HUBSPOT PARTNER PUBLICATION

RESEARCH REPORT

MARKETING AGENCY GROWTH REPORT

2018

FOREWORD

We conducted research with marketing agency owners and employees across the world to uncover the top challenges that are preventing agencies from growing, and we have outlined solutions to those issues from experts in the field.

HUBSPOT PARTNER
PUBLICATION

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INTRODUCTION

Have you spent sleepless nights thinking about how to fill that open account manager role? Have you paced around your office stressing about a client's demand to only pay on a monthly basis? Do you worry about where your next client is going to come from? If you are nodding your head "yes" to any of these scenarios, you are not alone.

We asked over 1,000 agency owners from across the world to share their growth challenges and compiled this report to provide actionable data to help your agency. On the following pages, you'll find benchmark data around how agencies price their services and set rates, create new business practices, manage client management, measure financial metrics, and handle hiring.

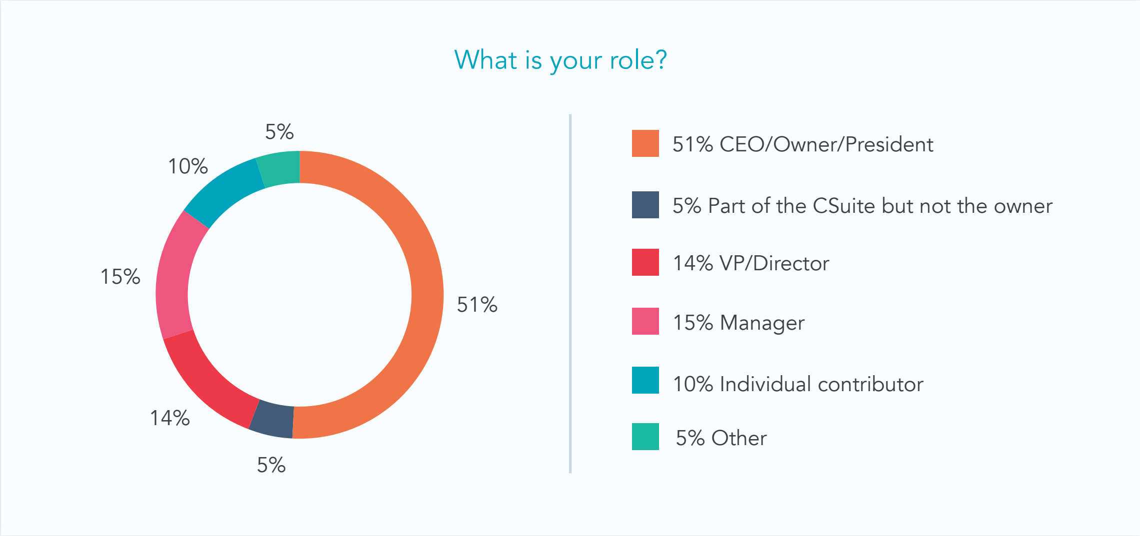
In addition, we've included essays from industry experts who help agency owners build better businesses every day. We hope the data and content serve as a guide to help you recognize future challenges you may face as you embark on the path to profitability and growth.

THE RESPONDENTS

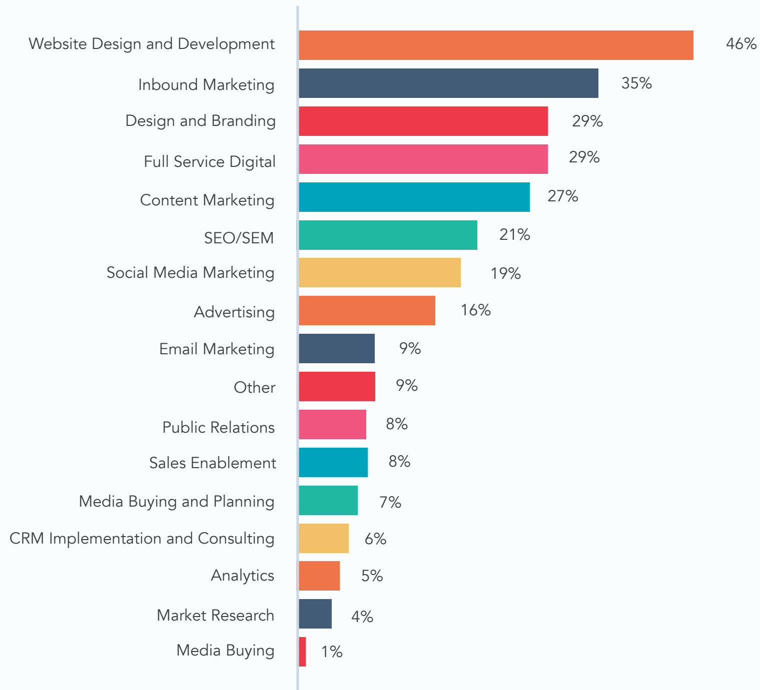
The Marketing Agency Growth survey was open during December 2017 and January 2018. While over 1,000 agencies contributed to the survey from across the world, in this report we will focus on the data from regions where English is a primary language: the United States, Canada, the United Kingdom, Ireland, Australia, and New Zealand.

The questionnaire was completed by 763 people from those regions. Of those, 621 were located in the U.S., 70 in the U.K. and 45 in Canada. The remaining respondents were located elsewhere.

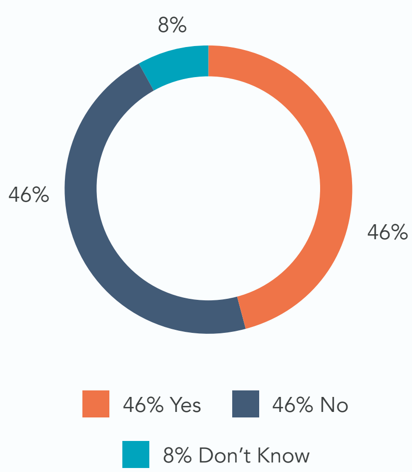
The majority of respondents (70%) were at the director level and above. We saw a good distribution of different services offered by the respondents with Website Design leading the way, followed by Branding and Full-Service Digital Offerings.



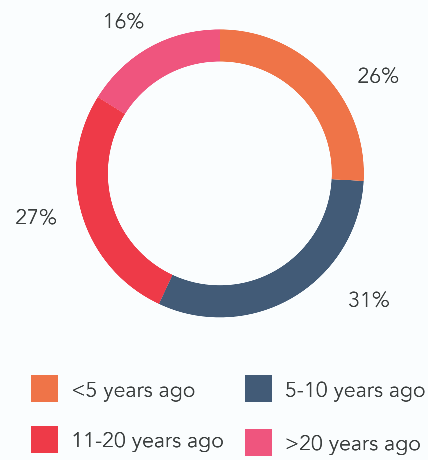
What are your agency's top three service offerings?



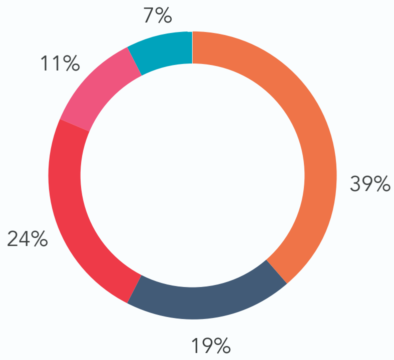
Is your agency a HubSpot Partner Agency?



When was your agency founded?



How many full-time employees does your agency employ?



39% 1-5

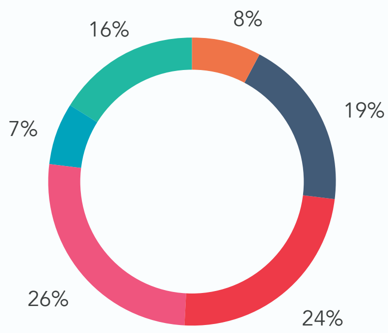
19% 6-10

24% 11-25

11% 26-50

7% 50 or more

What was your 2016 revenue?



