

Marketing Consulting Services

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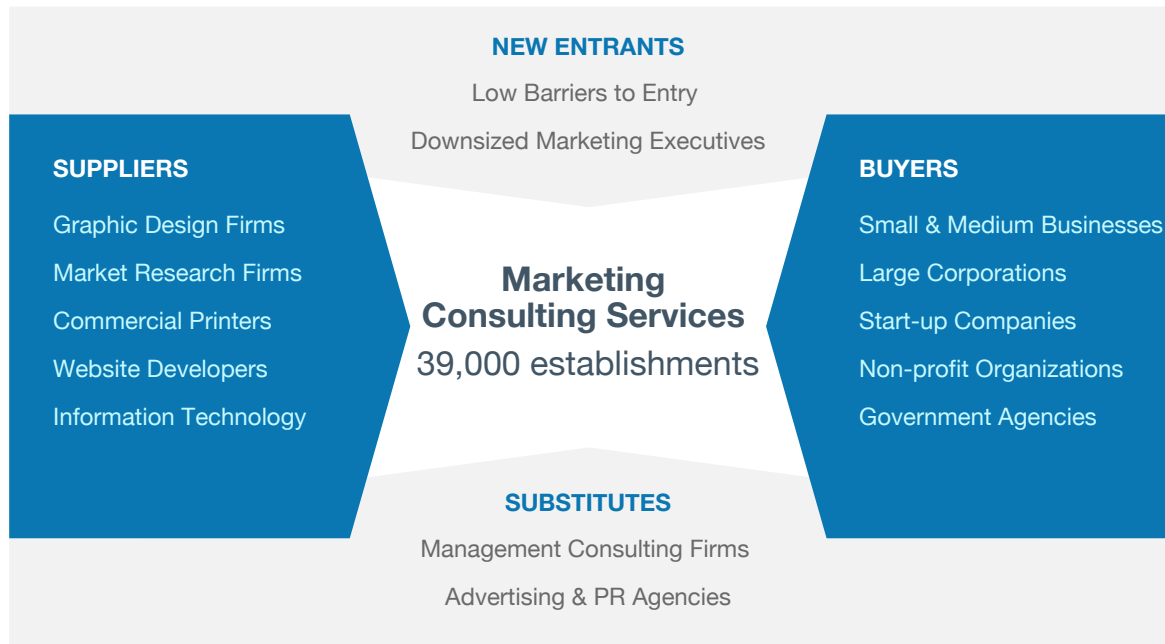
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Coronavirus Update

Jan 21, 2022 -- Supply Chain Issues, Omicron Could Temper Ad Spending

- In the early days of the pandemic, businesses pulled back sharply on spending, including marketing and advertising. However, US ad spending remained mostly resilient, buoyed by the agility of digital media formats. Total US ad spending in 2020 declined 1.3% to \$227 billion, according to ad firm MAGNA. A 10% rise in digital ad spending was insufficient to offset a 16% drop in linear ads. US ad spending increased 25% in 2021 to \$284 billion compared to 2020, according to a revised outlook released in December by MAGNA. US ad spending in 2021 saw broad-based growth across all major industry verticals, led by (technology +29%), retail (+28%), entertainment (+27%), and finance (+25%). Pandemic-related supply chain disruptions – primarily the semiconductor shortage – could affect 2022 marketing and ad spending in some affected verticals, including automotive, consumer electronics, and toys and games. MAGNA expects total North American ad spending for 2022 to rise more than 12% compared to 2021.
- US digital ad spending is expected to see continued growth in 2022 after better-than-expected rises in 2020 and 2021, according to eMarketer. Despite the pressures of the pandemic, US digital ad spending in 2020 grew 15.3%. In 2021, US digital ad spending saw unprecedented growth, rising 38.3% to \$211.2 billion, according to eMarketer. US digital ad spending is expected to moderate in 2022 and grow 13.6% to \$239.9 billion. Digital is projected to keep gaining share at the expense of other channels due to its audience targeting and measurability benefits.
- Google and Amazon enjoyed strong growth in ad revenue in Q3 2021, further signaling a solid rebound from the pullback in advertiser spending earlier in the pandemic. Google's ad revenue increased 43% to \$53.1 billion in Q3 2021 compared to the same period in 2020. Google's YouTube division's ad sales jumped 43%. Google executives have noted that YouTube has increasingly evolved into an e-commerce site during the pandemic. Revenue for Amazon's "other" financial reporting segment, which is mainly advertising, jumped 49% over Q3 2020 to \$8.1 billion. Google's and Amazon's ad revenue growth has been part of a larger pandemic-related tech boom as consumers and businesses rely more on smart devices, online shopping, cloud services, and video streaming.
- Industry insiders point out there was no historical data to fall back on for marketing during a global pandemic. As conditions rapidly evolved early in the pandemic, brands rolled out new marketing campaigns in record time. While long-term mapping for marketing strategies will remain, marketers believe the agility lessons learned during COVID-19 are here to stay. According to Marketing Dive, marketers are likely to lean on data analytics to pinpoint emerging trends and move quickly with fresh creative that builds on long-term brand equity.
- Hard-hit industries – such as hospitality and travel – may recalibrate their marketing and ad budgets as COVID-19 cases rise again amid the emergence of the Omicron variant of the coronavirus. In a Gallup survey conducted during the first two weeks of January, 58% of US respondents said they felt the pandemic was getting worse. About 56% said they avoided large crowds in the past week, and 46% reported avoiding travel by plane, bus, subway, or train. However, after nearly two years of pandemic-related restrictions, there is significant pent-up demand for travel, according to a 2022 tourism outlook report by Expedia Group. More than 80% of those surveyed said they plan to take at least one trip with family and friends within the next six months. More than half said they planned to spend more money on trips than they did before the pandemic.
- Although American optimism about the economy continues to gain ground, consumer spending is still focused on enhancements to in-home working and living, according to a December report by McKinsey & Company. At the time of the McKinsey survey in October, 44% of US consumers were optimistic about spending. E-commerce levels remained high – up 35% compared to October 2020. The trend suggests that omnichannel is holding ground as consumer shopping habits blend in-store and online, with social media holding increasing sway over categories including jewelry, accessories, and fitness. McKinsey notes that as the pandemic has worn on, consumers' brand loyalties have wavered, and 40% report switching brands.
- As consumers spent more time on their mobile devices during the pandemic, spending on mobile ads has increased. According to mobile analytics firm App Annie, in 2021, global mobile ad spending grew 23% over 2020 levels and reached \$295 billion. The trend is expected to continue in 2022 as consumers worldwide shop, work, game, and stream from home. Global spending on mobile ads is forecast to reach \$350 billion by the end of 2022.

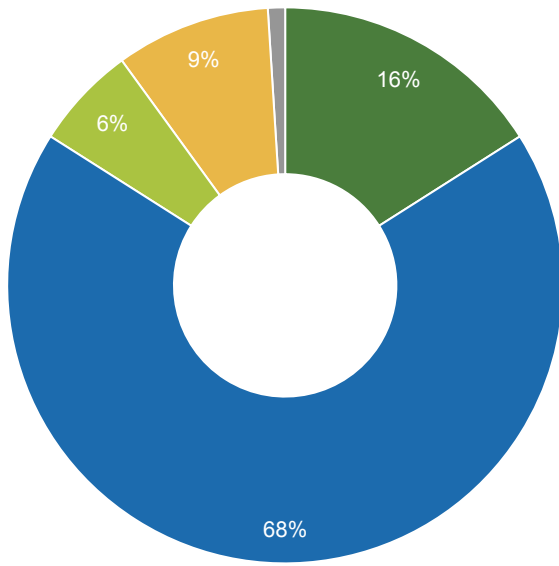
Industry Structure



The average marketing consulting firm operates out of a single location, employs 6-7 workers, and generates about \$1 million annually.

