



Advertising & PR Agencies

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Table of Contents

1. [Coronavirus Update](#)
2. [Industry Structure](#)
3. [How Firms Operate](#)
4. [Industry Trends](#)
5. [Credit Underwriting and Risks](#)
6. [Industry Forecast](#)
7. [Working Capital](#)
8. [Capital Financing](#)
9. [Business Valuation](#)
10. [Financial Benchmarks](#)
11. [Bank Product Usage](#)
12. [Quarterly Insight](#)
13. [Industry Terms](#)
14. [Web Links](#)
15. [Related Profiles](#)

Coronavirus Update

Feb 1, 2022 -- Record Number Of New Business Applications Filed

- About 5.4 million applications for business tax identification numbers filed in 2021, according to the US Census Bureau. The total surpassed the previous peak of 4.4 million in 2020. There were 3.5 million new business applications in the pre-pandemic year of 2019. Not all applications resulted in the launch of a new business, but advertising and PR agencies are likely to benefit from any increase in the number of businesses.
- People are changing their priorities about consumption because of the pandemic, according to the results of a survey conducted for consulting firm EY's Future Consumer Index. Many respondents said that they want to buy fewer, higher-quality products that can last longer. Fewer people – only 27% – now agree with the statement that they buy more things because it makes them happy. And 85% say that they want to consider sustainability when shopping. "There's often a large intention and action gap with consumers, so we don't know what the actual result will be," said Kristina Rogers, global consumer leader at EY. "But I think we're seeing a lot now around consumers ready to change their behavior to make better-informed [decisions about] products for the good of society. And in fact, what's coming through now is much more demand for brands and companies to take some responsibility for leading some of that positive change."
- Industry experts say that the coronavirus pandemic has prompted many of the world's largest corporations to hire a Chief Customer Officer. Firms across the economic spectrum – from McDonald's, CVS Health, Under Armour and Walgreens to wholesale grocer United Natural Foods – have added the top job to help the boardroom better stay in touch with the rapidly-changing consumer landscape, and advertising strategies may be affected as a result. "A lot of organizations have been product-centric or channel-centric, but now there's this growing sense that there's this need to be more customer-centric," says Augie Ray, vice president analyst covering customer experience at Gartner, a research and advisory firm. "Certainly, the pandemic has caused a lot of organizations to realize that they weren't in touch with their customers – they realized that they need to listen more."
- Some industry experts say that advertisements which promote COVID-19 vaccination are tapering off because they are no longer able to persuade the unvaccinated. "I believe that people are now actually inoculated against the Covid message instead of the Covid virus," said Punam Keller, the senior associate dean of innovation and growth at the Tuck School of Business at Dartmouth.
- Real disposable income, an indicator of demand for discretionary purchases, decreased 0.2% month over month in December 2021, according to the US Bureau of Economic Analysis. It was the third straight 0.2% decrease following a 1.6% decrease in September. Consumer spending decreased 1% month over month in December following a 0.6% increase in November, and a 0.7% in October. The personal consumption expenditure price index increased 0.4% during the period. Excluding food and energy, the PCE price index increased 0.5%.
- Direct-to-consumer (D2C) sales growth has drawn the interest of advertising agencies. Boomr, Homestead Studios, Freelance Crew, and several other agencies are expected to launch in-house D2C brands in 2021. Industry experts expect agencies to focus on streaming and digital television to drive sales growth and new user acquisition for clients, as D2C brands have likely reached the point of diminishing returns on Facebook and other social outlets.

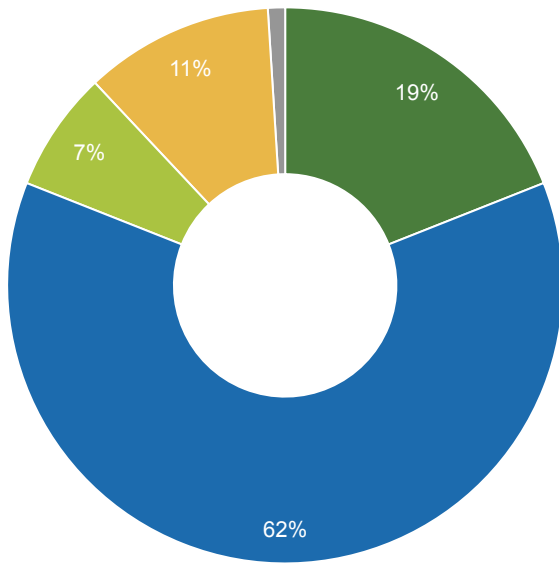
Industry Structure



The average advertising and PR agency employs 12-13 workers and generates \$3.2 million in annual revenue.

- A typical ad agency operates out of a single location, employs about 15-16 workers, and generates about \$4.2 million in annual revenue.
- A typical public relations agency operates out of a single location, employs 7-8 workers, and generates \$1.7 million in annual revenue.
- The advertising agency industry includes 12,400 companies that employ 193,600 workers and generates \$52 billion in annual revenue.
- The public relations agency industry includes 7,900 companies that employ about 58,600 workers and generates \$14 billion in annual revenue.

Industry Demographics



- Corporations (19.0%)
- S-Corporations (62.0%)
- Individual Proprietorships (7.0%)
- Partnerships (11.0%)
- Non-profit/Other (1.0%)

Source: US Census Bureau



Female Owned

30.0%



Minority Owned

7.0%



Veteran Owned

5.5%

Source: Census Bureau

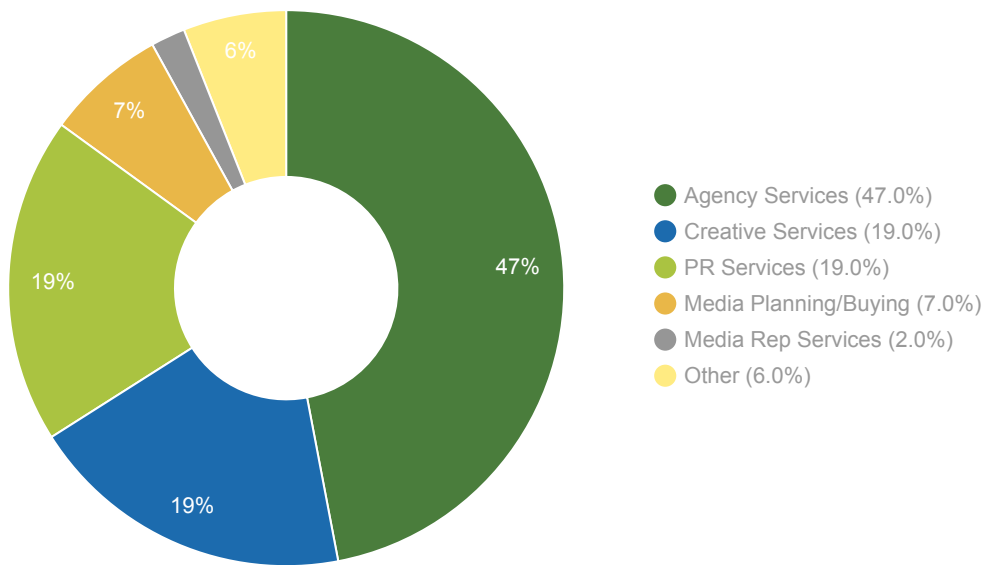
How Firms Operate

Products and Operations

Advertising agencies develop and place ads for companies and organizations. Public relations agencies develop programs to promote the interests of or create an image for their clients.

