Design Business Association

2017 DBA Annual Survey Report

A report analysing the fees, salaries, utilisation, income, recovery rates, benefits, and trends of DBA member agencies

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In association with

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Executive summary–1

Look out for these

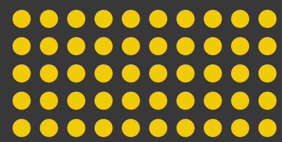
Advice for the reader
Look out for these boxes throughout the report – they provide information and advice to our members.

Who's included in our survey?

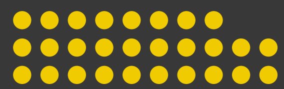
158 Member agencies responded to this survey

75% of which had also completed the survey the year before

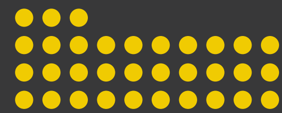
Member agencies by gross income



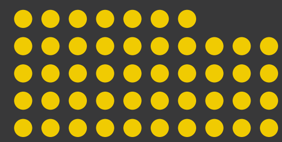
<£500k
31% ↓ 8%



£500k – £1m
18% ↑ 2%

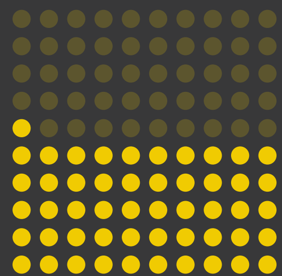


£1m – £2m
21% ↑ 5%



>£2m
30% ↑ 1%

Member agencies by location



London
51% ↑ 5%

Source of generated income

Overseas clients
23% ↑ 3%

Most prevalent disciplines

	2017	2016	
Corporate identity and branding	20%	19%	↑ 1%
Digital	18%	20%	↓ 2%
Literature	14%	15%	↓ 1%

Executive summary

It is now a whole year on from the EU referendum, which sent shockwaves through the marcomms and wider business world. When last year's survey was researched, the vote had just happened and the general feelings of panic and uncertainty were echoed through the results we reported. A year down the line and there still does not seem to be a solid answer to the question "what will happen once we're out?", but given the lengthy negotiations, agencies have felt more confident just to get on with their work rather than sit back and worry.

Sir Martin Sorrell has spoken on the importance of freedom of movement for Brexit negotiations, and DBA members have, in the main, echoed this through a recent DBA survey on immigration. Agencies, being people-businesses, rely on getting the best staff, and many have found exceptional talent from across Europe and the wider world. Members have described how workers 'enrich' their business, expanding horizons and facilitating growth. Agencies across the design sector are presumably similarly keen to retain their overseas talent, and we therefore see salaries being only part of remuneration packages for staff. This year we see a marked increase in pension contributions, and also increased flexibility of working, benefits on offer to staff of all levels, and higher rates of maternity and paternity pay.

The performance of the Pound on global currency markets has also had varying effects on businesses. Those groups with large, profitable overseas subsidiaries which operate in a foreign currency, but which report at group level in Sterling will generally have seen retained profits look weaker as prior year retained reserves are retranslated at a less favourable rate. Yet businesses in the UK which sell abroad may have seen boosts in demand prompted by 'cheap' deals in the eyes of the overseas clients looking to take advantage of the weak Pound.

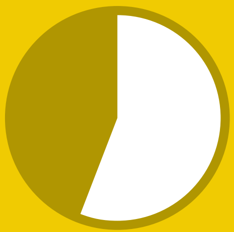
Overall, businesses are less uncertain a year after the vote about their prospects for the coming year. Many agencies are looking to 'staff up' over the coming 12 months, with 56% of agencies expanding their workforce.

This is mirrored in income forecasts for the coming year, where average gross income is expected to rise by 3%. Some 67% of agencies are expecting an overall rise in gross income, with 18% expecting a rise of over 10%.

Some 24% of agencies would classify themselves as 'business is great and growing', while just 9.5% are 'tightening their belt' or actually struggling. This shows a return to the attitudes agencies held before the Brexit vote. Last year's survey was initially performed before the referendum, and then after the vote agencies were asked if they wanted to change their sentiment. In general, agencies adopted a more pessimistic view, however now one year on confidence is returning and the initial panic is over.

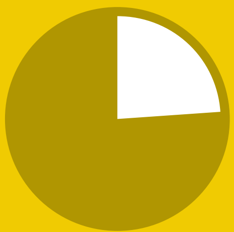
So it remains to be seen what the final Brexit deal will bring for the sector – whether existing globalisation will help agencies weather the storm, or cause them unforeseen problems; what will happen to key talent from abroad; and overall what will happen to agencies' client base and the wider economy. The DBA is lobbying government hard, and will continue to do so, to ensure that creative businesses are put at the heart of UK future growth strategies.