- The marketing consulting services industry consists of about 39,000 establishments that employ 262,400 workers and generate about \$43 billion annually.
- The industry is fragmented; the top 50 companies account for about 24% of industry revenue.
- Large management consulting firms that provide marketing consulting services include Bain, Boston Consulting Group, and McKinsey. ZS Associates is a management consulting firm that specializes in sales and marketing. Most marketing consulting firms are small, independent operators.

Industry Demographics



- Corporations (16.0%)
- S-Corporations (68.0%)
- Individual Proprietorships (6.0%)
- Partnerships (9.0%)
- Non-profit/Other (1.0%)

Source: US Census Bureau



Female Owned

26.0%



Minority Owned

12.0%



Veteran Owned

7.3%

Source: Census Bureau

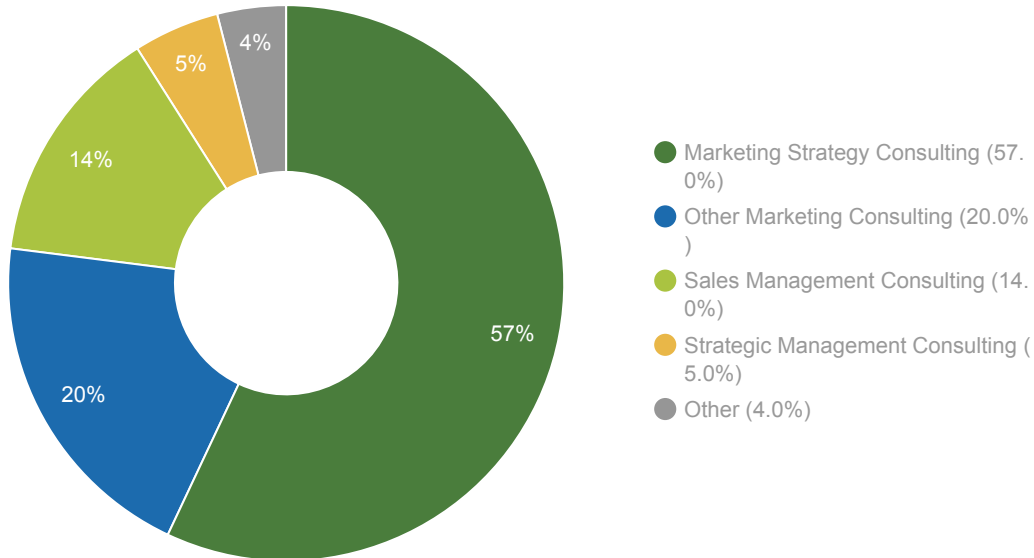
How Firms Operate

Products and Operations

Marketing consulting services provide advice and assistance on marketing related issues.

- Services include marketing strategy and market development consulting and implementation; sales management and development consulting and implementation; and strategic management consulting and implementation.
- Firms may also provide consulting services related to finance, operations, and human resources.

Marketing Consulting Services



Source: US Census Bureau

Marketing consulting projects include the development of marketing objectives, policies, plans, and strategies; sales forecasting models; or new product strategies. Firms may also offer assistance in licensing and franchise planning. Business to consumer (B2C) marketing involves selling products and services to consumers, while business to business (B2B) marketing involves selling to other businesses or organizations. Projects often involve working with other functional areas, such as market research, sales, and product development. Firms may also interact with outside groups, such as advertising or public relations agencies.

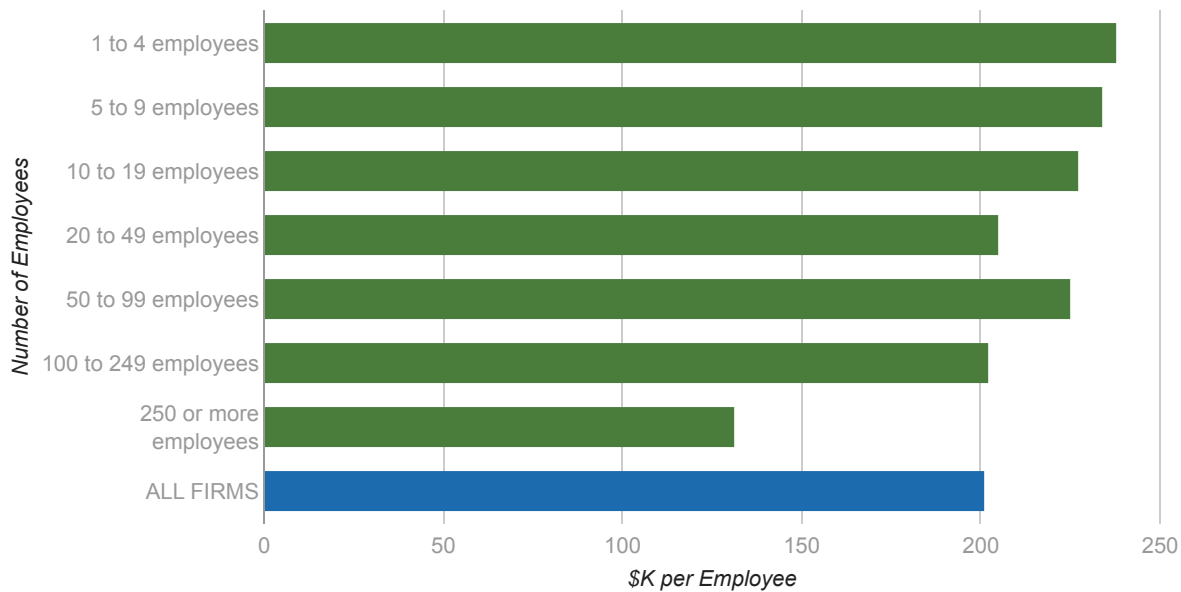
Marketing consultants may offer a variety of services or specialize in a particular area. A firm may specialize in an industry, such as consumer products or pharmaceuticals, or a specific area within marketing, such as digital marketing or new products. For example, search engine optimization (SEO) marketing consultants help firms optimize websites to maximize search engine traffic. Omnichannel marketing involves the use of multiple channels to reach customers (retail, online, mobile). Clients are typically interested in the return on investment (ROI) for marketing expenditures.

Clients include large and small corporations and non-profit and government organizations. Start-ups often rely on marketing consultants to prepare the marketing plan necessary to secure investors or serve as a temporary marketing department until they can hire staff. Large clients may outsource certain marketing projects where they lack the resources or expertise. Consultants are typically considered experts in their fields and have often worked on the client or agency side of the business. The top consulting firms employ a large staff of consultants, most of which have industry experience or training. Small independent operators may be self-employed.

Marketing and promotional vehicles include advertisement in trade journals, brochures, websites, newsletters, and public speaking engagements. Referrals are extremely important in the marketing consulting industry. New firms may cold call potential clients to secure new business. Marketing consulting firms generate business by responding to requests for proposals (RFPs), which include a

definition of the scope of the work required, time frame, and budget considerations. The time frame for a project varies from a few weeks to a few years, depending on the scope of the project.

Revenue per Employee by Firm Size



Source: US Census Bureau

Profit Drivers

Improving Win Rate

Marketing consulting services typically acquire new clients and projects by responding to requests for proposals. Time spent marketing, prospecting, and preparing proposals is non-billable and can represent a significant expense for a firm, particularly if it does not win the business. A low win rate on new project bids reduces the profitability of the firm and can result in cash shortfalls. To improve their win rate, firms rely on positive referrals from satisfied clients, networking to establish relationships with prospects, and tools to develop comprehensive and professional proposals for new projects.

Growing Repeat Business

Gaining repeat business with existing clients typically requires much less sales effort and expense than winning projects with new clients. Knowledge of the client's business and marketing needs provides a competitive advantage for incumbents and many projects may be awarded without competitive bids. Of course, gaining repeat business depends on doing quality work that results in high client satisfaction. Firms able to develop a steady stream of projects from existing clients have more stable cash flow and are able to schedule staff resources more efficiently, particularly if they establish a monthly retainer relationship with the client.