- Agencies generate revenue by providing a variety of services, including creative development (art direction, copywriting), media planning and buying, and public relations.
- Agencies may specialize in a particular industry (such as health care or consumer products) or area (such as digital services or ethnic marketing).

Advertising & PR Agencies Revenue



Source: US Census Bureau

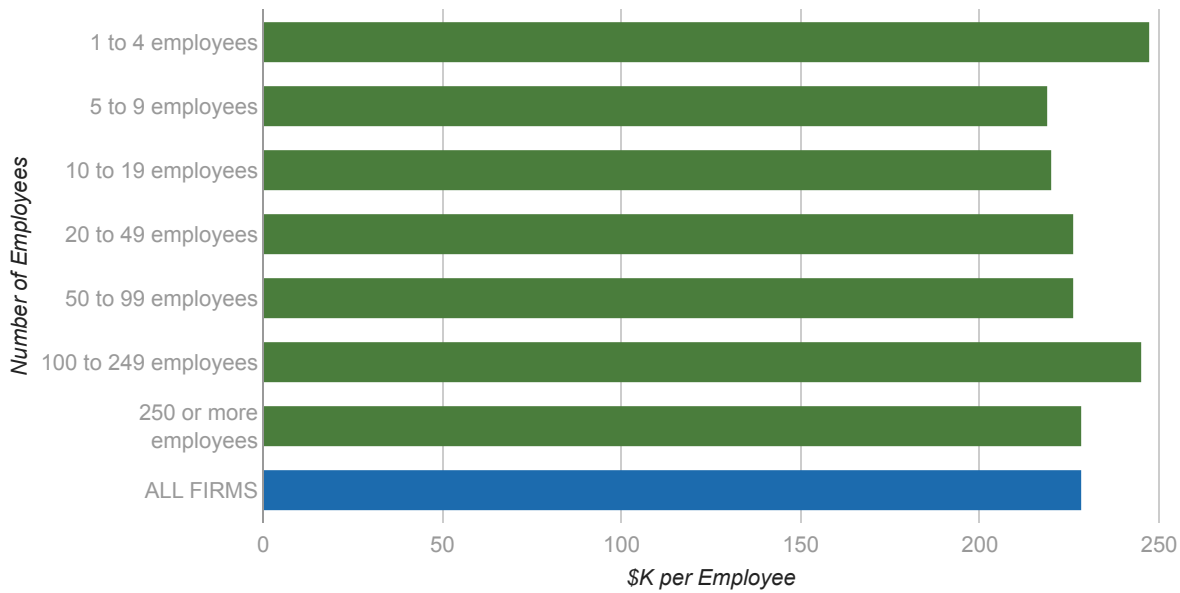
Advertising agencies work with clients to establish objectives and develop a strategy for a promotional campaign. Based on the strategy, agencies develop “creative,” or the look-and-feel and content of an ad campaign, by coordinating the efforts of art directors, copywriters, and production crews. Companies may outsource pieces of the creative production process, such as commercial filming. Because clients typically have established marketing budgets, agencies must also estimate and manage costs for an ad campaign.

Media planning involves determining the best types of media to purchase and how often to run an ad. Media buying involves working with media providers to negotiate pricing and ad placement. Common types of media include television (cable, network), print (magazines, newspapers), radio, online (search, banners, email, classifieds), and outdoor (billboards). Agencies may also produce brochures, catalogs, direct mail pieces, and sales materials.

Public relations agencies develop strategies that create or maintain a favorable public image for a client. PR agencies that provide lobbying or political consulting services attempt to influence government groups. An agency may issue a press release or arrange an interview to promote a client’s interests. Leveraging relationships with the press helps agencies obtain favorable exposure. PR agencies may also manage client sponsorships or provide event management services. Some PR agencies specialize in crisis management.

Account teams manage client relationships and the agency resources needed to execute programs. Agencies may dedicate staff to business development to win new accounts. For large clients, an agency may dedicate an entire team to manage a single account. Most workers are college educated.

Revenue per Employee by Establishment Size



Source: US Census Bureau

Profit Drivers

High billable hours

Agencies need to maintain a high utilization of creative and production staff on billable projects to meet their profit goals. While some unbillable time is budgeted for staff meetings and new client proposal development, agencies typically target a billable ratio of 65% or higher for their staff. A large project backlog and project planning and scheduling systems help to maximize billable ratios.

Accurate project tracking and billing

Advertising and PR agencies need systems to accurately capture and document hours spent by staff on client projects to minimize unrecovered costs. Many agencies require daily collection of hours to allow real-time project monitoring and timely client billing. Detailed tracking of staff hours also helps in documenting client charges and resolving billing disputes.

New client win ratio

Advertising and PR agencies may spend a large amount of unbillable time preparing pitches to win new clients in competitive bid situations. These costs add up and can be a drain on profitability if the agency repeatedly does not win the business. In the past, winning a major new client resulted in a ten to twenty year relationship over which to amortize the cost of preparing the proposal. However, high turnover among Chief Marketing Officers at large advertisers has resulted in client relationships that often last only two to three years, putting additional pressure on achieving a high win ratio for new client proposals.

Mark-ups and commissions

While the industry has shifted from a media commission model to a billable hours model in recent years, some advertising agencies still rely on commissions and mark-ups on contracted work to generate additional revenue. Large agencies may pre-buy a block of advertising placements at a discount and resell them to clients with a mark-up. Agencies may also negotiate volume discounts from printers and other suppliers.

Industry Trends

Trends are affected by the COVID-19 pandemic.

Changes in revenue, employment, business practices, trade and forecasts are occurring rapidly and data reporting by the government lags the changes. We are tracking changes in the “Coronavirus Update” chapter.

Advertising Spending Expands

The strengthened economy has driven advertising industry growth in recent years. Industry revenue grew 6-10% annually in 2016-2019, before falling 8.5% in 2020. Total ad spending declined in 2020 as a result of the coronavirus pandemic and cancelled events and travel. Digital advertising spending increase 12.2% in 2020 as advertisers targeted consumers through computers, mobile devices and streaming services, according to IAB. Total ad spending is forecast to grow 16.2% in 2021, 9.4% in 2022 and then 5-7% in 2023-2024, according to eMarketer. Digital ad spending is forecast to increase 21% in 2021.

Digital Services Driving Growth

Demand for digital services, including online ads, social media marketing, and mobile marketing, is growing rapidly and accounts for 51% of total ad spending. Digital media platforms include mobile, which represents 70% of digital revenue and is the fastest growing, and desktop. By ad type, search represents 42.2% of digital ad spending, followed by display (31.5%), social media (29.6%), digital video (18.7%), and other (7.6%), according to PricewaterhouseCoopers and IAB. Public relations agencies have established a foothold in the digital market by focusing on social media opportunities. While many start-ups are specializing in the digital arena, large agencies typically offer digital programs that are integrated into overall advertising plans. Clients continue to shift media dollars from traditional vehicles to digital programs.

Advertising to Children Draws Scrutiny

Concern over obesity trends and unhealthy eating habits has led Congress and the FTC to initiate studies regarding marketing efforts that are targeted to children. Extremists are calling for a ban on all advertising to children, and individual cities have enacted or are considering implementing bans on child-oriented promotions, such as Happy Meals. While the food industry self-regulates marketing to children, industry players fear further legislative action could significantly limit the types of programs manufacturers and agencies can develop to reach kids.