8% 0-50,000 USD

19% 50,001-250,000 USD

24% 250,001-1,000,000 USD

26% 1,000,001-5,000,000 USD

7% 5,000,000 USD

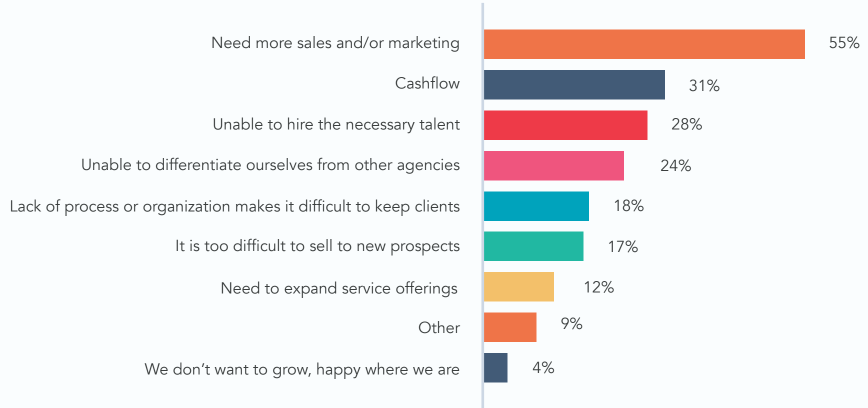
16% Don’t know

GROWTH CHALLENGES

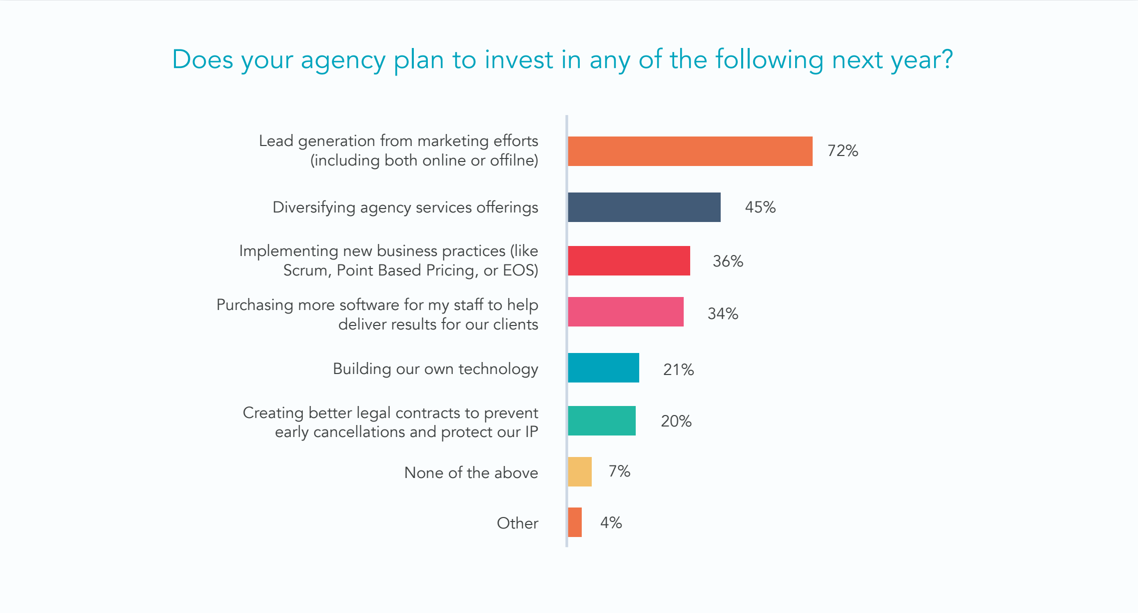
We asked agencies to help identify what their biggest pain points are when it comes to growing their businesses. The answers show that agencies are dealing with a multitude of issues. Finding new clients comes in as the top selection (60%). Not enough free time to focus on administrative tasks came in as the second most common challenge (43%).

What are your agency's biggest pain points?

What is preventing your agency from growing as quickly as you like?



While there are many ways to tackle the issues covered above we wanted to know more about the types of investments agencies planned to make to combat these challenges. When asked what they planned to invest in, 72% of respondents selected lead generation from marketing efforts. 45% of respondents selected diversifying their services offerings.



"Currently the vast majority of our leads are from inbound marketing. We get around 6,500 visitors to our website a month. Over 300 visitors are filling out forms and downloading content. So we have over 300 leads to follow up with each month. A good proportion of those leads are our ideal customers."

Sean Sweet | Director at Blend Marketing

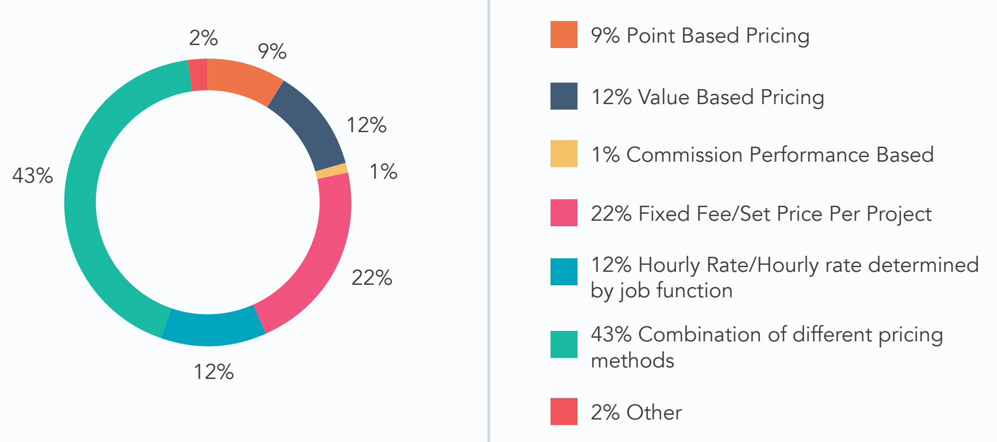
Read more about Blend's Success

These agencies provided some data on the high-level problems that are holding them back from growing and making it difficult to manage their businesses. Keep reading to learn more about some of the underlying issues that prevent agency owners from focusing on their businesses and maximizing revenues. We get more specific about the types of challenges facing agencies and more targeted with our advice in each chapter below.

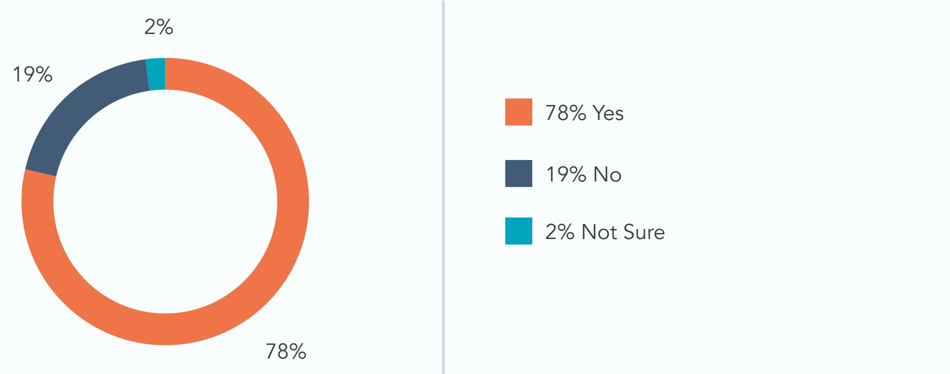
PRICING STRATEGIES

Agencies have adopted a flexible approach to pricing their services with 43% of agencies using a combination of different pricing models. Adapting to the client's pricing preference is another layer of complexity demanded by clients that an agency owner must deal with in today's market. Non-traditional pricing models — Value-Based Pricing (12%) and Point-Based Pricing (9%) — have lower adoption rates.

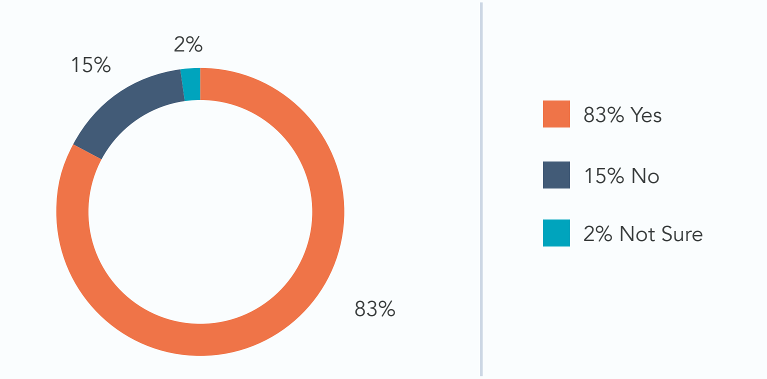
What kind of pricing models does your agency employ?



We customize our pricing model to fit the goals or budget of our clients.

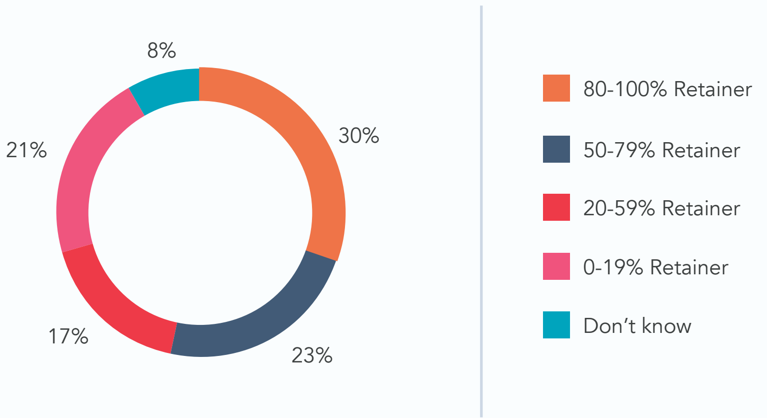


We customize our service offerings for each new business opportunity



Project-based work continues to make up a large portion of agency business as only 30% of agencies reported that they exclusively sell retainer work.

What percentage of your new business is retainer versus project work?



EXPERT INSIGHTS

Most agencies are experiencing a reduction in retainers, even if the clients are spending in excess of $250,000 a year. Clients seem more comfortable doling out their budget project by project. Some of these projects are yearlong efforts but for some reason, clients still want to consider them a project. I think it feels like less of a commitment. It's easier (or so it sounds) to cancel a project than it is to unravel a retainer. Plus, retainer contracts usually have some sort of minimum time frame that requires the clients to keep paying for 30 to 90 days.