Effectively Managing Projects

Once a project is won, firms must effectively manage it to meet client satisfaction and profitability goals. This requires accurate upfront scoping of the tasks and costs involved in meeting the client's goals. It also requires strong project management skills to keep the project on time and within the original scope. "Scope creep" can reduce the profitability of the project and firms must balance charging for additional client requests to maintain profit margins with achieving high client satisfaction that can lead to further business.

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.

Industry Growth Fluctuates

The consulting industry has enjoyed modest sales growth in recent years. Revenue for management, scientific, and technical consulting service providers, which include marketing consultants, increased 2-5% annually in 2015-2019, before declining 4.4% in 2020. Revenue has grown despite declining prices, which fell 1-2% annually in 2014-2016, 8.9% in 2017 and 5% in 2018, before rising 4.4% in 2019. Prices dropped 18.8% in 2020. Higher prices typically indicate a rise in demand for consulting services.

Digital Marketing Spending on the Rise

Growth in spending on digital marketing is expected to drive demand for related consulting services. Spending on digital advertising in the US is forecast to reach \$191 billion in 2021 and exceed \$278 billion in 2024, according to eMarketer. Worldwide social media advertising is forecast to increase from \$89.5 billion in 2019 to \$138.4 billion in 2025, according to Statista. Marketers are expected to dedicate 50% of marketing budgets to digital advertising in 2021, up from 42% in 2018, according to Forrester Research. Digital marketing includes social media marketing, SEO marketing, pay-per-click (PPC) marketing, and content marketing. Clients are increasingly turning to outside agencies and consultants to assist with digital marketing strategies and programs. Large consulting firms, including Accenture and Deloitte, have expanded digital marketing capabilities through acquisitions.

Big Data And Sophisticated Analytics

The advent of big data and sophisticated analytic programs has given marketers new and powerful tools to operate more effectively and uncover new opportunities. The big data and analytics market is projected to grow 15.8% annually to nearly \$421 billion worldwide in 2027, according to Allied Market Research. Firms are turning to big data to develop more and better insights into consumers and customers. Analytics also help clients better evaluate their marketing mix, channels of distribution, and marketing productivity. The challenge many marketers face is making sense of the massive amounts of data and tools available at an aggregate level. Opportunities exist for marketing consultants that can help clients better understand and leverage big data as it relates to their business.

Growth In Market Research

Despite improvement in the US economy and the overall consulting industry, the market research sector has yet to have a breakout year, although growth is ongoing. Total US research revenue increased 3-6% annually during 2013-2019, according to an American Marketing Association (AMA) survey of the top 50 firms. In 2020, revenue growth slowed to 0.4% as a result of the pandemic. The top firms bring in considerable business from outside the US, representing 53% of their revenue in 2020.

Content Marketing Expands

Marketers are increasingly relying on content marketing to reach customers more effectively. Content marketing uses the creation of relevant and valuable content to engage a target audience. Examples include how-to guides, shareable visuals, curated content (Pinterest), and behind the scenes galleries. About 31% of B2B marketers and 34% of B2C marketers rate their content marketing as “very” or “extremely” successful, according to 2021 surveys by the Content Marketing Institute. Firms may deliver content through social media (LinkedIn, Twitter, Facebook, YouTube, Google+), blogs, email newsletters, website articles, in-person events, case studies, videos, white papers, mobile apps, webinars, microsites, and other tools.

Marketing Employment Growth Slows

Demand for marketing professionals has eased in recent years. Employment for marketing consulting increased 5-8% annually between 2011 and 2016, with growth easing to 1-3% in 2017-2019 and falling 4.4% in 2020. Employment of market research analysts and

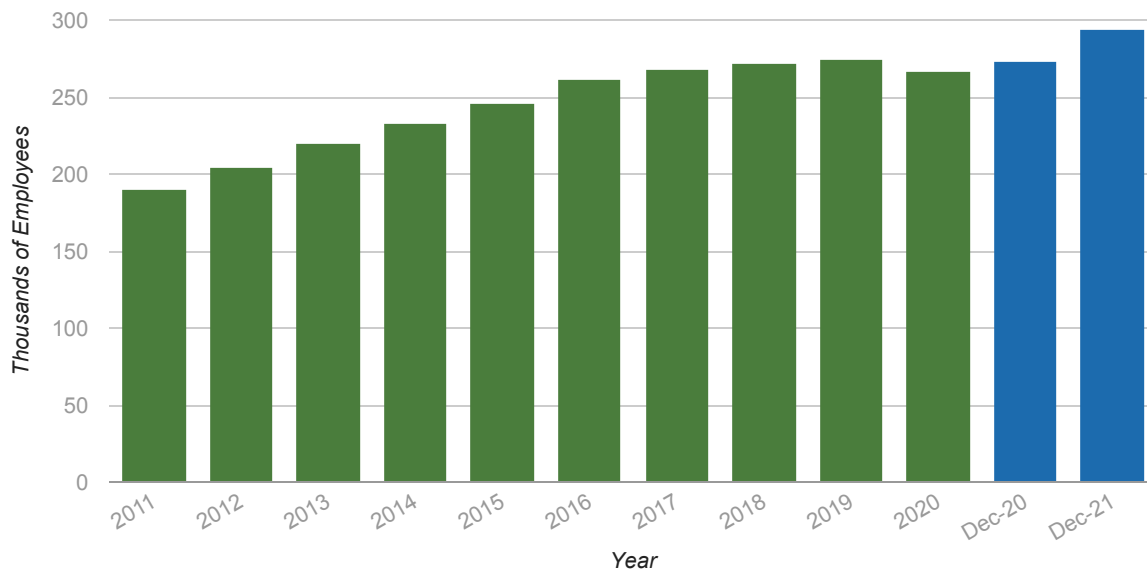
marketing specialists is projected to increase 22.1% between 2020 and 2030, according to the Bureau of Labor Statistics. Demand is highest in the specialties of digital and creative marketing roles, as well as research and analytics. Increased hiring by marketers for in-house positions could potentially decrease demand for third party marketing consultants, although hiring trends also indicate increased demand for services.

Employment and Wage Trends

Employment by marketing consulting services increases

Overall employment by marketing consulting services changed 7.4% in December compared to a year ago, according to the latest data from the Bureau of Labor Statistics.

Marketing Consulting Services Employment

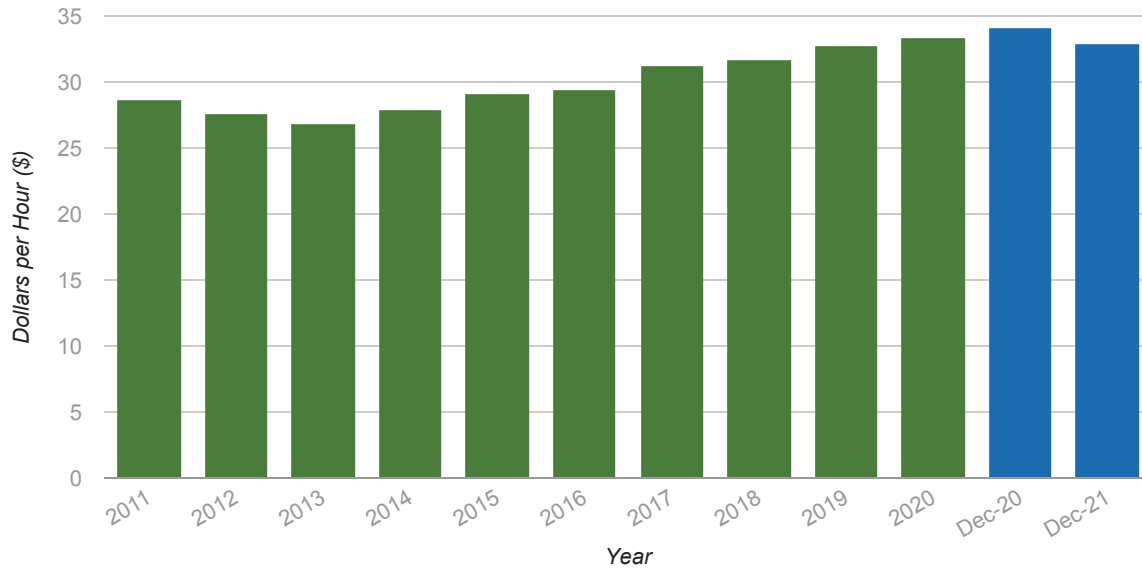


Source: Bureau of Labor Statistics

Wages at marketing consulting services fall

Average wages for nonsupervisory employees at marketing consulting services were \$32.87 per hour in December, a -3.7% change compared to a year ago.