Growth in Analytics

Rapid growth in search engine and social marketing has created demand for advanced analytics that measure the efficacy of digital ad campaigns. Clients have always challenged agencies to justify programs and provide ROI; now, advanced analytics can take such measurement one step further by providing predictive data to help shape and optimize campaigns dynamically. Experts continue to debate the relative importance of social media and how to collect and integrate data from social networking sites.

Online Privacy Concerns

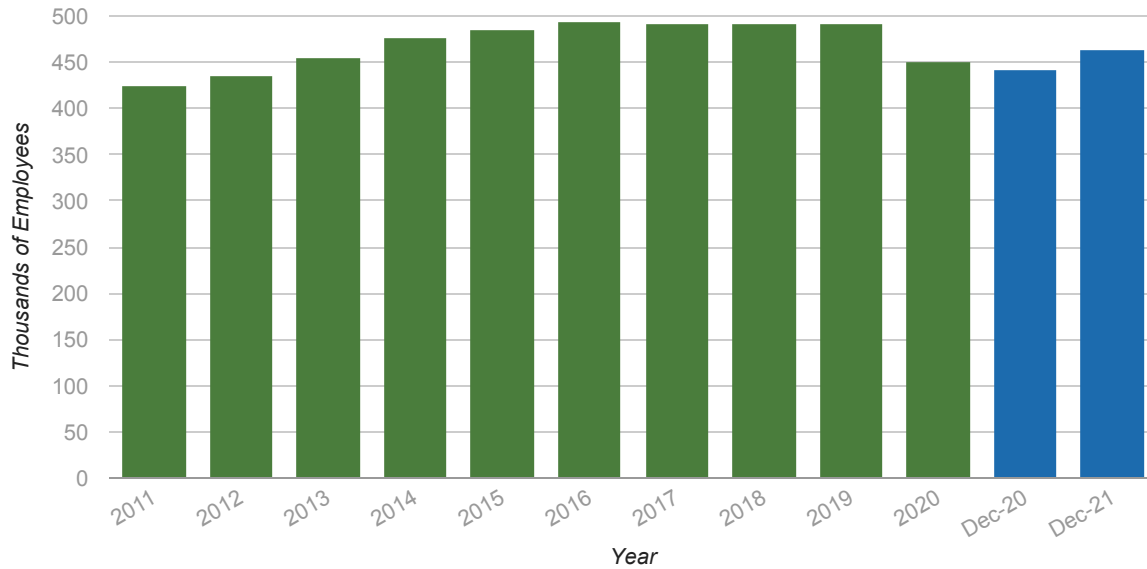
Expansion of the digital marketing arena and well-publicized instances of companies collecting consumer information without their knowledge has resulted in increased scrutiny upon online privacy. Privacy advocates feel that consumers need more notice when sharing information. The debate continues over the appropriate method to collect behavioral data, which is critical in determining how to deliver digital ads. Congress regularly considers legislation regarding consumer data privacy protection.

Employment and Wage Trends

Employment by advertising and PR agencies increases

Overall employment by advertising and PR agencies changed 4.7% in December compared to a year ago, according to the latest data from the Bureau of Labor Statistics.

Advertising & PR Agencies Employment

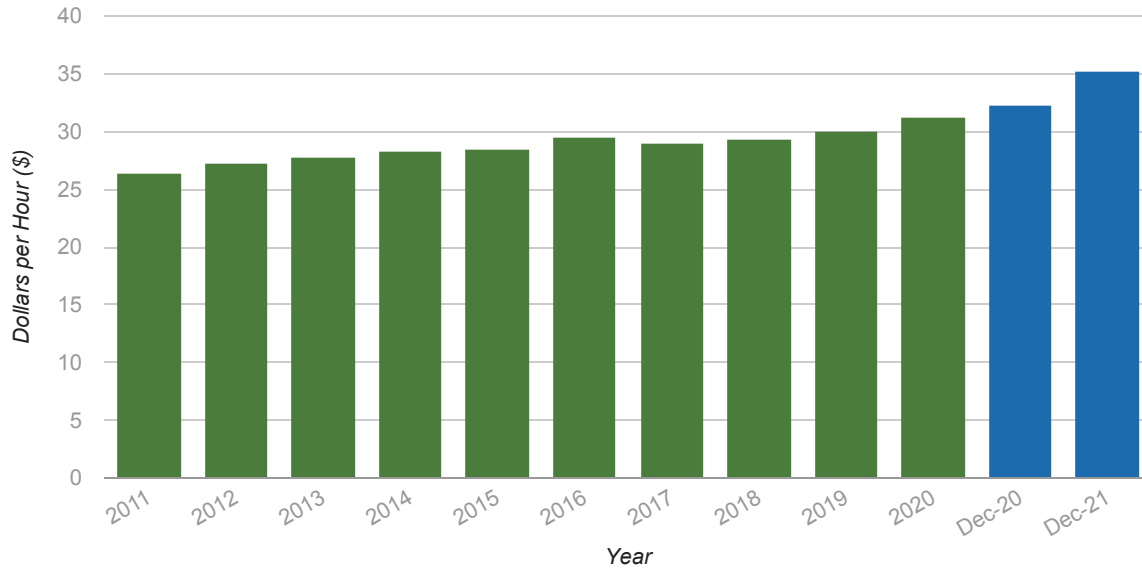


Source: Bureau of Labor Statistics

Wages at advertising and PR agencies rise

Average wages for nonsupervisory employees at advertising and PR agencies were \$35.13 per hour in December, a 8.9% change compared to a year ago.

Average Wages for Nonsupervisory Employees



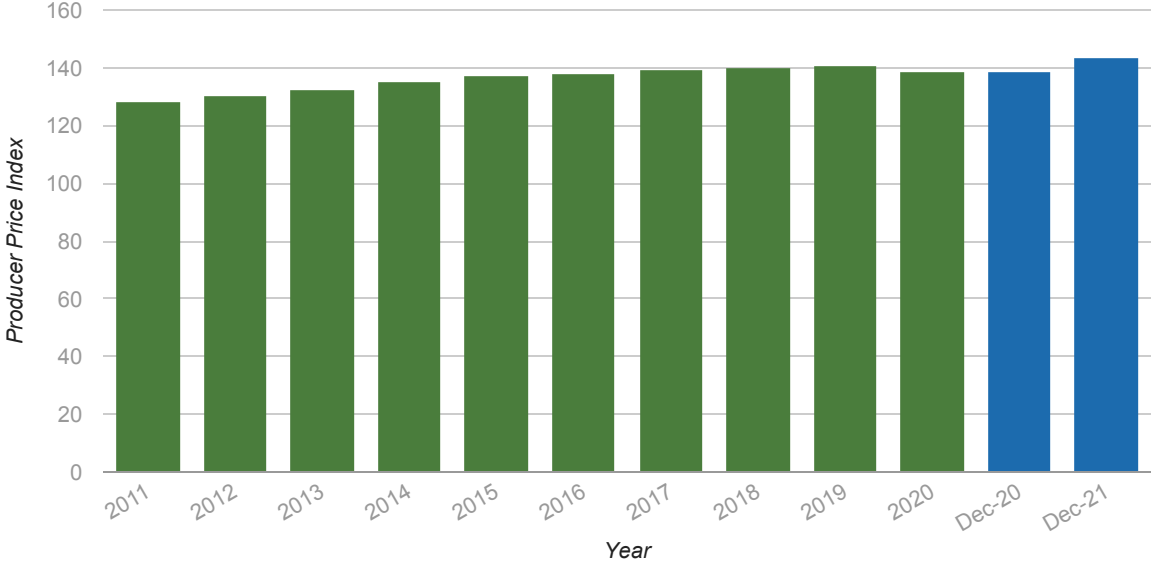
Source: Bureau of Labor Statistics

Price Trends

Producer Prices for advertising agencies rise

The Producer Price Index for advertising agencies changed 3.80% in December compared to a year ago, according to the latest data from the Bureau of Labor Statistics.