From our surveys with CMOs and business owners, they don't want to be tied down to an agency in any sort of binding way. They want the agency's commitment but they don't want to make one in return. They know they're in the driver's seat and they aren't afraid to use that power.

When we examine the financials of the 250+ agencies we work with every year, on average, less than 50% of their AGI (adjusted growth income) is coming from retainer income. No matter what size the shop — everyone is being relegated to a project shop. The only ones who seem to be reasonably immune from this trend are agencies who are either known specialists in their client's industry, or agencies whose offerings are on-going by their nature, like inbound.

On the flip side, we have an agency owner in the AMI network who has re-tooled retainers to be more of a subscription model. Because his clients know they can cancel their subscription at any time, he's had no trouble selling them.

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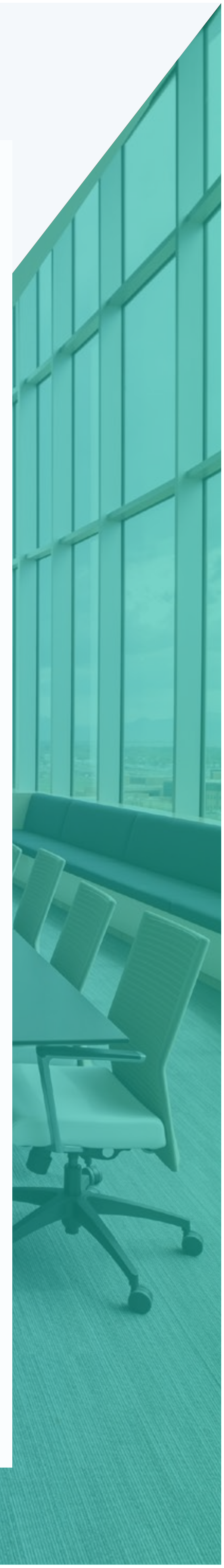
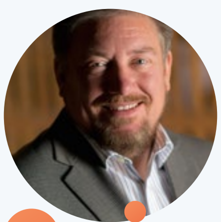


Agencies should consider the following:

- Decide how critical retainers are to your business model and define boundaries accordingly.
- Consider offering some sort of incentive (discount, bonus work, faster turnaround, etc.) to drive clients to your preferred payment model
- Offer services that lend themselves to a retainer model (ongoing, repetitive work like PPC, inbound campaigns or ratings, and review cultivation/monitoring)
- If you want retainers because of the cash flow, think about developing alternative pricing models (half up front, set payments by milestones, or taking credit cards) to get you to the same result
- Follow agency best practices for not over-spending on salaries or overhead to keep your cash flow in check (keep reading for more data and insight into managing your cash flow)



Drew McLellan @ AMI

"By building our business where the revenue is based on retainers, as opposed to projects, we now have a model for growth. I know exactly what our revenue looks like in 12 months. Now, making business decisions is much easier. I'm not making business decisions for only today, I'm making them for tomorrow."

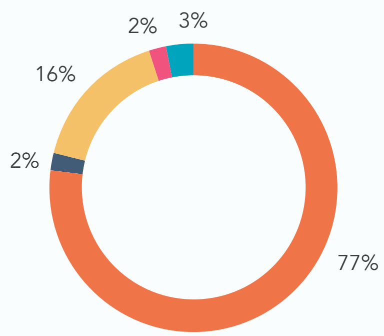
Frank Cowell, CEO of Elevator Agency

Read More about Elevator Agency's Success

FINANCIAL DECISIONS

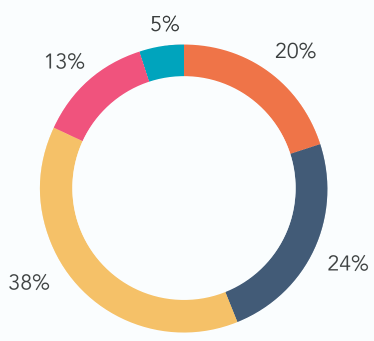
It's not easy to get started as an agency as most founders (77%) are bootstrapping their initial funding. It doesn't get easier after that: most agencies (57%) have less than three months of cash flow available.

How did you get your initial cash flow?



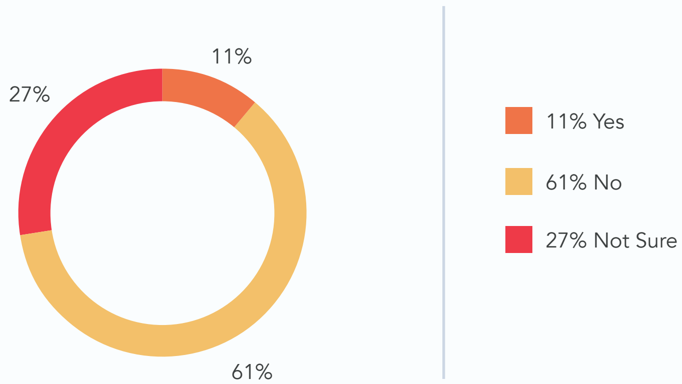
- 77% From revenue generated from the business/boot strapped
- 2% Loan
- 16% Investment shareholders/owners
- 2% Investment from a third party
- 3% Other

How many months do you have available in cash flow?

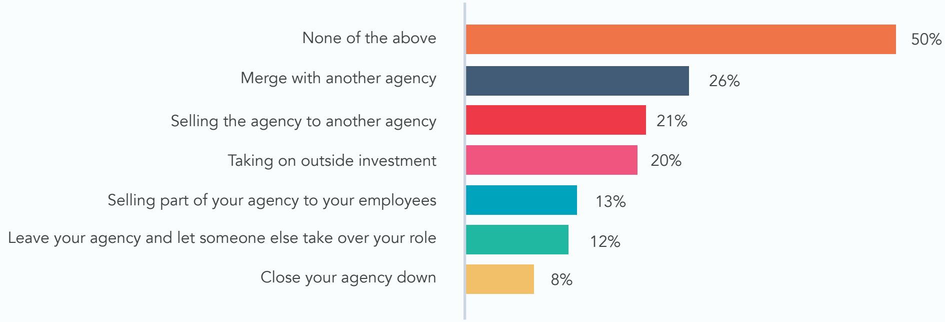


- 20% 1 month cash flow available
- 24% 2 months cash flow available
- 38% 3 months cash flow available
- 13% Less than 1 month available/ need to wait for customers in order to pay salaries & expenses
- 5% Don't know

Our agency has declared dividends



Have you considered any of these actions in the last year?



EXPERT INSIGHTS

When it comes to how much cash an agency should keep in their business, it seems that there are two extremes. I see many agencies who can't seem to scrape up enough to even cover their next payroll if a client's check is late and on the flip side, I see agencies that are keeping six months or more in retained earnings inside their business, which is equally unwise.

The rule of thumb is that an agency should keep three months of their average monthly operating expense (salaries and overhead) inside the business if they don't have a gorilla client who is more than 25% of their adjusted growth income. If you have that gorilla, then the best practice is four months.

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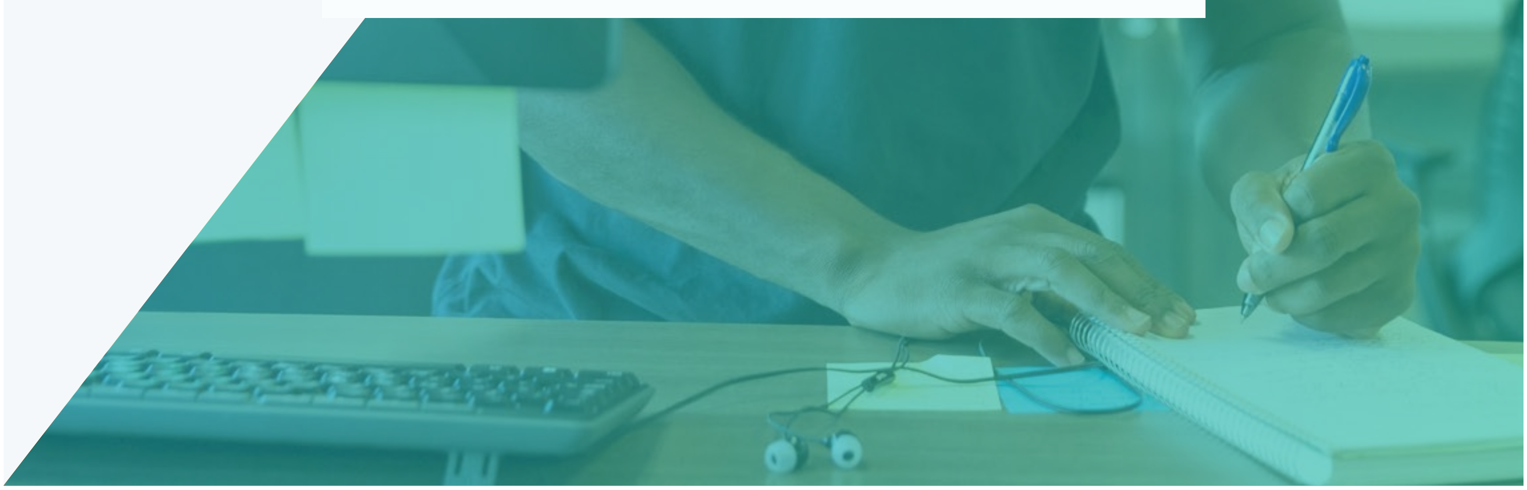
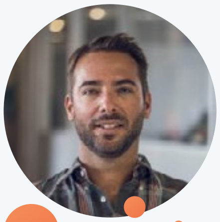


I'd argue that there's a twist to that rule of thumb. I believe that agencies that keep more than three or four months of earnings in the business end up making foolish decisions. It's easy to avoid the difficult decision to cut staff or expenses when you have money in the bank. But the truth is, that's the owner's money. He or she has already paid tax on it in most cases. I believe it's a better choice to keep one to two months operating expenses in the business and to keep another two months outside of the business (in a personal account owned by the agency owner) that could be easily accessed if the owner needs to lend money back to the agency. There's a subtle but huge difference in that decision. Do I write a check from my personal account or do I have a tough conversation?