Average Wages for Nonsupervisory Employees



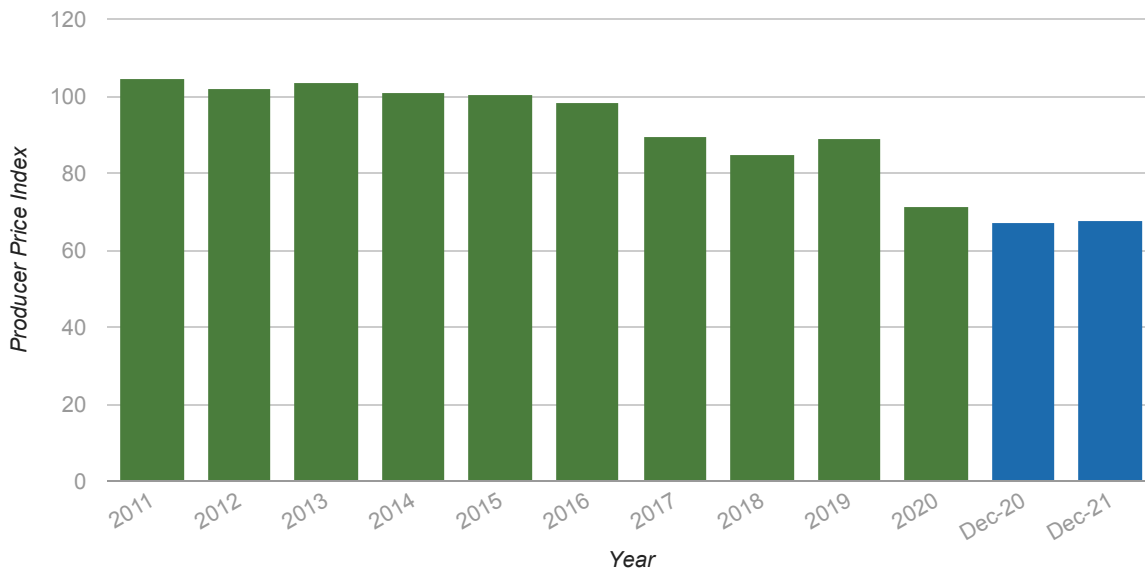
Source: Bureau of Labor Statistics

Price Trends

Producer Prices for marketing consulting services stay flat

The Producer Price Index for marketing consulting services changed 0.18% in December compared to a year ago, according to the latest data from the Bureau of Labor Statistics.

Producer Price Index for marketing consulting services



Source: Bureau of Labor Statistics

Credit Underwriting and Risks



Business Exit Rates:	8.0	Much higher than US average for all businesses
Cyclical Sensitivity:	6.5	High Sensitivity
Barriers to Entry:	5.4	Low initial capital; moderate regulatory/technical barriers; low concentration
External Risk:	6.1	High external risk
Industry Outlook:	4.1	Higher than GDP; high cyclical risk
Financial Summary:	4.6	Average margins; high liquidity; moderate leverage

Key Metrics

METRIC	VALUE	COMPARISON
Business Exit Rate 2019–2020	12.53%	9.0% All Industries
Compound Annual Growth Forecast (2020–2025)	8.31%	6.1% GDP
SBA 7(a) Default Rate by Number of Loans (2010–2019)	5.36%	3.82% All Industries
SBA 7(a) Default Rate by Gross Loan Amount (2010–2019)	1.59%	1.21% All Industries

Underwriting Considerations

- How concentrated are the clients and AR Aging? Review and AR Aging for concentrations and AR over 90 Days. Are clients one-time or recurring?
- What is the company's win rate? How much pricing pressure exists?
- Does the company charge by the hour or by the project?
- A Field Exam and Borrowing Base Certificates are recommended for larger Lines of Credit.

Industry Risks

Cyclical Demand

The consulting industry is cyclical and vulnerable to changes in economic conditions. During the last recession, revenue for management, scientific, and technical consulting service providers, which include marketing consultants, dropped by almost 8% as corporate budgets shrank and clients cut back on spending on both marketing programs and consulting services. Employment growth for marketing consultants slowed to a standstill during the last recession, after growing 9-14% annually before the crisis.

Competition From Alternative Service Providers

Marketing consulting firms face competition from a variety of alternative service providers, including management consulting firms, advertising agencies, public relations agencies, technology firms, and in-house resources. General management consulting firms often provide a range of specialties, including marketing services, and can offer clients a one-stop shop. Because marketing strategy drives advertising and public relations campaigns, clients may rely on agency partners to provide marketing support. Technology firms, such as IBM, have existing expertise with big data, and are entering the digital marketing arena. Clients, particularly large corporations, often rely on in-house marketing resources to develop strategy and implement plans.

Variable Demand

Demand for marketing consulting services can vary depending on client needs. Many firms work on a project basis and workflow can be erratic. During peak periods, a consulting firm may turn away business due to lack of resources. During off-peak periods, firms must pay overhead and spend a considerable amount of unpaid time prospecting for new work. Firms that work on retainer are better able to manage workloads and cash flow.

Increasingly Complex Environment

Shifting demographics and the advent of digital technology have fundamentally changed the discipline of marketing and created a more complex and fragmented environment for clients and consultants. Growth in ethnic diversity and the elderly adult cohort has forced marketers to address the unique needs of groups outside of the mainstream population. Minorities in the US, which accounted for 37% of the population in 2012, are expected to account for 57% of the US population by 2060, according to the Census. The number of adults age 65 and older is expected to double during the same time period. Increasing use of the Internet, social media, and mobile devices has altered the marketing mix as clients look for new and more effective ways to reach customers. Big data has armed marketers with improved tools and customer insights and created the field of marketing analytics. Consultants that fail to stay current risk obsolescence.

Non-Revenue Generating Activity

Many activities required for marketing consulting firms do not bring in revenue. While marketing, networking, writing proposals, invoicing, and other administrative tasks are essential, firms are generally unable to bill clients for those types of activities. Prospecting for new work and responding to RFPs require a considerable investment of time and don't always generate new business. Some firms will attempt to include some fees for non-revenue generating activities in their billable rate.

Company Risks

Competition With Large Firms

The consulting industry is dominated by large firms, such as McKinsey, Bain, and Accenture. Large firms employ legions of consultants, have long-standing relationships with large clients, and typically offer a range of consulting services in addition to marketing. Smaller firms often lack the resources and connections to compete for big accounts.

Dependence on Large Clients

Small marketing consulting firms may be highly dependent on one or two clients for the bulk of their revenue. While repeat business from clients can help provide steady cash flow, firms can be vulnerable to changes in clients' strategy or marketing budgets if they rely too heavily on particular clients.