Executive summary

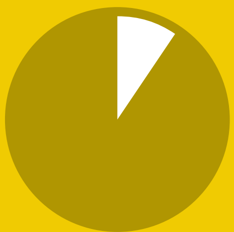


56%
of agencies looking to expand workforce over the next 12 months

67%
of agencies expecting overall rise in gross income over the next 12 months



24%
of agencies classify themselves as 'great and growing'

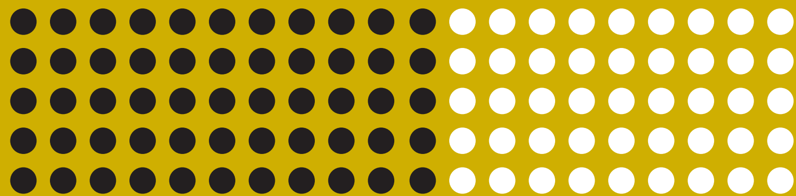


9.5%
of agencies classify themselves as 'tightening their belt' or struggling

Gender profiles

For the first time this year, gender pay gap reporting has come into force for larger businesses and respondents to this survey were asked questions on the male / female breakdowns within their agencies. Encouragingly overall agencies reported an almost even split, 55% male and 45% female. However, behind the headline reveals that senior positions and particularly equity ownership are predominantly held by men, while women are much more prevalent in supporting roles, often topping out at a middle-management level.

Flexible working and attractive maternity packages are becoming ever more important for retaining key female staff and ensuring they are motivated to return to work after a family break, and ultimately to inspire women to shoot for the top jobs.



Male
55%

Female
45%

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Executive summary

Salaries and charge out rates

For the majority of employees, a pay rise of 1-3% will be on the cards when salaries are next reviewed. However, Equity Owners and Statutory Directors are more likely to face a salary freeze – even more so than last year.

- Unsurprisingly, larger agencies continue to pay more and charge more than smaller agencies.
- London agencies continue to pay more and charge more than regional agencies.

Recovery rates

Many agencies are failing to make adequate recovery on the time spent by staff, with an average of only 78% of time spent recovered which was very similar to the previous two years.

Overall average recovery rate

78%

↑ 1%

Only 6.4% are managing to keep recovery rates to more than 90%, a slip from last year's 8%. In the current climate such recovery rates are very difficult to achieve but this proves that, if you get it right, it can be done.

Staff benefits and other incentives

A similar range of benefits was available to staff this year. However, on average, additional benefits where paid were slightly less generous than last year. Junior and middleweight staff averaged around 2.7% benefits on top of base salary compared to around 3.5% last year and equity owners averaged an additional 5.5% compared to 7% last year.

Some 90% of respondents said they offered pension schemes to employees. This is a vast increase on 2016, where only 50% said they offered pension schemes. However, last year's findings indicated that many agencies were yet to go through auto-enrolment, which is now thought to have come into effect for most businesses. This being said, given the coverage which auto-enrolment has given pension schemes in the press, agencies which have not yet 'had' to put a scheme in place may have chosen to do so, to remain competitive against other agencies who enrolled earlier.

Bonuses were more likely to be paid by larger agencies, and while mostly based on company performance for senior staff, junior staff are assessed on a number of criterion including individual performance. Where compensation is made for overtime it tends to be time in lieu rather than actual payment and was much more likely for junior members of staff.

Share based incentives continue to be used in the minority of agencies, roughly 9%. As one would expect they are generally offered to more senior staff. Used in the right way for the right people, they can be a powerful retention tool.

Freelancers

The number of respondents using freelancers has remained consistent at roughly three quarters. Whilst spend varied enormously between agencies, on average it remained constant at 11.1% of total salary costs compared to 11.4% last year.

This makes sense in the context of increasing uncertainty from clients around spend on top of the general project nature of design work, therefore making forecasting resource requirements more difficult. The increasing range of digital talent required on a project-by-project basis also makes it difficult to employ all the skill sets required on a permanent basis.

Gross income per head

The average fee income per head across the whole sample was £89,992 which at a 3.8% increase on last year's £86,701 is encouraging, but also likely due to the mix of agencies partaking in the survey. It should be noted that these figures include freelancers as well as permanent staff to give a more realistic representation of how income is earned.

As expected the average fee income per head of the London agencies was more than those of the regional agencies but it was actually the smaller London agencies reporting the very highest income per head.

The lower gross income per head at the regional agencies correlated with the fact that they have a lower average staff cost per head i.e. their staff are cheaper but also generate less fee income.

National average income generated per head

£89,992

↑ 3.8%

The view from our sponsor

pegasus

As a former agency CFO, I know that the DBA Annual Survey Report will be opened with some trepidation.

Will it show that you've been smarter or less smart than your peer group? If your agency isn't performing as well, will you console yourself with excuses about the clients you have, compared to those of other agencies?

The playing field is never level, but the fact is that the most successful agencies are more profitable no matter who their clients are, because they manage their businesses effectively and professionally.

Your business is made up of projects large and small. Some are very profitable and others you may wish you hadn't started. At the outset, each project is estimated with an appropriate profit margin and it is up to you to make sure you make that margin.