Either way, the agency is protected. But in the second scenario, the owner is much more likely to actually get to keep the money they paid taxes on.

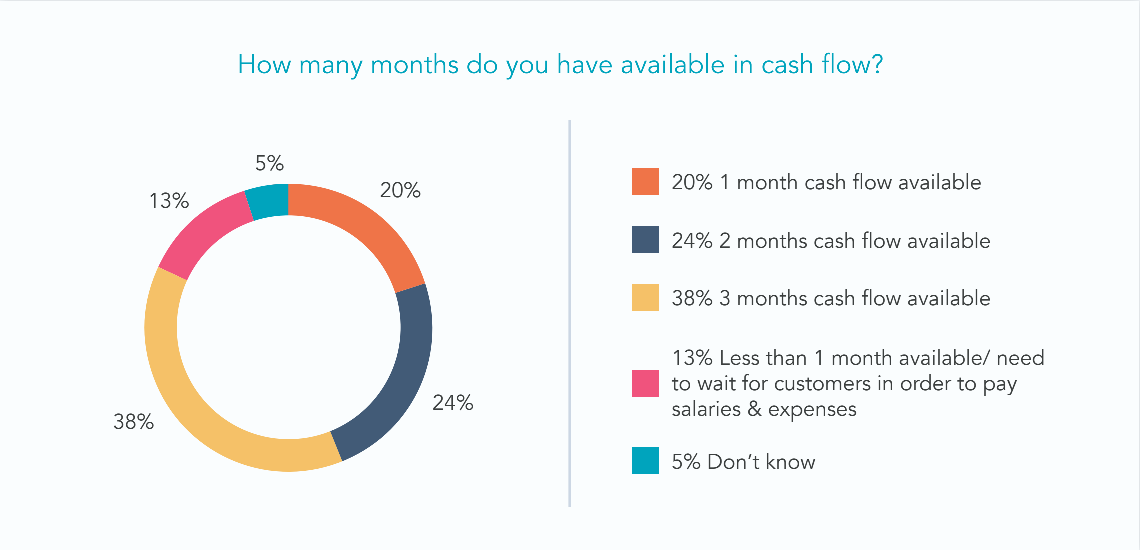
Drew McLellan @ AMI

"Undercharging is going to put huge pressures on your cash flow — resulting in your agency making less strategic decisions. The single most important piece of advice I would tell other agency owners is it's not worth selling to low-value new clients. At a point in the past, our agency was only just surviving, and so we brought in a consultant to advise us on our financials. He said we had to double our pricing otherwise we would never get off the hamster wheel! When we did this, we only lost a handful of customers and now our agency is in a much healthier place.



Daryn Smith @ MPULL

The fact that 57% of agencies have less than three months of cash on hand to cover expenses is alarming to me.



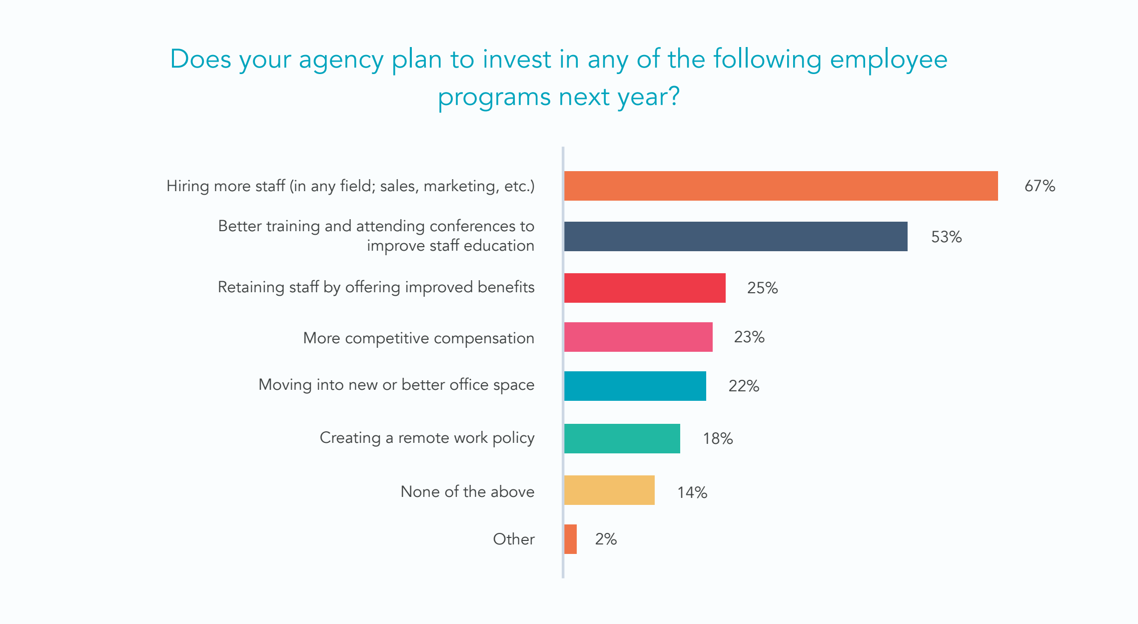
When you dig deeper, roughly one-third of all the agencies surveyed have one month, or less, of expenses on hand in cash. If a client or two fails to pay, this could mean that they have to let someone go. When I see an agency like this, I tell them that their first priority will be building up a business emergency fund so that they can better cover months when clients are late or do not pay. They can accomplish this task many different ways; raising prices, letting staff go, cutting other expenses. However they choose to get there, they need that buffer if they are going to run a business with less stress and more predictability.

John Doherty @ [Credo]

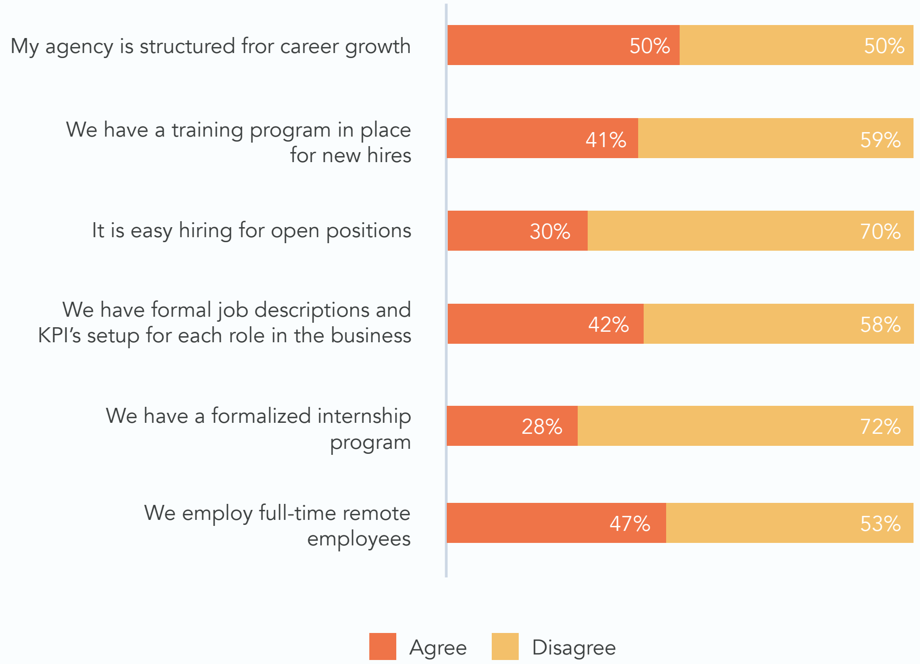
NEW HIRES AND STAFF RETENTION

One common theme evident in the survey is that agencies are having trouble hiring for open roles: 70% of agencies have trouble finding the right talent for their open positions.