Producer Price Index for advertising agencies



Source: Bureau of Labor Statistics

Credit Underwriting and Risks



Business Exit Rates:	6.5	Higher than US average for all businesses
Cyclical Sensitivity:	6.0	High sensitivity
Barriers to Entry:	5.6	Low initial capital; low regulatory/technical barriers; moderate concentration
External Risk:	6.1	High external risk
Industry Outlook:	5.4	Comparable to GDP; high cyclical risk
Financial Summary:	5.4	Average margins; moderate liquidity; high leverage

Key Metrics

METRIC	VALUE	COMPARISON
Performance During 2007–2009 Recession	-7.6%	0.0% GDP
Business Exit Rate 2019–2020	10.58%	9.0% All Industries
Compound Annual Growth Forecast (2020–2025)	5.81%	6.1% GDP
SBA 7(a) Default Rate by Number of Loans (2010–2019)	5.53%	3.82% All Industries
SBA 7(a) Default Rate by Gross Loan Amount (2010–2019)	2.08%	1.21% All Industries

Underwriting Considerations

- With over 20,000 companies within the industry, how does the company compete in a saturated industry? What separates the company from its competitors?
- How does the company generate new clients?
- How much of the client base is repetitive or recurring business?
- Working Capital Lines of Credit are typical to support AR and possible staffing. Review a current AR Aging looking are concentration risk and AR over 90 Days.
- Look at AR Day trends and compare to industry averages.
- A Borrowing Base Certificate is recommended for larger lines to track eligible discounted collateral compared to line outstandings.

Industry Risks

Vulnerability to Economic Factors

The market for advertising and public relations services is highly dependent on overall health of the US economy. Economic downturns result in reduced demand for goods and services. Clients often decrease marketing budgets when business is soft, and advertising and PR programs can be easier to cut than other operating costs. Economic uncertainty may prevent clients from restoring marketing spending, leaving agencies with a reduced revenue stream for an extended period of time.

Increasingly Complex Media Environment

The media environment is constantly evolving as a result of new technology; in the last decade, the environment has changed dramatically. The advent of the Internet and cable TV has increased the number of channels marketers can use to reach an audience. Digital media in particular has become more important as consumers spend more time on the Internet and mobile devices, and less

time watching television. The shift from mass marketing to individualized marketing is a fundamental paradigm shift for the advertising and public relations industry. The increased complexity that has resulted has forced agencies to adapt and find talent with non-traditional expertise.

Government Regulation Restricts

The Federal Trade Commission (FTC) regulates the advertising industry by prohibiting “deceptive” advertising and promotion of goods, services and brands. Violations can result in corrective ad campaigns, civil penalties, cease and desist orders, and significant fines. The types of ads that tend to draw regulatory attention include those that make claims about health or safety (sunscreens reducing the risk of skin cancer) or claims that an average consumer might have difficulty evaluating (appliances reducing energy costs). Certain categories of goods, such as prescription drugs, are also regulated by the FDA. Federal law prohibits ads for tobacco products. Some advertising agencies have drawn regulatory attention by “pushing the envelope” creatively in their campaigns.

Advertising Overload Spurs Backlash

Advertising and publicity space has become increasingly cluttered, with marketers struggling to get their voices heard. The proliferation of ads and campaigns is viewed as an intrusion by some customers, who view them with skepticism and resistance. Because consumers and businesses can be overwhelmed by the level of noise, developing effective campaigns and satisfying clients is becoming increasingly challenging. Over-advertising (particularly with bad creative) can cause consumer backlash and negative publicity.

Challenges of Media Concentration

The media industry is concentrated at the national and local level across various types of vehicles, including television, print, radio, and Internet. With media conglomerates controlling large segments of ad space, agencies have diminished negotiating power, and small agencies in particular have little room to bargain. Even within the relatively young online advertising sector, the top 10 companies account for 78% of total revenue, according to the Interactive Advertising Bureau.

Company Risks

Retaining Clients

Many agencies, particularly specialized agencies, rely on a limited number of clients for the bulk of their revenue. Losing a major account often results in a quick and significant loss of money. Accounts can be demanding and often negotiate hard to keep fees low. A change in client management may initiate reevaluation of the agency relationship. Dissatisfied clients can put their accounts up for competitive review. In addition, key personnel with close client relationships may attempt to take accounts with them when they leave.

Recruiting and Retaining Creative Talent

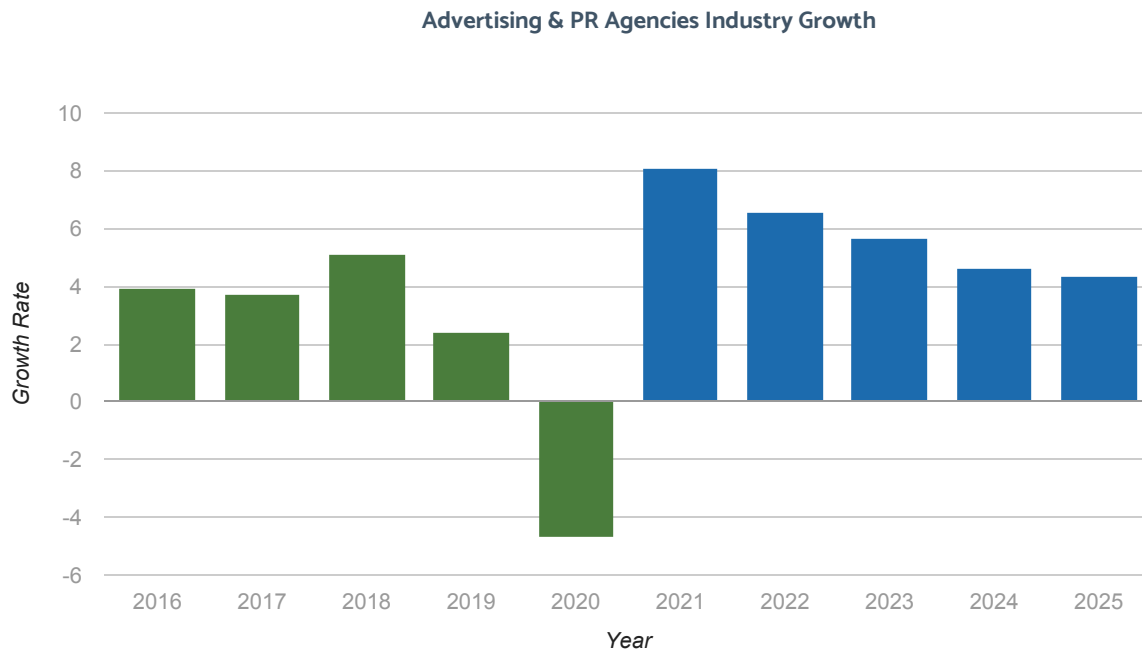
Creative talent is a critical element in an agency’s ability to deliver quality work to clients. Finding staff with the right combination of innovative and strategic thinking can be a challenge. Entry-level creative jobs are often low paying and job switching is common. Providing a nurturing creative environment can be difficult due to pressure from clients and tight deadlines.

Industry Forecast

Sales for the US advertising and PR agencies industry are forecast to grow at a 5.81% compounded annual rate from 2020 to 2025, comparable to the growth of the overall economy.