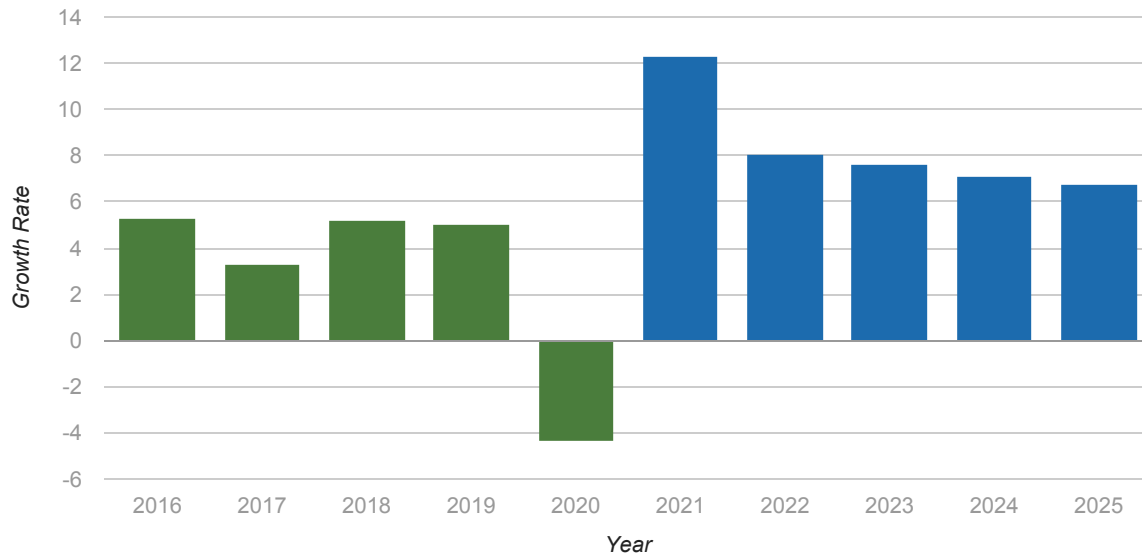
Industry Forecast

Sales for the US marketing consulting services industry are forecast to grow at a 8.31% compounded annual rate from 2020 to 2025, greater than 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

Marketing Consulting Services Industry Growth



Source: Interindustry Economic Research Fund, Inc.

Working Capital

Sell and invoice

Marketing consulting service providers generate revenue by providing advice and assistance on marketing-related issues. Firms often win business by responding to a request for proposal (RFP). Contracts with clients outline services and fees, which vary depending on the scope and duration of a project. Firms may charge an hourly rate or a flat rate based on a variety of factors, including the market, type of work, firm reputation, and experience. Some consultants work on retainer, which provides a monthly payment for a set number of hours. Consultants may also charge a lump sum for a project.

51% of management consulting services said they go to their accountant or bookkeeper for cash flow advice, while 7% turn to their banker, 22% turn to a colleague or industry partner, and 27% do not seek advice, according to a survey of small businesses by Barlow Research Associates.

Source: Barlow Research Associates.

Collect

Marketing consulting firms may offer customer credit, although some require a deposit upfront before starting a project to minimize risk. Some firms collect payments at key project milestones, while others bill on a monthly basis. Payment forms include cash, check, electronic payment, or credit card. Small consulting firms may struggle with clients that pay late. For the small number of clients that refuse to pay, legal intervention is required to collect payment. Start-up clients typically have unpredictable cash flow and may have difficulty making timely payments or run out of funds before the project is complete. Collection periods average 52 to 61 days and receivables average about 32-34% of assets.

Manage Cash

Cash flow varies depending on the number and type of projects. Large firms often have long-term relationships with clients and may work on retainer, which provides a steady source of revenue. Small firms often work on a project basis, making cash flow unpredictable and uncertainty a way of life. Consultants that rely on project work often depend on a stable base of repeat clients to maintain a viable business.

Non-revenue generating activities include marketing, prospecting, networking, writing proposals, invoicing, and other administrative tasks. Prospecting for new business, while necessary, can require a considerable investment of non-billable time. Some firms increase rates to try to compensate for non-revenue generating activity.

Gross margins can vary. Small marketing consulting firms often rely on third party providers for project-related support services, such as graphic design, market research, web design, or print production.

Pay

Payroll costs average about 39-40% of sales. The salary for a marketing consultant can vary considerably. Payscale reports the average salary for a marketing consultant as \$61,700 annually, while Glassdoor reports an average base salary of \$68,100 annually. The median pay for marketing managers was about \$149,100 in 2020, according to the BLS. Some consultants have decades of experience and can command high hourly rates (\$200 plus). Firms may outsource work to third parties if resource constrained or they lack expertise. For example, traditional marketing consulting firms often outsource projects to firms that specialize in digital marketing, then mark-up the cost of the work to the client.

Rent averages 2-3% of sales and advertising averages 1-2% of sales. Travel can be a significant cost if firms work with clients outside of their local market.

Report

After-tax net profit averages about 5-7% of sales. Compensation, which varies by the type of firm and project, is a common metric.

Firms may charge an hourly, daily, or monthly rate. The win rate is the percentage of projects a firm wins compared to the number of proposals submitted. The Net Promoter Score measures how likely clients are to recommend a firm to others, and acts as a leading indicator of growth.

Cash Management Challenges

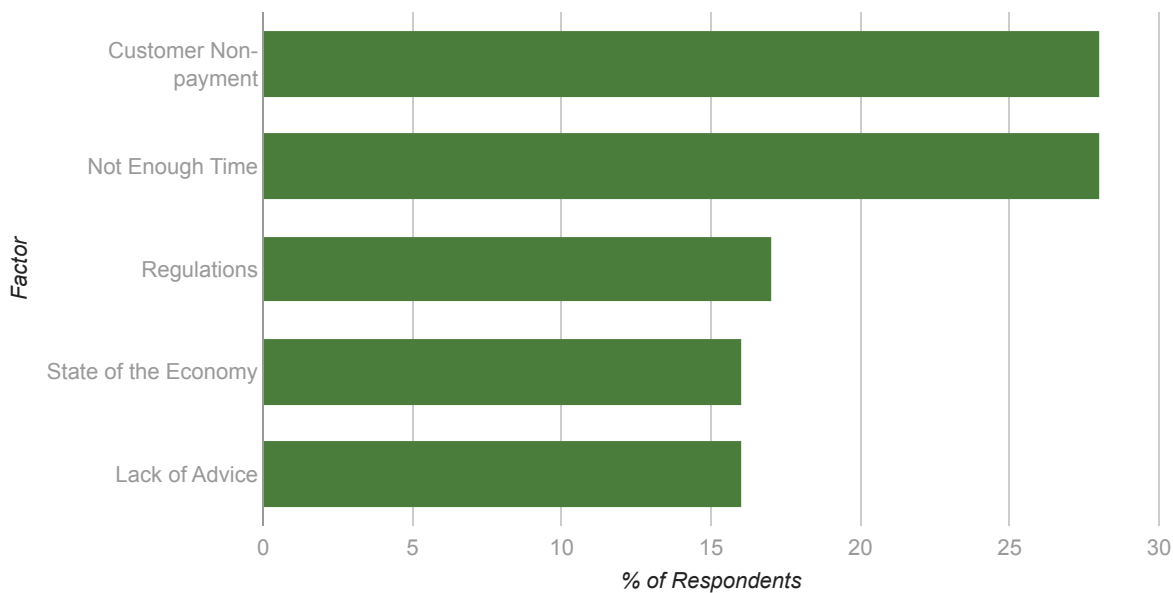
Cash Shortfalls Due To Variable Demand

Small marketing consulting firms typically work on a project basis and workflow and cash flow can be erratic. Firms often get busy working on client projects and don't have time to spend on business development. When the client projects are completed, they may not have a backlog of new projects to work on and have to spend non-billable time on marketing and sales. They may face temporary cash shortfalls during this period until new projects are started.

Timely Collection From Clients

Failure to pay and late payments are a problem for marketing consulting firms, particularly small, independent operators. Start-up clients typically have unpredictable cash flow and may have difficulty making timely payments or run out of funds before the project is complete. Chasing down payments is time consuming and awkward. Some firms require a deposit upfront or installment payments to minimize the collection risk.