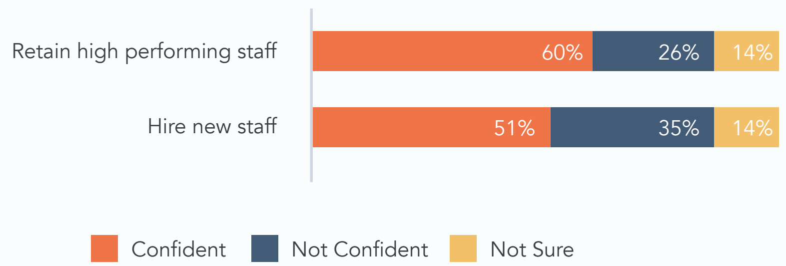
Even when an agency has the right talent in place, only 50% of agencies structure their companies in a way that encourages career growth. This is a red flag that signals agencies' risk of losing talent to other agencies or to other industries.



Do you agree or disagree with the following statements?



How confident are you with your agency's ability to:



EXPERT INSIGHTS

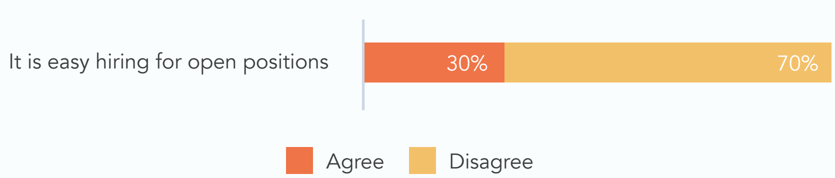
I remember my first day as a project manager at an agency, my boss had me take her place on a client call. I got two minutes of "training" on client history from a colleague as we speed-walked to the conference room. It was less "employee onboarding" and more "thrown overboard."

Only 41% of agencies have a new-hire training program, according to the data in this survey. Add in that 58% don't have formal job descriptions or KPIs for each role, and 50% aren't structured for employee growth, and you have a recipe for employee retention problems...and a hit to your agency's profits.

Yet, two-thirds of agencies plan to hire more people, while 70% say it's not easy to fill open positions.

Does your agency plan to invest in any of the following employee programs next year?

Do you agree or disagree with the following statements?



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Don't let the "shiny object" of recruiting new people distract you from retaining your current team. You won't reach your growth goals if you're hemorrhaging employees.

It's not just training that affects retention — it's also how current employees fit in your agency's future. When I do a "culture survey" at agencies, I frequently see that employee retention problems stem from uncertainty about a career path. Specifically, employees are confident about the agency's future, but they're unclear where they fit — or if the agency even wants them to stay.

Prefer to be a hands-off manager? Consider that underappreciated employees are typically the first to get poached — and your agency's recruiting starts all over again.

To fix this, follow these three points:

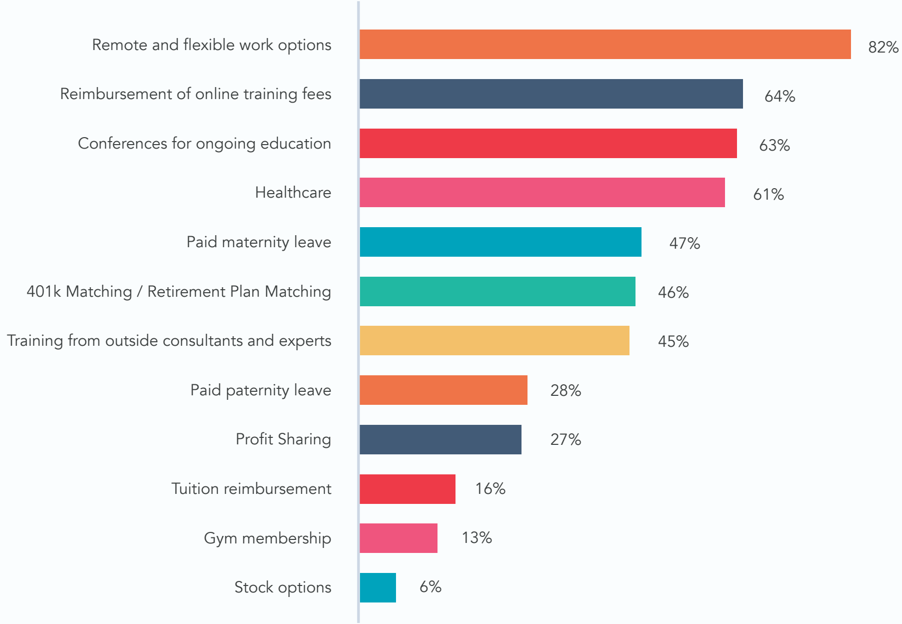
Invest as much energy in employee onboarding as you do in employee recruiting.

Look beyond internal solutions. For instance, half of the agencies surveyed plan to upgrade their training and send employees to conferences.

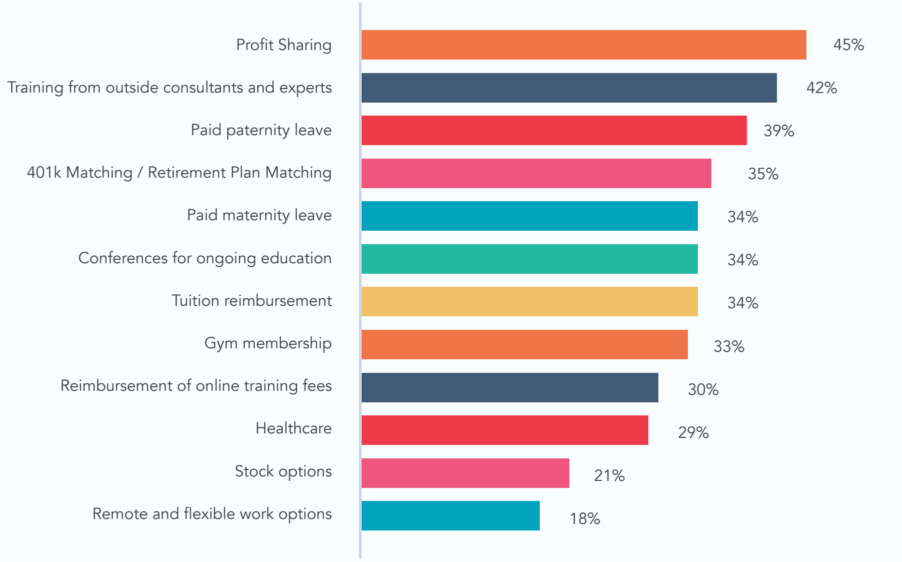
Map out career paths as you grow, and find ways to engage employees even when you can't officially promote them. People want to feel like they're moving forward; help them.

Karl Sakas @ Sakas and Company

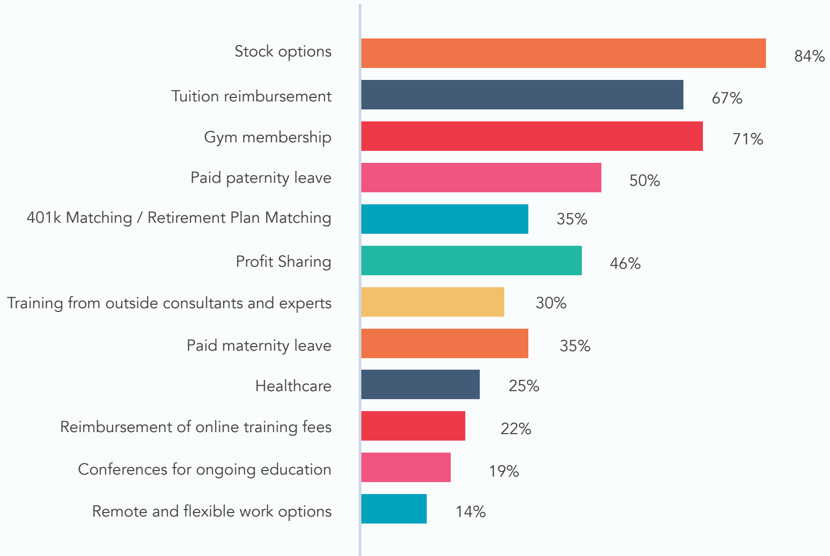
Which employee benefits does your agency currently offer?



Which employee benefits should your agency provide?



Which employee benefits does your agency not offer?



Offering flexible work hours or the option to work from anywhere helps agencies compete for talent from other industries where working from an office headquarters is a requirement. However, with so many agencies offering remote working benefits (82%) it will be hard for agencies to compete for talent within their own agency community. At this point, it appears as if flexible and remote work options are the industry standard and not a differentiation.

"Developing a career growth path for our employees is something we invest in heavily. Our agency's goal is to build and promote the expertise of each member of the team. They're challenged to identify their ideal role, invest in personal and professional development, and build their brand. The agency invests in their development and promotion in kind. We believe that the brands and reputations of individual team members are a reflection on the agency. That by positioning ourselves as industry experts and thought leaders we can grow our circles of influence."

Eric Pratt | CEO @ Revenue River

Read More about Revenue River's Success

EXPERT INSIGHTS

A POTENTIAL GAME-ENDING BLIND SPOT FOR AGENCIES

Not long ago, Digiday ran an article with the headline *"Paltry Pay at Agencies Leads to Moonlighting Millennials."* In the U.K., WARC published a piece headlined *"Ad Agencies Suffer Talent Loss,"* and a few months later, *"Understaffed Agencies Frustrate Clients."*

The two major industry bodies in the U.S. and U.K. (the 4As and the IPA) recently studied salary levels in agencies and concluded that not only have agency salaries not kept pace with other industries, but there has been an actual decline when measured in context of inflation and cost of living increases.

