optimistic	34%
Somewhat Optimistic	52%
Neither optimistic or pessimistic	12%
Somewhat Pessimistic	2%
Very Pessimistic	0%



“We're having a record year, and haven't seen anything slow, but it seems like we have some significant global headwinds.”

“Our pipeline is larger than ever, and the scale of projects is increasing.”

“We see our products and services as being essential for clients even in this economic climate.”

“Our foundation is in place, our positioning is tightening. Our people operation is humming and we have an amazing team.”

“The market is just so volatile right now... human capital as well as client hesitation.. it seems hard to predict where things will go or level out.”

“Conflicting indicators, lots of uncertainty, and personal burnout.”

“Things look good now but the market is volatile with inflation and potential recession.”

“Our ability to pivot our business during COVID has given us the experience to watch the signs and make adjustments as needed for our clients.”

“I'm optimistic because the changes we faced in the last 2 years helped us improve efficiency, work pipeline and marketing.”

“Change is getting more and more expensive.”

“The people in place are ready to move the company forward, we just want to ensure we don't burn them out before we can get there.”

“We have effectively weathered many economic storms and anticipate the coming year to be a repeat of 2001 and 2009.”

Key Takeaways

1. Financial performance for agencies steadily improved in 2021 and into the first half of 2022. Optimism around the future growth and health of the business has also rebounded sharply.
2. Considerations around “return to office” have largely been tabled for the time-being. The vast majority of agencies are operating in a primarily remote model and satisfaction with the current approach is high.
3. Pressure in the talent market appears to be easing and agencies in this study exhibited high-levels of employee retention. That said, the rising costs for talent are placing pressure on agency performance and will become a heavier burden when demand for services slows and utilization drops.
4. Agencies continue to look at the digital transformation of their own operations and they see a role for emerging technology to play in improving operational efficiency, enabling distributed teams to work together more effectively and in augmenting their core services and capabilities.
5. Despite high degrees of optimism, agency leaders expressed clear concerns about inflation, a global economic slowdown and continued pressure in the talent market. Agency leaders will need to be disciplined and proactive to ensure that the gains from the last 18 months are not erased.

About SoDA

SoDA is a global network of digital agency founders, creative innovators and technology disruptors. With 95 agencies in more than 20 countries, our members help the world's leading brands imagine and create the future of digital experiences. Find us online at www.sodaspeaks.com.

About Deltek

Better software means better projects. Deltek delivers software and information solutions that enable superior levels of project intelligence, management and collaboration. Its industry-focused expertise makes your projects successful and helps you achieve performance that maximises productivity and revenue. More at www.deltek.com/agencies.

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All data in this report is self-reported by the respondents. Numbers are rounded up and, as a result, sets of numbers may not always add up to 100%.