Factors Causing Cash Flow Stress: Management Consulting Services



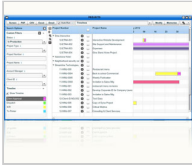
Source: Barlow Research Associates

Capital Financing

Projects that require capital financing include the purchase of property, buildings, equipment, furnishings, fixtures, and technology and information systems. A small marketing consulting firm has minimal start-up costs. An individual consultant can operate out of a home office and avoid paying rent. Information systems requirements are minimal – typically a computer, printer, and Internet connection. Large firms require space for staff and meetings, and may lease space to minimize upfront capital commitments. Big marketing consulting firms may have video conferencing systems to minimize travel expenses. Marketing analytics firms operate sophisticated computer and software systems to store and analyze large data sets. Large and small firms typically rely on information systems and software to manage administrative tasks, such as invoicing, billing, financial reporting, and payroll.

Marketing consulting firms require capital to fund growth initiatives, such as opening new locations, expanding existing locations, or acquiring other companies. New offices allow companies to expand into new geographical markets or better serve clients in remote locations. Firms can serve more clients and provide additional services by expanding existing locations. Acquisitions allow companies to grow quickly and offer new services. Large consulting firms, including Accenture, Deloitte, and Booz & Company, have expanded digital marketing capabilities through acquisitions. Sources of financing include commercial loans, personal savings, credit cards, friends, and family.

Examples of Equipment Purchases



Project Management Software

\$35 - 50 per user per month

Software for planning and managing tasks of consulting projects.



Proposal Development Software

\$1,000 - 10,000

Software for automating proposals for bids for new businesses.

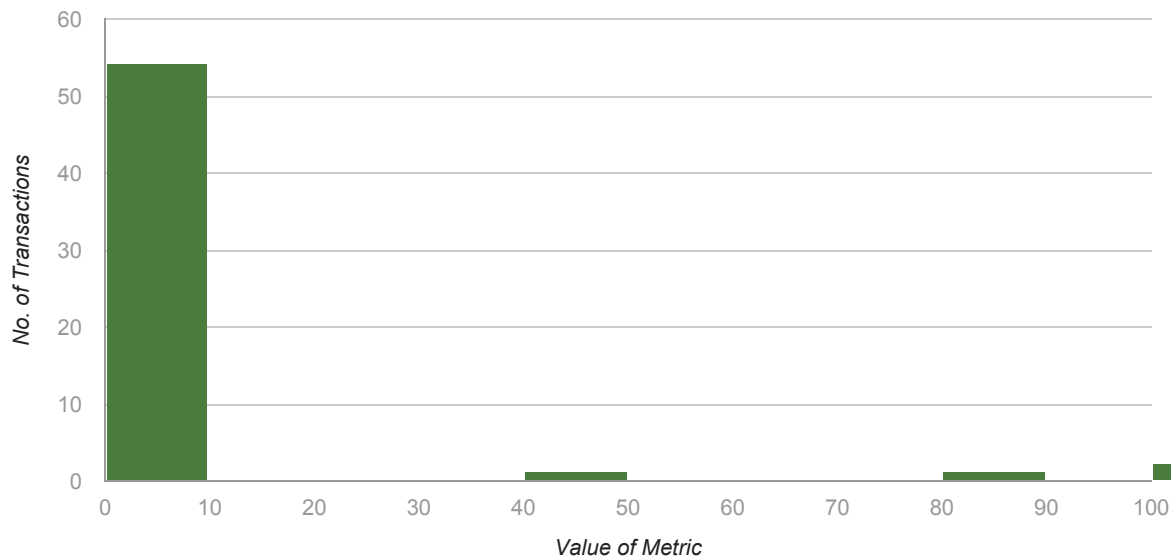
Business Valuation

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 Marketing Consulting Services

	MEDIAN	MEAN	# TRANSACTIONS	DATES
Price to Net Sales	0.89	11.49	58	01/12/1995–07/18/2019
Price to Gross Profits	1.49	16.2	56	01/12/1995–07/18/2019
Price to EBITDA	8.17	101.96	33	01/12/1995–07/18/2019
Price to EBIT	6.06	82.3	42	01/12/1995–07/18/2019