There is evidence today that the average agency employee could leave for a similar position in a client organization and earn 30% more.

It's not surprising, then, that this new data shows that a clear majority of agencies plan to hire more staff (to keep up with the work) but, only about 1 in 5 plan to invest in "more competitive compensation." That's because agency margins have been in a free fall for more than a decade, making it inherently difficult to grant pay increases to deserving employees.

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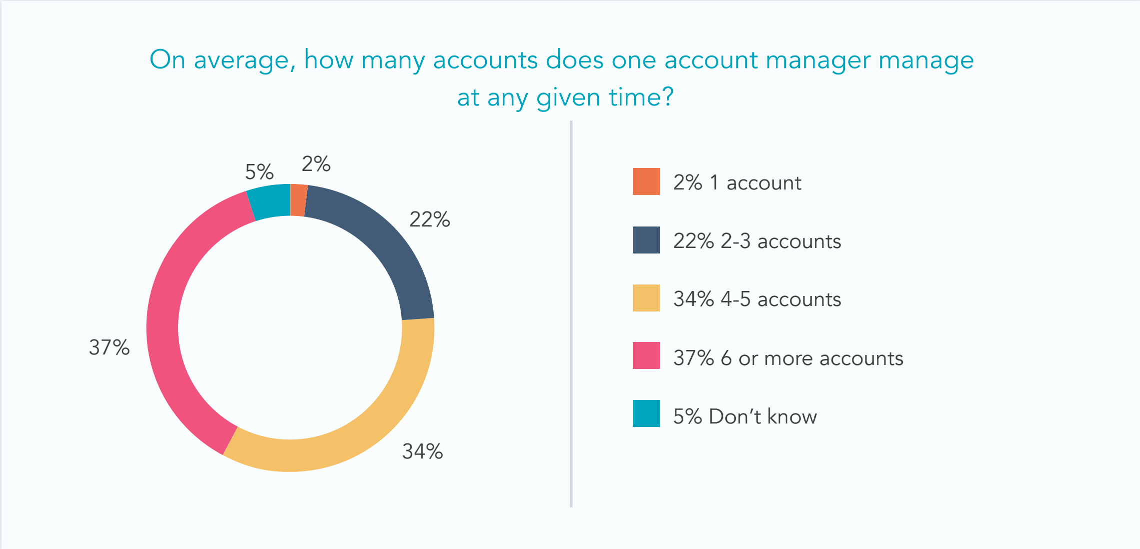
Agencies deal with this vicious cycle by assigning more and more work to the same people, which is seriously eroding the quality of life at agency organizations. This unfortunate trend is reflected in an increasing number of trade press articles like the recent piece in Adweek titled "*Has Agency Work-Life Balance Reached a Crisis Point?*"



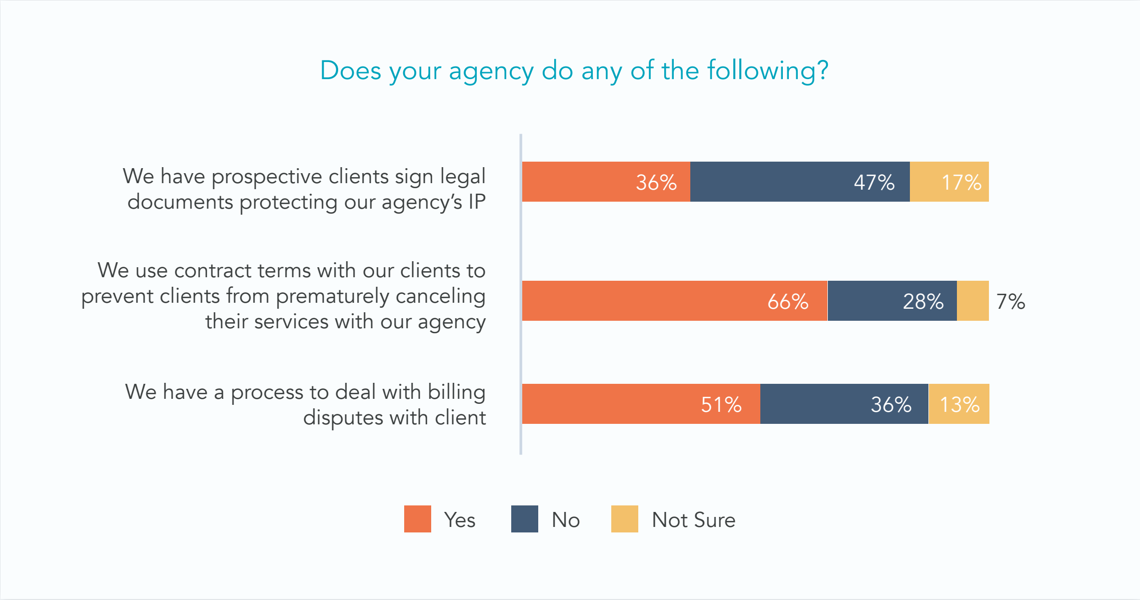
To address the problem, most agency leaders tend to focus on new business to generate more revenue instead of finding ways to earn more profit on the business they already have. Worse, they fall into the trap of discounting their pricing to get new business. Pricing theory shows that in challenging times it's almost always better to reduce volume than reduce pricing (meaning we'd be better off with fewer, more profitable clients).

In good times or bad, better pricing is the key to better profits, and better profits are the solution to paying competitive salaries that allow you to retain your best talent. Moving forward, it will be important for agencies to remember the Banker's Creed: "Revenue is vanity. Profit is sanity."

Tim Williams @ Ignition Group

LEGAL CHALLENGES & CONTRACTS

While 66% of respondents use contractual terms to help protect their agreements with clients, only 36% of agencies have clients sign legal documents protecting their intellectual property (IP). Agencies are still hampered by the industry standard of giving their work away during the sales pitch.



EXPERT INSIGHTS

Agencies are in a challenging spot as they navigate some of the recurring legal issues identified in HubSpot's research.

As agencies are under increased pressure to identify new revenue centers, many are creating proprietary solutions or other intellectual property that can be leveraged with multiple clients. This is a great development. But, many agencies seem unsure about when they need to protect their IP, or exactly how to do it, in their client relationships. The best place to start is a review of the agency's service agreement to make sure it addresses ownership and protection of these critical assets from the beginning of an engagement.

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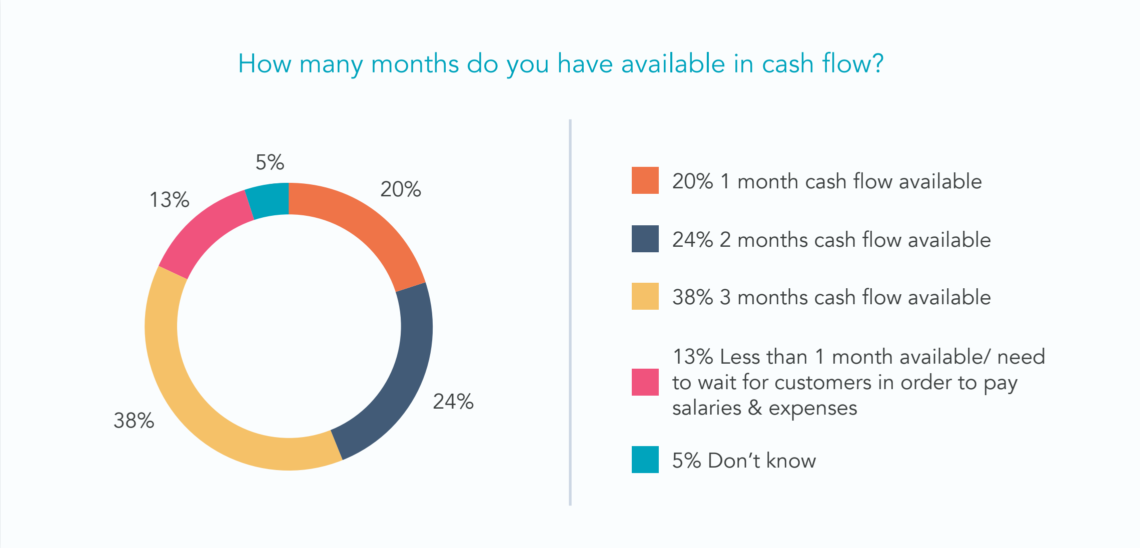
Agencies also clearly "feel the pain" of cash flow issues created by slow-paying, or non-paying, clients.



And they're challenged to develop policies and procedures to minimize this problem. The good news is that the agency's service agreement can be a powerful tool here as well. Look closely at your agency's contract language to make sure the payment terms are specific and that they have teeth — add language such as late fees or interest penalties, but also incentives like collection cost recovery and attorney fee recovery. And state your agency's policies about expenses and rush fees clearly to avoid misunderstanding later. Then, follow through on those policies! As John Doherty mentioned above when discussing cash flow, it's critical that agencies have a buffer if they are going to run a business with less stress and more predictability. A well thought out and planned approach to your services agreements can help build that buffer.