Vertical IQ forecasts are based on the Inforum inter-industry economic model of the US economy. Inforum forecasts were prepared by the Interindustry Economic Research Fund, Inc.

Last Update: August 2021



Source: Interindustry Economic Research Fund, Inc.

Working Capital

Sell and invoice

Advertising and public relations agencies generate revenue by charging fees for the development and execution of advertising and publicity campaigns. Fees may be based on a commission or a combination of hourly rates, a percentage of overhead, and a mark-up on deliverables produced. Agencies also earn a commission for media purchases by paying a lower net rate to the media (print, TV, radio or Internet) supplier, and charging the client a higher rate. Most client relationships involve a contract, which may prevent an agency from working for the client's competition. Contracts usually involve a termination clause, but typically only require 90 days notice.

21% of advertising agencies said they go to their accountant or bookkeeper for cash flow advice, while 10% turn to their banker, 13% turn to an industry partner or colleague, and 73% do not seek advice, according to a survey of small businesses by Barlow Research Associates.

Source: Barlow Research Associates.

Collect

Agencies typically carry high receivables. Collection periods average about 55 to 60 days and receivables account for 37% of total assets. Agencies often require an upfront payment of 10-50% of the project cost before beginning production work. For large jobs, they may bill for progress payments when milestones are achieved.

Manage Cash

Ad agencies may incur significant expenses for production or media costs and receive reimbursement from clients later. Depending on their client mix, demand may be seasonal. For example, agencies doing a lot of consumer advertising will experience peaks prior to the back to school and Christmas shopping seasons. When the economy is weak, agencies may face cash shortfalls due to reduced spending by clients and lower billable hours for creative staff.

Pay

Gross margins average about 45% of sales and tend to be higher for PR agencies, which are generally not involved in media purchases or ad production. Labor is the largest expense and averages 16-17% of sales.

Report

After-tax net profit averages 6-7% of sales and is slightly higher for PR agencies than advertising agencies. To manage their business, agencies typically monitor project backlog, monthly client billings per project, billable hours of staff members, accounts receivable aging, media purchases and commissions, and client proposals outstanding.

Cash Management Challenges

Gap In Expense And Payment Timing

Advertising firms can run into cash shortfalls due the timing of expenses for production costs and media purchases and payment from clients. Media buys and production expenses often occur upfront in a project, but clients may be unwilling to pay until the campaign is successfully executed. Firms may seek partial payments upfront or at defined milestones to reduce the cash gap.

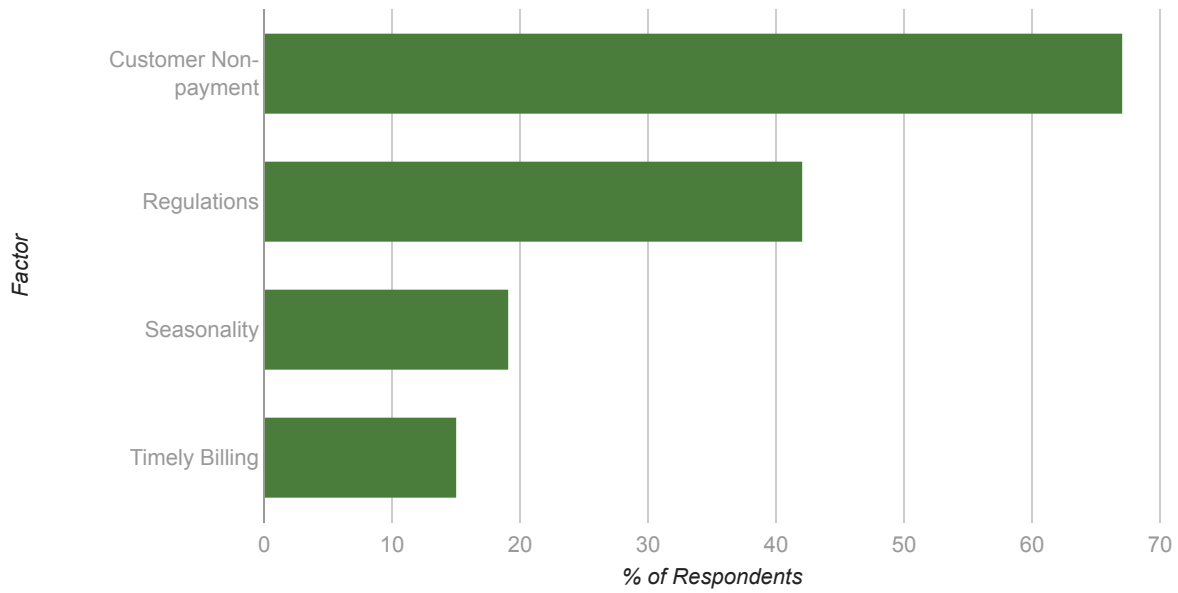
Timely Collections

Agencies typically carry high receivables. Unlike suppliers of components critical to manufacturing products, advertising and PR agencies have little leverage over clients and are frequently low priority for prompt payment.

Funding Digital Marketing Capabilities

Clients are shifting their advertising spending to digital media, such as online ads, social media, and mobile marketing. Digital marketing now accounts for 55% of industry revenue and is growing rapidly. To grow revenues, advertising and PR firms must fund investments in new hires, training, and information technology to expand their digital marketing capabilities.

Factors Causing Cash Flow Stress: Advertising Agencies



Source: Barlow Research Associates

Capital Financing

Advertising and public relations agencies generally have minimal capital needs. Many small companies are one or two person shops which operate out of small spaces (sometimes residences) with little equipment. Agencies may need to purchase computers, printers, and software to provide graphic design services, either for clients or for internal purposes. In some cases, large agencies require significant working capital to fund major expenses (such as production costs) incurred on behalf of clients.

Examples of Equipment Purchases



Ad Agency Management Software

\$50 - 200 per user per year (varies by number of users)

Web-based software that combines project management, digital asset management, estimating, media buying and planning, event management, campaign management, time slips, and accounting functions.



Graphic Design Software

\$1000 - 2,500

Software for creating illustrations and graphic images for print publications and web designs.

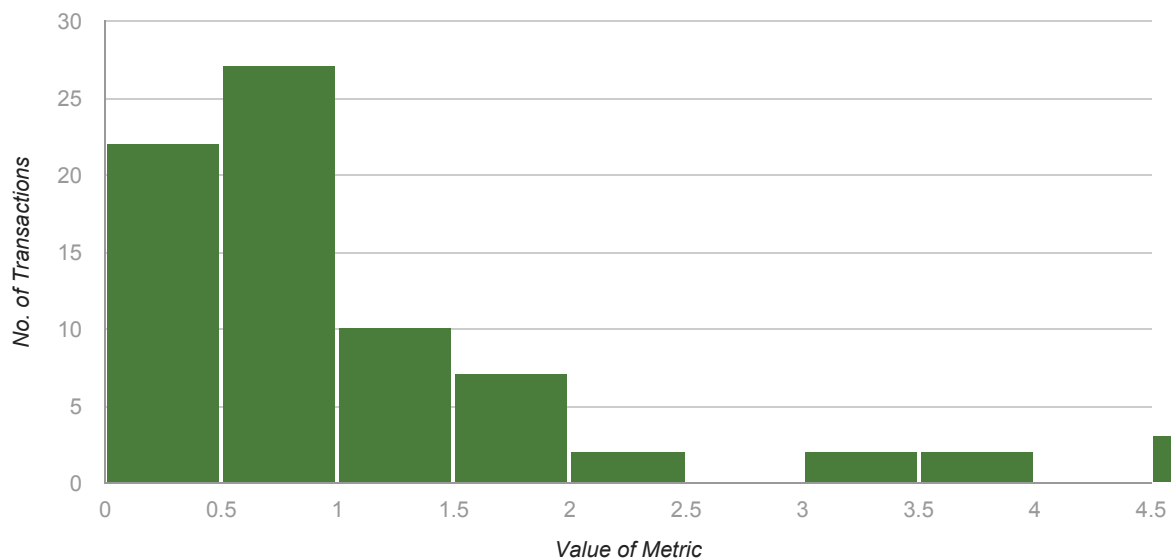
Business Valuation

This data on business valuations is supplied by DealStats, an online database with the most complete financial details on nearly 36,000 acquired companies. These companies are mostly small and medium-sized private firms.