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



Source: DealStats

Count: 58

Min: 0.08

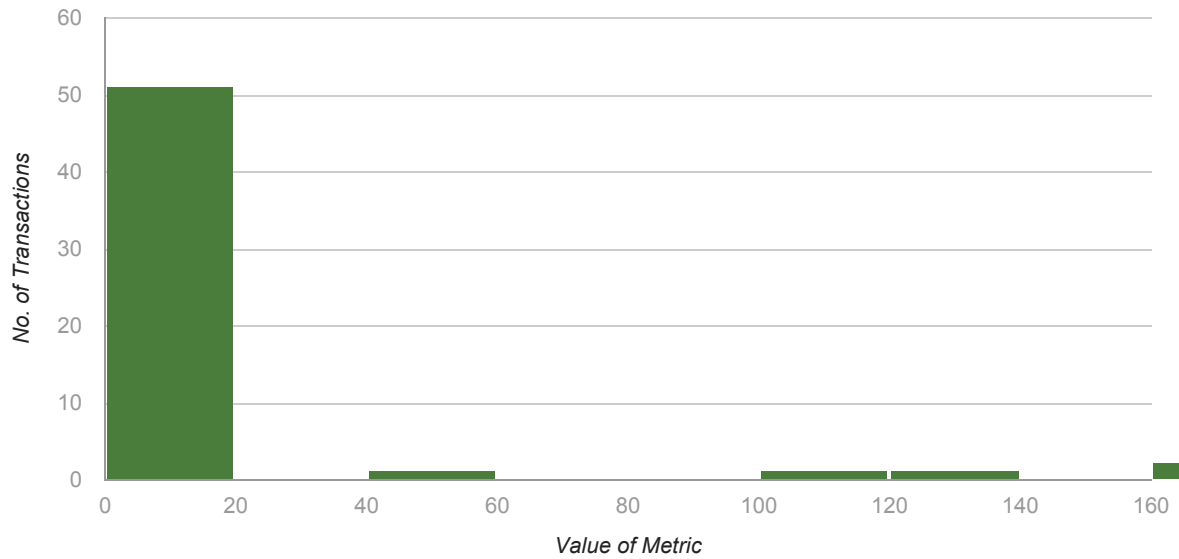
Max: 347.12

Mean: 11.49

Median: 0.89

Price to Sales = Selling Price/Net Sales

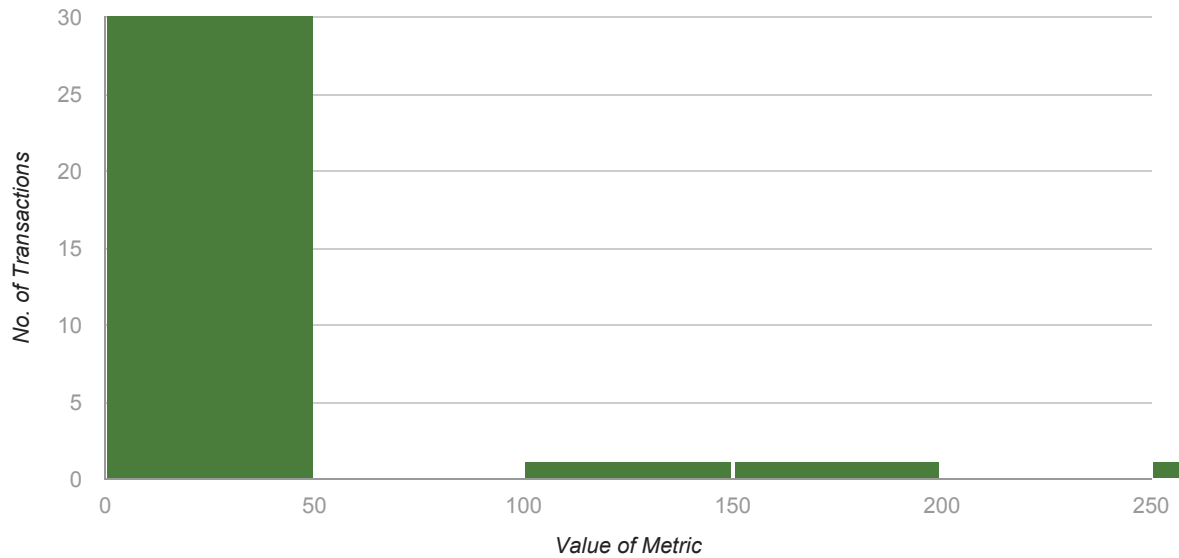
Date range: 01/12/1995 - 07/18/2019



Source: DealStats

Count: 56 **Min:** 0.2 **Max:** 347.12 **Mean:** 16.2 **Median:** 1.49

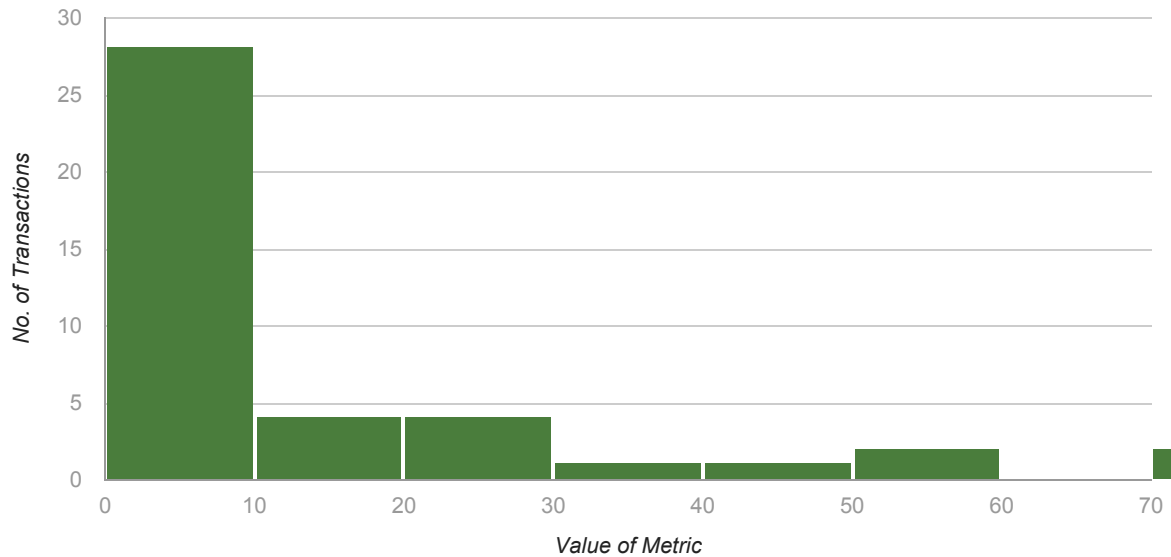
Price to Gross Profit = Selling Price/Gross Profit
Date range: 01/12/1995 - 07/18/2019



Source: DealStats

Count: 33 **Min:** 1.36 **Max:** 2717.39 **Mean:** 101.96 **Median:** 8.17

Price to EBITDA = Selling Price/Operating Profit + Depreciation & Amortization
Date range: 01/12/1995 - 07/18/2019



Source: DealStats

Count: 42

Min: 0.58

Max: 2717.39

Mean: 82.3

Median: 6.06

Price to EBIT = Selling Price/Operating Profit

Date range: 01/12/1995 - 07/18/2019

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 (Marketing Consulting Services, Industry-wide)

MEASURE	2018-19	2019-20	2020-21
Current Ratio [?]	1.21	1.32	1.53
Quick Ratio [?]	1.03	1.12	1.24
Days Inventory [?]	0.0	0.0	0.0
Days Receivables [?]	52	53	39
Days Payables [?]	0.0	0.0	0.0
Pre-tax Return on Revenue [?]	7.09%	2.95%	4.60%
Pre-tax Return on Assets [?]	17.10%	5.23%	10.85%
Pre-tax Return on Net Worth [?]	64.67%	18.77%	60.02%
Interest Coverage [?]	11.37	6.48	7.57
Current Liabilities to Net Worth [?]	1.75	1.25	1.97
Long Term Liabilities to Net Worth [?]	1.04	1.34	2.56
Total Liabilities to Net Worth [?]	2.78	2.59	4.53
<i>Number of Firms Analyzed</i>	282	240	142

Income Statement (Marketing Consulting Services, Industry-wide)

ITEM	2018-19	2019-20	2020-21
Revenue	100.0%	100.0%	100.0%
Cost of Sales	0.0%	0.0%	0.0%
Gross Margin	100.0%	100.0%	100.0%
Officers Compensation	2.59%	2.59%	3.51%
Salaries-Wages	36.89%	35.83%	37.68%
Rent	2.99%	3.08%	4.18%
Taxes Paid	4.7%	4.65%	4.12%
Advertising	0.97%	0.93%	2.24%
Benefits-Pensions	5.81%	5.87%	4.88%
<i>Number of Firms Analyzed</i>	282	240	142

ITEM	2018-19	2019-20	2020-21
Repairs	0.53%	0.54%	0.71%
Bad Debt	0.31%	0.29%	0.26%
Other SG&A Expenses	34.56%	35.15%	29.77%
EBITDA	10.65%	11.07%	12.65%
Amortization-Depreciation	2.27%	2.79%	3.14%
Operating Expenses	91.62%	91.72%	90.49%
Operating Income	8.38%	8.28%	9.51%
Interest Expense	1.27%	1.49%	1.3%
Other Income	0.34%	0.48%	-1.39%
Pre-tax Net Profit	6.77%	6.31%	9.6%
Income Tax	0.43%	0.55%	0.42%
After Tax Net Profit	6.34%	5.76%	9.18%
<i>Number of Firms Analyzed</i>	282	240	142

Balance Sheet (Marketing Consulting Services, Industry-wide)

ASSETS	2018-19	2019-20	2020-21
Cash	21.24%	23.9%	31.17%
Receivables	34.0%	32.27%	24.55%
Inventory	2.95%	2.63%	3.8%
Other Current Assets	5.37%	5.26%	6.45%
Total Current Assets	63.55%	64.07%	65.97%
Net Fixed Assets	12.45%	10.71%	10.95%
Net Intangible Assets	13.16%	15.44%	15.86%
Other Non-Current Assets	10.84%	9.77%	7.21%
<i>Total Assets</i>	100.0%	100.0%	100.0%
LIABILITIES			
Accounts Payable	12.15%	12.89%	9.62%
Loans/Notes Payable	15.2%	20.11%	13.59%
Other Current Liabilities	26.35%	23.41%	19.75%
<i>Number of Firms Analyzed</i>	282	240	142

LIABILITIES

Total Current Liabilities	53.7%	56.41%	42.96%
Total Long Term Liabilities	24.01%	24.83%	31.83%
Total Liabilities	77.71%	81.23%	74.79%
Net Worth	22.28%	18.76%	25.21%
Total Liabilities & Net Worth	100.0%	100.0%	100.0%
<i>Number of Firms Analyzed</i>	282	240	142

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 Management Consulting Services, which includes Marketing Consulting Services, 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 Management Consulting Services

BANK PRODUCT	% OF FIRMS
Business checking account services	95.0
Overdraft protection for business checking	65.0
Business savings or money market account	64.0
Electronic payments initiated through the Internet (Bill Payment)	61.0
Automated clearing house services (ACH)	59.0
Business debit card or business check card	59.0
Business credit card issued in your company's name (Visa, MasterCard, Amex, etc.)	56.0
Remote deposit capture (scanning checks at your office or by mobile device for electronic deposit)	54.0
Wire transfer services	50.0
Point-of-sale credit card processing	44.0
Money market mutual funds or short-term investments	39.0
Company sponsored 401(k), SEP, pension or profit sharing plan	29.0
Unsecured short-term loans or working capital line of credit (less than one year)	27.0
SBA loans	23.0
Credit lines secured by receivables, inventory, property or other assets	23.0
Certificates of deposit	22.0
Payroll processing	21.0
Commercial real estate mortgage	18.0
Overnight investment or sweep accounts	18.0
International (foreign exchange, import/export letters of credit)	16.0
Commercial real estate mortgage (investment property)	16.0
Account reconciliation processing (ARP)	15.0
Term loans or equipment financing (one year +)	13.0
Commercial real estate mortgage (company occupied building)	12.0
Accounts receivable collection (lockbox)	10.0