Sharon Toerek @ Legal and Creative

EXPERT INSIGHTS

NEGOTIATING DURING THE PITCH: FOUR COMMON MISTAKES AND HOW TO AVOID THEM

We new business people have a reputation for saying “yes” to prospective clients when we’re anxious to win them over. To show that our agency is gung-ho and easy to do business with, we’ve said yes to spec work, late hours and unreasonable deadlines.

That’s why, for some of us, negotiating contracts is terrifying. Agencies and other creative services companies can go to dangerous extremes to please a prospective client. But being a good sport today can lead to regrets in the future.

Here are four scenarios during the pitch process in which agencies can regain some control and still win the business.

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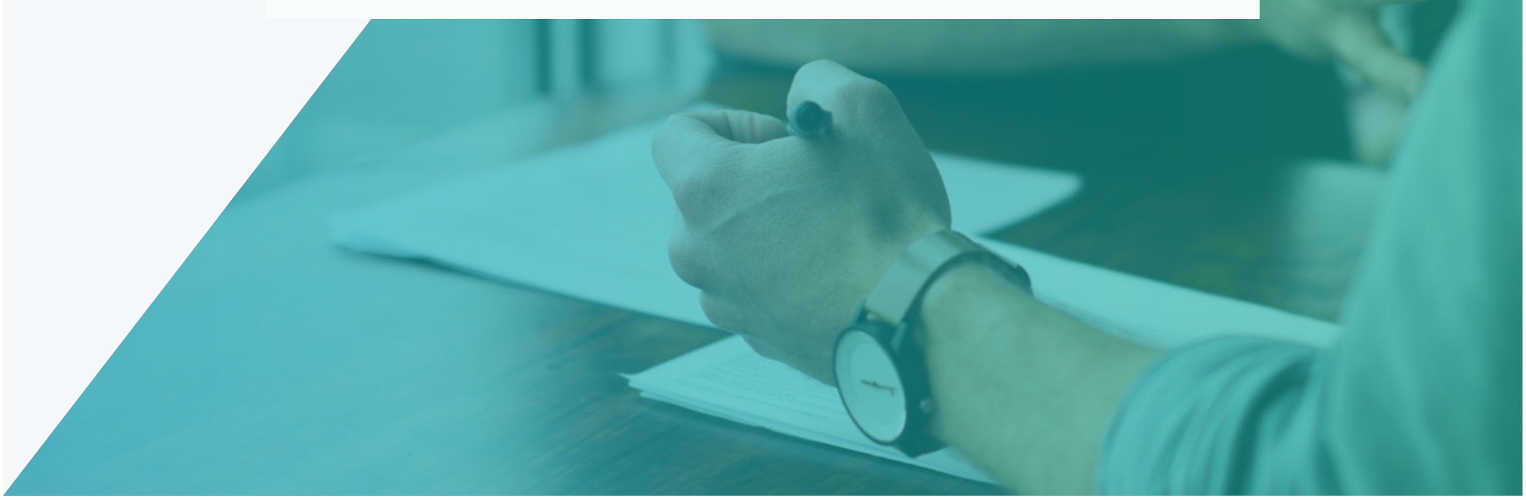
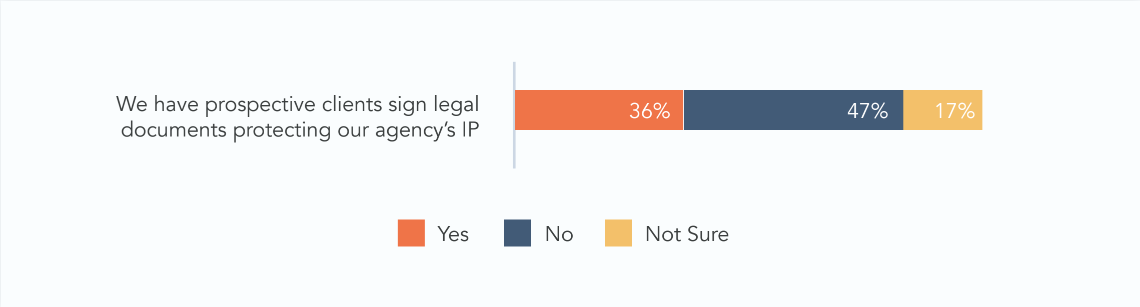


1. You feel pressure to sign an NDA quickly. Does this sound familiar? The prospect of your dreams just called to tell you they want you to pitch. But they're moving fast and before they can send you the brief, you must sign their NDA which is complicated. What do you do?

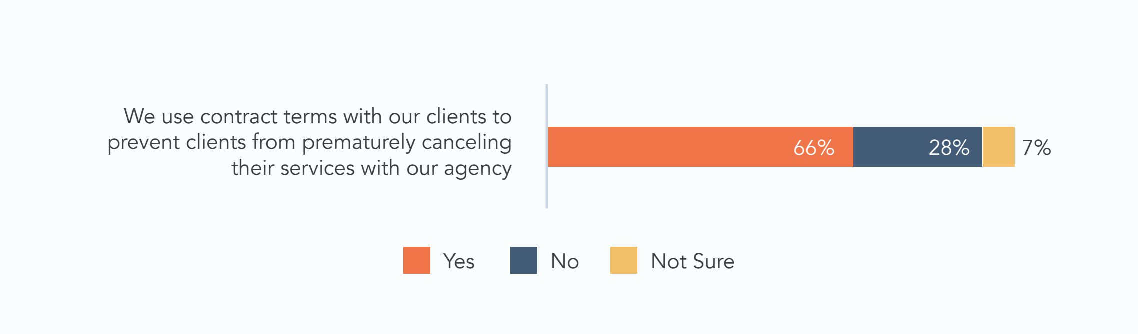
Non-disclosure agreements are important. They don't have to be complicated or long. They should always be mutual. They should never imply that the client owns your ideas during the pitch. If you don't like the version you got from the prospective client and they don't seem interested in negotiating it (an early red flag, by the way), then use your own.

In fact, get a set of standard legal documents in place. An NDA and a master services agreement are the important ones, but also consider standard templates for short-form terms and conditions, scopes of work or change orders.



2. You give away too much for free. Agencies hate the idea of doing work for free during a pitch, and yet they can't help themselves. Some agencies (and prospective clients) are willing to negotiate a modest fee up front for pitched ideas. It's probably not enough money to cover all your costs, but it does defray some expenses. It also settles the IP ownership question up front but the prospect takes possession of good ideas at a bargain price. In the meantime, make it part of your pitch process to lay some ground rules right away. Tell the prospect what belongs to you, and what you're willing to give to them.

At the very least, add a standard copyright notice to the work you show (the proper format for a copyright notice: © [Current Year] Your Agency Name) and include an IP ownership clause in any written proposals you send to the prospect.



3. You start without a signed contract. You will never be in a stronger position than at the point when the prospect has agreed to hire you. The moment you do work for that prospect without a signed contract, you go from a position of greatest strength to a position of greatest weakness. The fall is quick and absolute.

Get out of your own head for just a minute and think about the prospect's situation. Like you, they've made an investment in time, resources and even emotion to choose you over others. What's the likelihood that they'll walk away from that investment because you won't start work without a contract?

Alternatively, what's the likelihood that you'll be able to recoup costs, not to mention protect intellectual property or prevent poaching of valuable employees, if you don't have a signed contract?

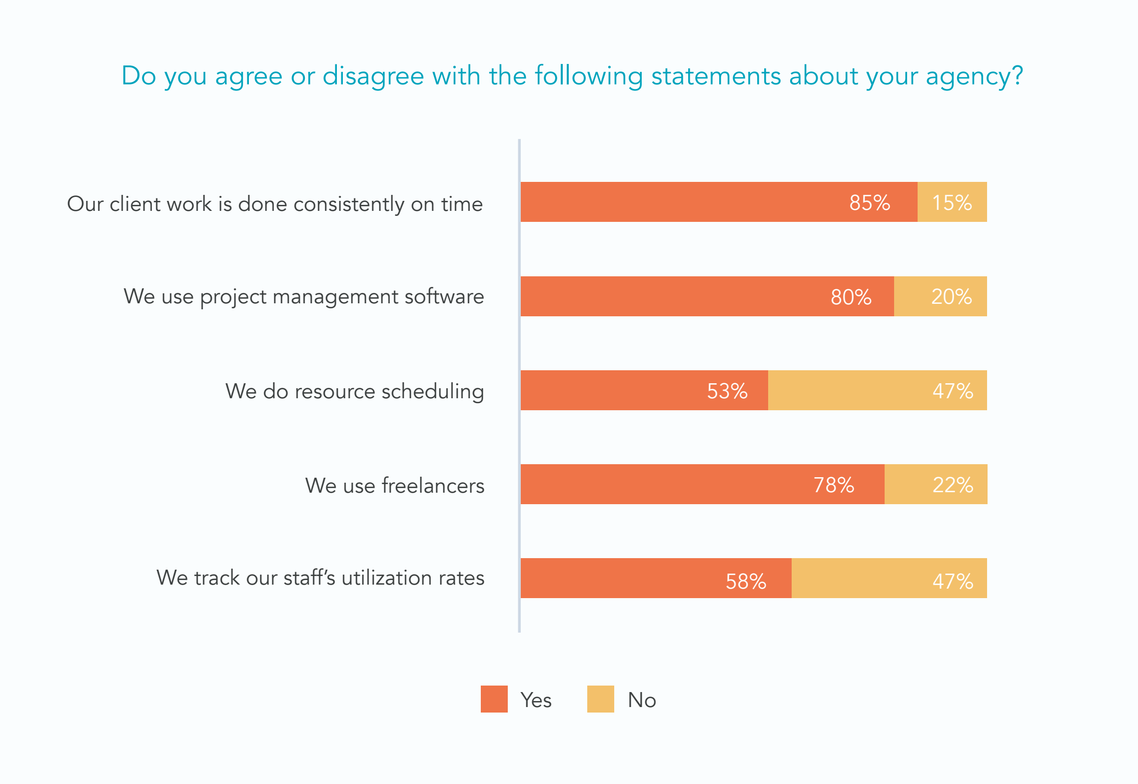
4. Get permission to showcase your work. Take full advantage of your position of strength to secure the ability to publicly showcase the work you will do for that client. Marketers would never hire an agency without looking at the work it's done for others. Yet ironically, many feel it's important to prevent that same agency, once they've hired it, from including their own work in the agency's portfolio. Don't assume this is an issue you can easily bring up later when the work is done. Include it in the contract.