Summary Valuation Data for Advertising & PR Agencies

	MEDIAN	MEAN	# TRANSACTIONS	DATES
Price to Net Sales	0.68	1.62	75	06/13/1996–06/11/2021
Price to Gross Profits	1.35	3.34	68	06/13/1996–06/11/2021
Price to EBITDA	5.99	33.79	40	06/13/1996–06/11/2021
Price to EBIT	5.63	29.44	60	06/13/1996–06/11/2021

Click on the metric below to see a distribution of transactions for the industry:



Source: DealStats

Count: 75

Min: 0.08

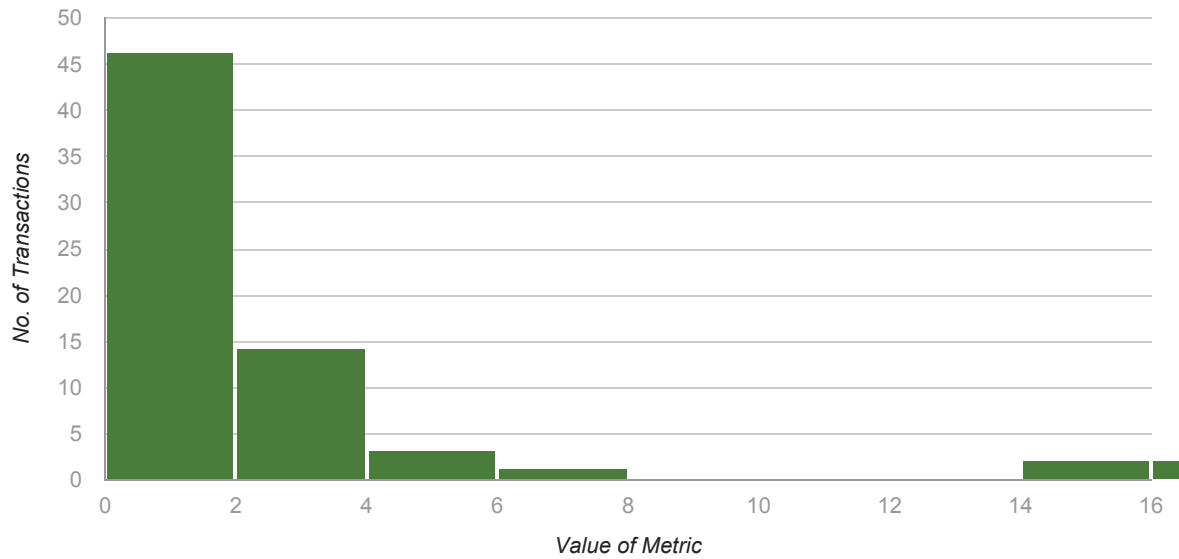
Max: 28.78

Mean: 1.62

Median: 0.68

Price to Sales = Selling Price/Net Sales

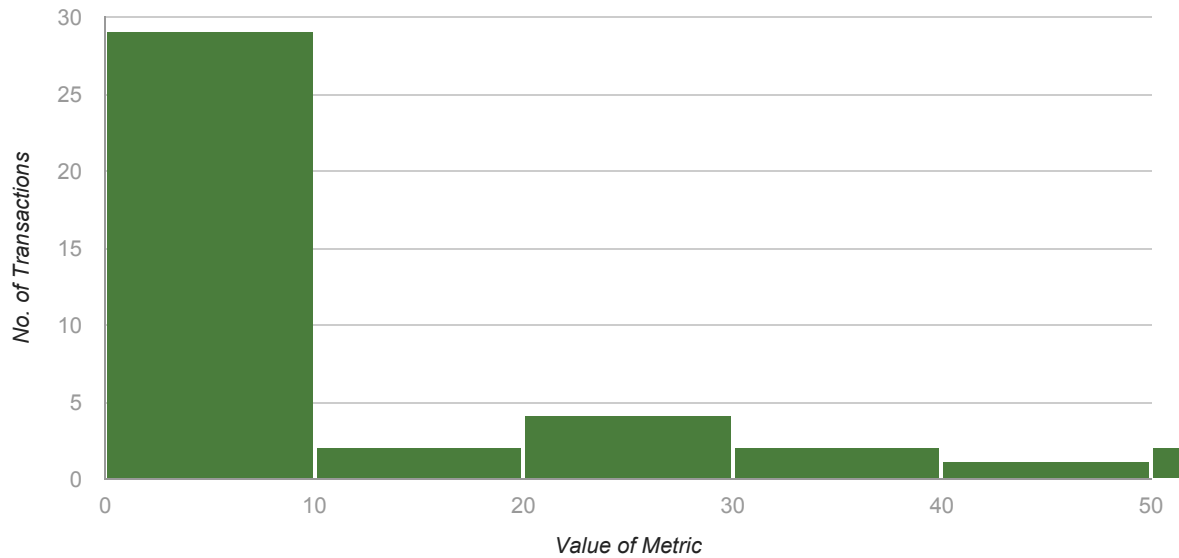
Date range: 06/13/1996 - 06/11/2021



Source: DealStats

Count: 68 **Min:** 0.11 **Max:** 70.24 **Mean:** 3.34 **Median:** 1.35

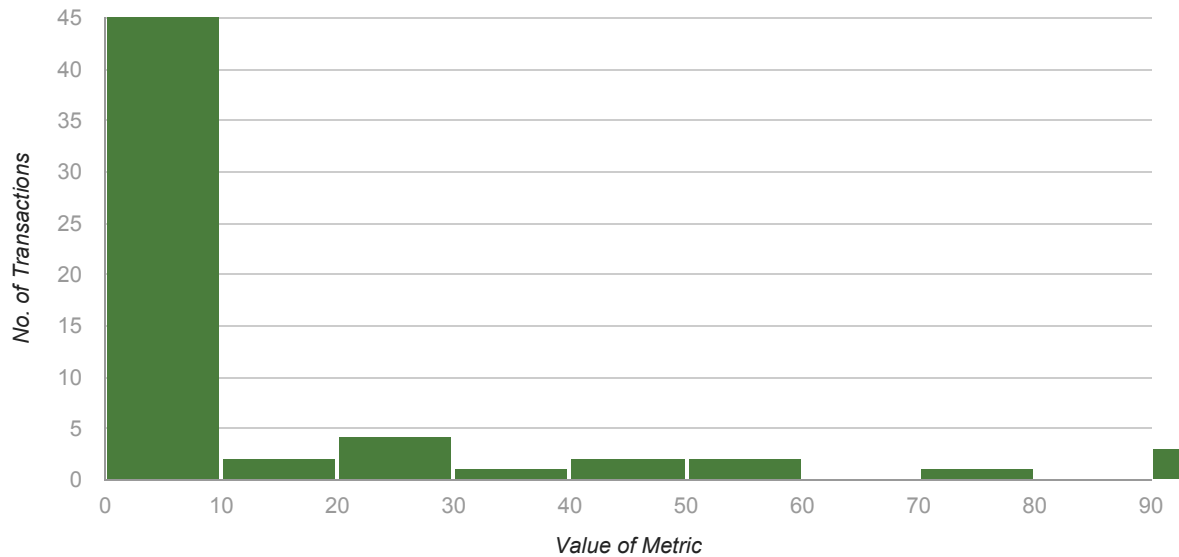
Price to Gross Profit = Selling Price/Gross Profit
Date range: 06/13/1996 - 06/11/2021