BANK PRODUCT**% OF FIRMS**

Equipment leasing

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

Some US Consumers Cool on Streaming Ads

A December survey of US consumers suggests fewer Americans are willing to accept commercials in exchange for cheaper streaming services. The 2020-2021 Consumer Tech Preferences study by advertising firm GroupM found that 73% of consumers were willing to accept ads in their streaming services to get a lower price, down from 76% in 2020. The drop in willingness to see more ads in exchange for cheaper streaming is part of a trend GroupM has been following as part of its ad spending forecasting. The firm expects it will get more challenging to reach consumers with video ads as more streaming services offer ad-free or reduced-ad options.

4th Quarter 2021

Falling COVID-19 Cases Brings Hope for Travel, Hospitality Marketing Rebound

Hard-hit industries – such as hospitality and travel – may recalibrate their marketing and ad budgets as COVID-19 cases fall in the US and vaccination rates rise. After a brief travel surge in June 2021, travel bookings fell as the highly contagious Delta variant of the coronavirus drove a fourth wave of the pandemic. However, new cases began falling in mid-September and travel bookings are back on the upswing. In early October, United Airlines said its US December domestic schedule will be its strongest since March 2020. United's scheduled flights in December are expected to reach 90% of what they were in December 2019. The US reopening to vaccinated foreign travelers in November is also expected to be a boost to the travel and hospitality sector, although the full effects of the reopening likely won't be realized until the spring and summer of 2022.

3rd Quarter 2021

Marketing Budgets Drop

Marketing budgets in 2021 have fallen to their lowest level on record, according to the Gartner CMO Spend Survey released in mid-July 2021. Despite chief marketing officers' (CMOs) confidence that budgets would rebound after the cuts earlier in the pandemic, 2021 marketing budgets fell to 6.4% of company revenues compared to 11% seen in 2020. Among specific industries, travel and hospitality, manufacturing, and technology product firms saw the biggest dips in marketing budgets as a share of revenue, and no industry enjoyed a double-digit share. Consumer goods firms had the biggest marketing budgets at 8.3% of company revenue. Smaller firms (revenue under \$500 million) on average had marketing budgets that were 8.6% of revenue, while larger companies' (revenue of more than \$2 billion) marketing budgets were only 5.7% of revenue. Pure-play digital channels accounted for more than 72% of marketing budgets. Gartner surveyed 400 CMOs and other marketing leaders in France, Germany, North America, and the UK between March and May 2021.

2nd Quarter 2021

Digital Marketers Focus on Improving Internal Collaboration

In 2020, the challenges faced by digital marketers were primarily external and caused by the pandemic, but in 2021 marketers feel their biggest hurdles may originate inside their organizations, according to a recent survey by Gartner. More than a third of digital marketing leaders surveyed said the leading challenge will be building synergistic internal relationships that better articulate the digital marketing organization's strategy and vision. Other major concerns include highlighting the roles digital marketing technologies and data play, and managing budgets to meet digital marketing strategic objectives.

1st Quarter 2021

Retail Ad Budgets to Rebound

Brick-and-mortar retailers are betting that wider vaccine distribution and reduced COVID-19 cases will bring shoppers back to stores, according to Forbes. An improving retail outlook is expected to trigger an uptick in retail ad spending after marketing budgets took a hit in the early stages of the pandemic. In a survey by the CMO Council, 65% of chief marketing officers said they planned to increase spending on advertising in 2021. Only 10% plan to reduce spending. The National Retail Foundation expects retail sales to rise between 6.5% and 8.2% in 2021, marking the strongest year-over-year growth in 17 years. Marketers are expected to boost budgets to reassert their branding messages and make up some of the ground lost during the toughest months of the pandemic.

4th Quarter 2020

2020 Ad Spending Worse Than Expected

Worldwide advertising spending is expected to decline 10.2% to \$557.3 billion in 2020, according to marketing data firm WARC's Global Ad Trends: State of the Industry 2020/2021 report. WARC's latest ad spend forecast represents a 2.1% downward revision from its May outlook. Traditional media spending accounted for 98% of the overall spending decline in 2020, including linear TV (down \$29.9 billion), out-of-home (-\$11.3 billion), newspapers (-\$9.8 billion), radio (-\$5.9 billion), magazines (-\$4 billion), and cinema (-\$1.5 billion). As consumers spent more time at home, online video was a bright spot for ad spending in 2020, rising 7.9% to \$52.7 billion. Overall online ad spending, which accounted for about 54% of total ad spending in 2020, was flat at \$303.3 billion. Total global ad spending is expected to rise 6.7% in 2021, which would only recover about 60% of 2020's losses.

3rd Quarter 2020

Ad Spending, Employment to Drop

As the COVID-19 pandemic leads to slashed corporate budgets, marketing and advertising departments are shrinking and having to do more with less, according to the New York Times. US advertising spending is expected to drop 25% in 2020, and is not projected to recover until 2023, according to a recent forecast by research firm Forrester. In 2020 and 2021, Forrester expects more than 50,000 ad agency job losses, and about half of those likely won't return. Some industry watchers expect budget uncertainty to prompt companies to lean on more flexible, project-based marketing and advertising, which may create consulting and contractor opportunities. COVID-19 and the Black Lives Matter protests are spurring some major brands to reassess their entire marketing strategies and focus more on diversity and inclusion.

2nd Quarter 2020

Marketing Budgets Shrink

More than 75% of marketing leaders expect marketing budgets to drop in 2020 due to COVID-19, according to a late-March survey by Gartner. Advertising spends are likely to be among the hardest hit. About 45% of marketing leaders reported an ad campaign launch had already been delayed, 34% had altered ads, and 26% had already cancelled a media buy. Coronavirus is accelerating the growth trend in digital advertising. Industry watchers note that as enterprise-level brands have cut ad spending levels, digital ad costs have dropped. Industry experts believe emphasis on search engine optimization (SEO) will increase amid shrinking marketing budgets because SEO is among the most cost-effective ways to ensure marketing goals stay on target.

Industry Terms

Big Data

Extremely large data sets analyzed to reveal patterns, trends, and associations.

Content Marketing

The creation of relevant and valuable content to engage a target audience.

CPC

Cost per Click, Internet advertising model used to direct traffic to websites.

CPM

Cost per Thousand, ad model that charges advertisers every time an ad is displayed.

Digital Marketing

Digital marketing includes social media marketing, SEO marketing, pay-per-click (PPC) marketing, and content marketing.

Omni-channel Marketing

Integrating all a firm's marketing channels to ensure that the customer experience is seamless and consistent, regardless of channel or device.

SEO

Search Engine Optimization, optimize websites to maximize search engine traffic.

Web Links

[American Marketing Association](#)

Marketing news, trends, statistics, and studies

[CMO](#)

News and trends

[Adweek](#)

News, trends, and rankings in the marketing and advertising industries

[ANA - Business Marketing](#)

News and trends for B2B marketers

[Internet Marketing Association](#)

News and trends for internet-based marketers

Related Profiles

Advertising & PR Agencies

NAICS: 541810, 541820 SIC: 7311, 8743

Graphic Design Services

NAICS: 541430 SIC: 7336

Management Consulting Services

NAICS: 541611 SIC: 8742

Telemarketing Bureaus

NAICS: 561422 SIC: 7389

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