The way your profitability performance can be better than your competitors is by improving your:

- Recovery rate, the % of billable time charged to your clients
- Utilisation rate, the % of time spent on billable work

Recovery
The DBA Annual Survey Report tells us that the average recovery rate is 78% - so, in essence, most of you are still working for free on a Friday!

But you shouldn't have to: you can improve your recovery rate if you have the right systems and processes in place, providing you with reliable, real-time information on which to act.

As the project progresses at each stage there can be time or cost over-runs. You need systems that provide an alert before the cost over-run occurs at a predetermined % of the total – say 80%. Projects that are flagged need to be analysed to understand why, and then, if possible, the reasons should be shared with the client – often these are changes in the brief, additional tasks added or many rounds of revisions. If these issues are raised with the client as they occur it may be possible to convince the client to pay for them. All too often, these issues are left until it is too late.

Sometimes projects are made unprofitable by over-servicing and this too should be flagged and prevented.

Utilisation
This can also be described as Capacity Planning. To improve utilisation you have to know the projects in the pipeline, their deadlines and the resource each project requires vs the resource available. Through thorough forward planning, projects can be juggled to better match resource and reduce the need for freelancers.

There must be a single source of truth within your business: running an agency requires real-time data to make informed real-time decisions and knowledge is power.

The most successful agencies will use this knowledge and will focus on the now and the future, not the past.

Mike Satterthwaite
Chairman
Pegasus Systems

The full DBA Annual Survey Report runs to 30 pages giving in-depth analysis of the benchmarks all agencies should be concerned with – salaries, fees, utilisation and recovery rates, staff benefits and income per head.

In addition, DBA Members have access to online data-tables enabling them to refine the data to suit their own circumstances depending on their location and agency size.

To discuss becoming members of the DBA please get in touch.

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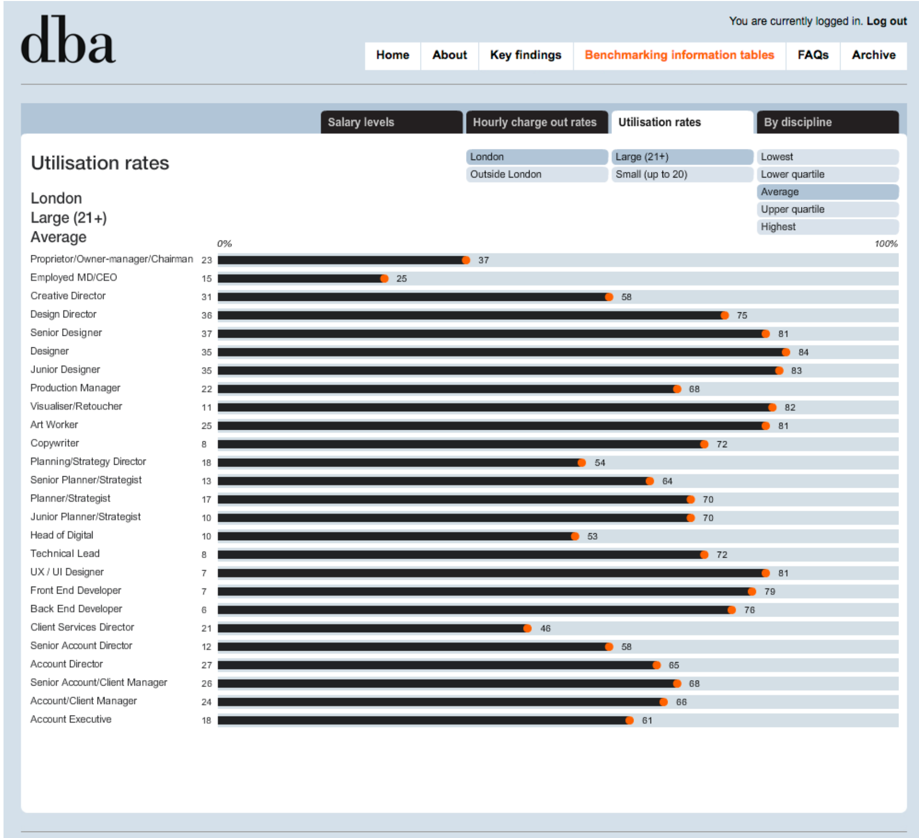

Example screen-shot from www.dbareview.org.uk

This report has been compiled with support from the following:

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Our clients include all major international groups, plus a growing number in the UK with notable agencies such as JKR and Droga5 amongst them. Supporting over 130 clients with 6,000+ staff globally in London, New York, Australia, New Zealand, Singapore, Malaysia, Hong Kong, Philippines, Japan. We are a private staff-owned company with over 30 years focused solely on the advertising and communications industry. All directors are previously agency FDs, all client service and product delivery staff have worked in agencies in senior financial roles. Our in-depth understanding of an agency's processes is our strength!

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