Source: DealStats

Count: 40 **Min:** 0.98 **Max:** 800.0 **Mean:** 33.79 **Median:** 5.99

Price to EBITDA = Selling Price/Operating Profit + Depreciation & Amortization
Date range: 06/13/1996 - 06/11/2021



Source: DealStats

Count: 60

Min: 0.99

Max: 800.0

Mean: 29.44

Median: 5.63

Price to EBIT = Selling Price/Operating Profit

Date range: 06/13/1996 - 06/11/2021

Selling Price, also known as MVIC (Market Value of Invested Capital) is the total consideration paid to the seller and includes any cash, notes and/or securities that were used as a form of payment plus any interest-bearing liabilities assumed by the buyer. The MVIC price includes the noncomplete value and the assumption of interest-bearing liabilities and excludes (1) the real estate value and (2) any earnouts (because they have not yet been earned, and they may not be earned) and (3) the employment/consulting agreement values. In an Asset Sale, the assumption is that all or substantially all operating assets are transferred in the sale. In an Asset Sale, the MVIC may or may not include all current assets, non-current assets and current liabilities (liabilities are typically not transferred in an asset sale).

Source: DealStats 2019 (Portland, OR; Business Valuation Resources LLC). Used with permission. DealStats is available at <https://www.bvresources.com/learn/dealstats>

Financial Benchmarks

The following financial benchmark data is based on annual financial statements submitted by member institutions of the Risk Management Association from Q2 of the first year listed through Q1 of the following year.

Financial Ratios (Advertising & PR Agencies, Industry-wide)

MEASURE	2018-19	2019-20	2020-21
Current Ratio [?]	1.23	1.18	1.22
Quick Ratio [?]	1.07	.99	1.12
Days Inventory [?]	4.14	4.06	2.79
Days Receivables [?]	59	58	36
Days Payables [?]	52.17	54.76	30.42
Pre-tax Return on Revenue [?]	4.33%	3.28%	5.00%
Pre-tax Return on Assets [?]	9.00%	7.21%	15.70%
Pre-tax Return on Net Worth [?]	31.40%	35.82%	92.29%
Interest Coverage [?]	9.53	8.32	7.34
Current Liabilities to Net Worth [?]	1.70	2.82	2.98
Long Term Liabilities to Net Worth [?]	0.79	1.15	1.9
Total Liabilities to Net Worth [?]	2.49	3.97	4.88
<i>Number of Firms Analyzed</i>	385	286	196

Income Statement (Advertising & PR Agencies, Industry-wide)

ITEM	2018-19	2019-20	2020-21
Revenue	100.0%	100.0%	100.0%
Cost of Sales	54.58%	54.61%	51.6%
Gross Margin	45.42%	45.39%	48.4%
Officers Compensation	3.43%	3.27%	2.57%
Salaries-Wages	15.1%	14.13%	17.66%
Rent	1.78%	1.77%	1.91%
Taxes Paid	1.56%	1.54%	1.89%
Advertising	3.69%	3.47%	1.11%
Benefits-Pensions	1.33%	1.31%	2.29%
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ITEM	2018-19	2019-20	2020-21
Repairs	0.31%	0.31%	0.33%
Bad Debt	0.13%	0.12%	0.12%
Other SG&A Expenses	8.63%	10.55%	10.49%
EBITDA	9.46%	8.92%	10.03%
Amortization-Depreciation	1.91%	1.2%	2.45%
Operating Expenses	37.87%	37.67%	40.82%
Operating Income	7.55%	7.72%	7.58%
Interest Expense	1.36%	0.75%	1.36%
Other Income	0.07%	0.3%	-1.54%
Pre-tax Net Profit	6.12%	6.67%	7.76%
Income Tax	0.2%	0.36%	-0.01%
After Tax Net Profit	5.92%	6.31%	7.77%
<i>Number of Firms Analyzed</i>	385	286	196

Balance Sheet (Advertising & PR Agencies, Industry-wide)

ASSETS	2018-19	2019-20	2020-21
Cash	24.67%	27.51%	34.06%
Receivables	36.91%	37.08%	29.01%
Inventory	2.25%	1.7%	1.64%
Other Current Assets	4.42%	5.38%	3.63%
Total Current Assets	68.26%	71.66%	68.35%
Net Fixed Assets	13.27%	10.79%	11.08%
Net Intangible Assets	9.3%	8.52%	10.89%
Other Non-Current Assets	9.16%	9.03%	9.68%
<i>Total Assets</i>	100.0%	100.0%	100.0%
LIABILITIES			
Accounts Payable	21.58%	20.09%	18.29%
Loans/Notes Payable	16.14%	14.61%	18.77%
Other Current Liabilities	25.16%	27.87%	23.5%
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LIABILITIES

Total Current Liabilities	62.88%	62.57%	60.56%
Total Long Term Liabilities	18.43%	20.33%	29.34%
Total Liabilities	81.31%	82.91%	89.9%
Net Worth	18.69%	17.06%	10.1%
Total Liabilities & Net Worth	100.0%	100.0%	100.0%
<i>Number of Firms Analyzed</i>	385	286	196

Vertical IQ financial benchmark data is based on data provided by the Risk Management Association (RMA) and Powerlytics, Inc. RMA's Annual Statement Studies provide comparative industry financial benchmarks based on financial statements of small and medium business clients of RMA's member institutions. Additional detail on income statement line items is provided using Powerlytics financial benchmarks, which are based on reporting submitted to the IRS. Additional detail on these data sources can be found at [RMA](#) and [Powerlytics](#).

Bank Product Usage

The following table provides the frequency of bank product usage by Advertising Agencies, which includes Advertising & PR Agencies, with less than \$10 million in annual revenue. It is provided by Barlow Research Associates, Inc., the premier market research firm in the financial services industry.

Top Bank Products Used by Advertising Agencies

BANK PRODUCT	% OF FIRMS
Business checking account services	97.0
Overdraft protection for business checking	76.0
Automated clearing house services (ACH)	70.0
Business debit card or business check card	66.0
Point-of-sale credit card processing	66.0
Business credit card issued in your company's name (Visa, MasterCard, Amex, etc.)	62.0
Business savings or money market account	62.0
Wire transfer services	59.0
Credit lines secured by receivables, inventory, property or other assets	58.0
Money market mutual funds or short-term investments	54.0
Remote deposit capture (scanning checks at your office or by mobile device for electronic deposit)	47.0
Electronic payments initiated through the Internet (Bill Payment)	45.0
Commercial real estate mortgage	39.0
Unsecured short-term loans or working capital line of credit (less than one year)	38.0
Account reconciliation processing (ARP)	38.0
Commercial real estate mortgage (investment property)	35.0
Payroll processing	33.0
SBA loans	29.0
Commercial real estate mortgage (company occupied building)	28.0
Company sponsored 401(k), SEP, pension or profit sharing plan	27.0
Certificates of deposit	25.0
Term loans or equipment financing (one year +)	20.0
International (foreign exchange, import/export letters of credit)	10.0
Overnight investment or sweep accounts	10.0
Equipment leasing	9.0

BANK PRODUCT**% OF FIRMS**

Accounts receivable collection (lockbox)

7.0

Barlow's Small Business Banking program is a multi-client research program sponsored by leading banks. Each quarter, a stratified random sample of businesses throughout the United States with sales between \$100,000 to \$10 million compiled from an independent list provider are invited to participate in a comprehensive banking survey of over 100 questions. The results measure channel adoption, bank satisfaction, brand power, account management, service quality, business product usage and the selling abilities of leading providers. The results in this chapter are calculated directly from the business product usage section and represent usage for the average small business (\$100K-<\$10MM).

For more information on Barlow's banking research, go to <http://www.barlowresearch.com/>

Quarterly Insight

1st Quarter 2022

Digital Media Expected to Receive the Most Advertising Dollars in 2022

Total 2022 advertising spending across 16 media platforms serving local audiences will reach \$173 billion in 2022, according to BIA Advisory Services. Over half (51%) will be spent in digital media, primarily Google and Facebook. Mobile ads on smartphones will get the largest portion at \$36.7 billion. Over-the-top (OTT) advertising will reach \$2 billion in spending targeting local viewers, making it one of the fastest growing local ad platforms. OTT ads, also known as streaming TV ads, are the advertisements delivered to viewers within video content. Local TV is expected get about \$4 billion in political spending.

4th Quarter 2021

Opportunities Exist At Smaller Firms

About 96% of small- and medium-size business (SMB) owners that responded to a CallRail survey said that they would be willing to pay advertising agencies for additional services to improve their business outside of marketing. Services of interest to clients include customer service workshops, sales training, and brand coaching. Only 11% of the SMB respondents said that they currently work with a marketing agency, but 45% said that they're likely to hire one in the future. About 93% of SMBs who hired an internal marketer said that they'd probably still engage an external agency. Some 67% who hired an internal marketer wish they'd just hired an agency instead.

3rd Quarter 2021

Changes To Web Tracking Tools Affect Industry

Changes to Apple and Google's web tracking tools are forcing advertising and PR services to rethink their digital strategies. Apple has forced app developers to ask permission to collect unique identifiers needed to target mobile ads, while Google plans to end support for third-party cookies on the Chrome web browser. Analysts say the changes are being made by the technology giants in response to increasing concern about privacy. The changes may help technology companies, the advertising industry, and the PR industry avoid tighter regulation.

2nd Quarter 2021

Quick Recovery Expected

The ad market is recovering from the effects of the coronavirus pandemic faster than it did following the 2008 recession, according to analysts at media investment management firm GroupM. The company expects the advertising market to grow 15% in 2021. The Magna advertising agency expects that the strongest ad spending growth rates will come from the travel, automotive, beverages, and movies categories. Growth may be slower in sectors that rely heavily on foreign supply chains which are linked to countries that may not recover as quickly.

1st Quarter 2021

States Eye Digital Advertising as Revenue Source

Lawmakers in Maryland, Nebraska, West Virginia, and New York State have their sights on digital advertising as a target for increasing tax revenues. A bill introduced in the New York State Senate, for example, seeks to extend application of New York State's sales tax to "digital advertising services" in order to fund a zero interest student loan refinancing program. Industry experts say that the growing trend of state legislative efforts to directly tax digital advertising services, combined with ballooning budget deficits in the wake of the recent economic downturn triggered by the COVID-19 pandemic, suggests that it may not be long before the adoption of taxes

focused directly on digital advertising services is completed.

4th Quarter 2020

Major Advertising Shift Expected

TV ad spending could decline by \$5 billion from 2019 to 2023, according to research firm MoffettNathanson. While the movement of more content online for access via streaming services will be partly responsible for declining TV ad spending, the vast majority of digital ad spending growth is coming from other sources. "The future tends to look more and more like advertising is going to be less prevalent through the consumption of entertainment and more prevalent on the retail and e-commerce side," Insider Intelligence analyst Blake Drosch pointed out. A company like Amazon could see its ad businesses take off as consumer packaged-goods companies shift more of their spending from television to its online marketplace.

3rd Quarter 2020

Network Advertising Revenue Declines

Cable networks' advertising revenue declined 27% year over year during Q2, according to CNBC. Broadcast television advertising revenue declined 28% during the period. Cancelled sporting events and lower advertiser spending were key causes of the reductions. Several cable and broadcast companies said that the state of the advertising market was generally better than expected despite the decline. Many industry analysts say that recovery of advertising revenue will be contingent on the resumption of program production, which has been impacted by the coronavirus pandemic.

2nd Quarter 2020

Pandemic Presents Challenges, Opportunities

The coronavirus pandemic is projected to reduce total US 2020 marketing communications spending by as much as \$11 billion, according to The Myers Report, with advertising's share of reductions totaling \$3.1 billion. Advertising services have already been impacted by the pandemic: Industry employment declined 7.6% year over year in April, according to the US Bureau of Labor Statistics. Retail sales, a driver of advertising expenditures, declined 21.6% year over year for the 12-month period ending on April 30, according to the US Department of Commerce. The decline is the largest for any 12-month period since 1992. Political advertising expenditures related to the coronavirus outbreak are increasing, however. Candidates spent \$467,000 during the week of March 10 on local broadcast ads that mentioned COVID-19. During the week of April 28, the most recent week for which data is available, spending on such ads had risen to \$3.2 million.

Industry Terms

Analytics

The measurement, collection, and analysis of online data.

Digital media/digital services

Definitions may vary, but generally include online ads, social media, and mobile device advertising.

FDA

Food and Drug Administration: Government agency in charge of regulating the food and drug industry.

Frequency

The number of times an audience is exposed to an advertisement.

FTC

Federal Trade Commission: Government agency in charge of consumer protection and fair competition.

Reach

The size of an audience that is exposed to an advertisement.

Web Links

[Advertising Age](#)

News, trends, and statistics.

[Ad Week](#)

News, trends, and statistics.

[PR Week](#)

News and trends.

[American Association of Advertising Agencies](#)

News, trends, and legislative issues from trade association.

[Public Relations Society of America](#)

News and trends from trade association.

Related Profiles

[Commercial Printers](#)

NAICS: 3231 SIC: 2732, 2752, 2754, 2759

[Graphic Design Services](#)

NAICS: 541430 SIC: 7336

[Internet, TV & Mail-Order Retailers](#)

NAICS: 4541 SIC: 5961

[Marketing Consulting Services](#)

NAICS: 541613 SIC: 8742

[Motion Picture,TV & Video Production](#)

NAICS: 512110 SIC: 7812

[Movie Theaters](#)

NAICS: 512131 SIC: 7832

[Newspaper Publishers](#)

NAICS: 511110 SIC: 2711

[Packaging and Labeling Services](#)

NAICS: 561910 SIC: 7389

[Radio Stations](#)

NAICS: 515111, 515112 SIC: 4832

[Sign Manufacturers](#)

NAICS: 339950 SIC: 3993

Niche Profiles

[Political Consulting Services](#)

NAICS: 541820 SIC: 8743

[Promotional Products](#)

NAICS: 541890 SIC: 3993

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