Agency work is a services business, but sometimes I think we emphasize "service" more than "business." It may be uncomfortable to think of doing anything that might jeopardize the chance of winning new business, but consider how much more you may be giving up in the future. Stand in your position of strength and negotiate agreements that will be as beneficial for you as they are for your clients.

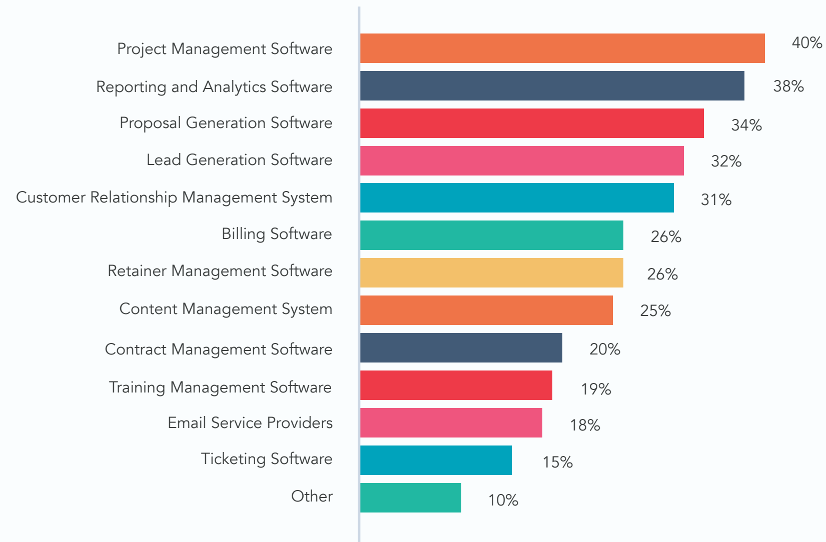
Jody Sutter @ The Sutter Company

CLIENT DELIVERY

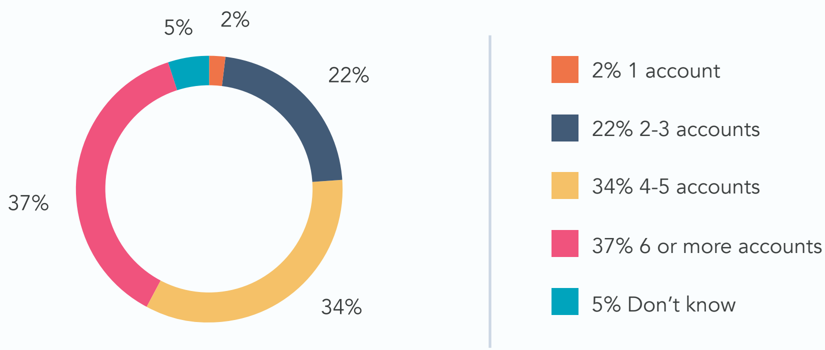
Despite having issues attracting the right talent for their open positions, agencies overwhelmingly report that they're able to get their client work done on time (85%). Agencies are making due by investing in the right technology, having their account managers take on a large number of clients and by investing in freelancers.



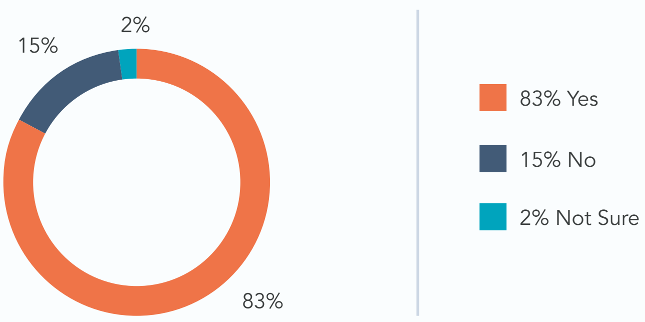
What types of software do you think you need to better run your agency?



On average, how many accounts does one account manager manage at any given time?

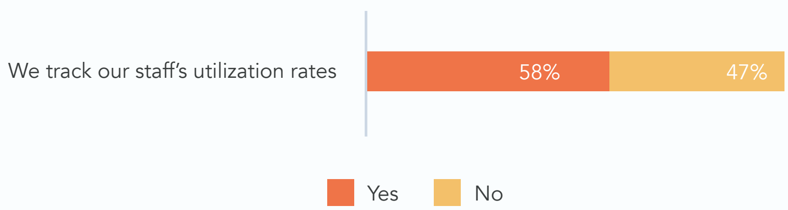


We customize our service offerings for each new business opportunity

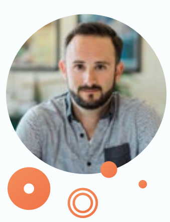


EXPERT INSIGHTS

What is measured can be managed, and the fact that 42% of agencies do not know their staff utilization is quite alarming. These 42% of agencies do not know if their clients are profitable or not, or how to optimize for more profitable clients and happier staff at the same time.



These agencies would be well served to spend a month understanding where their employee time is going, as they can then make necessary changes to make projects profitable and understand their true utilization, as well as the areas where they need to hire or trim back in order to run a profitable company.



John Doherty @ [Credo]

EXPERT INSIGHTS

THE FUTURE OF TECHNOLOGY INVESTMENT FOR DIGITAL AGENCIES

As a former agency owner, I am not surprised by the challenges agencies face that are highlighted in this HubSpot data. It's clear that agency owners know what they need to do, but from looking at the data in this year's survey, it's clear they are still struggling to do it.

Like many agency owners, I knew how critical tight project management and resource utilization were to profitability. Knowing it was important and doing it well were two very different things. From this year's survey, it seems many agencies know what they need to do, but they still struggle to do it: only half are trying to manage utilization and resource schedules, and while 80% of agencies rely on project management tools, half of those say they need to get a better system!

What I experienced when running my agency — and I hear from hundreds of other agency owners today — is that there are plenty of tools out there that do different parts of our jobs better, but when it comes to actually running the business, we're quickly back to manual spreadsheets and trying to manage the chaos the best we can. No wonder the second biggest pain point for agency owners is a lack of time to work on, not in, the business!

The good news, though, is that modern tools to run operations in a streamlined and coordinated way now exist. Tools agencies will actually use to make a difference in their project management and resource scheduling. One category of these types of tools is called Service Operations Automation, which is changing how agencies run their business. By combining how you track and manage all parts of your client service delivery - quotes, projects, retainers, timesheets, and billing — in one place, agency owners can now get a real-time view into utilization and profitability. This is a type of technology that allows agency owners to put time back into their agency.

The results of this new technology revolution are already incredible, with agencies boosting utilization and doubling their profit margins in large part because owners and managers can see what's happening across the business in real time. Innovations around machine learning, and further integrations into the tools we use to do our work, will give an even bigger advantage to agency owners who harness this "good automation" for their businesses.

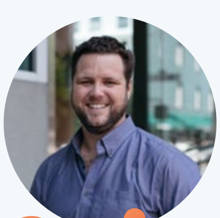
I don't expect agencies to stop having problems finding new clients or keeping their best staff, both of which are inherent to the industry. What I hope new technology can change is the fog and chaos that most owners are forced to run their agency in and that I dealt with when I ran my own agency.

If you are an agency owner thinking about a technology investment:

Don't make a technology investment for the sake of trying something different. Ensure that your next technology investment is going to allow you to improve profitability and better manage your agency.

You have the data that shows what you need to do to change. Commit to the technology and the processes outlined throughout this report. Technology combined with the right process will allow you make a meaningful impact on growth and profitability.

Look at new types of technology — powered by automation — that may help change how you approach managing your service delivery.

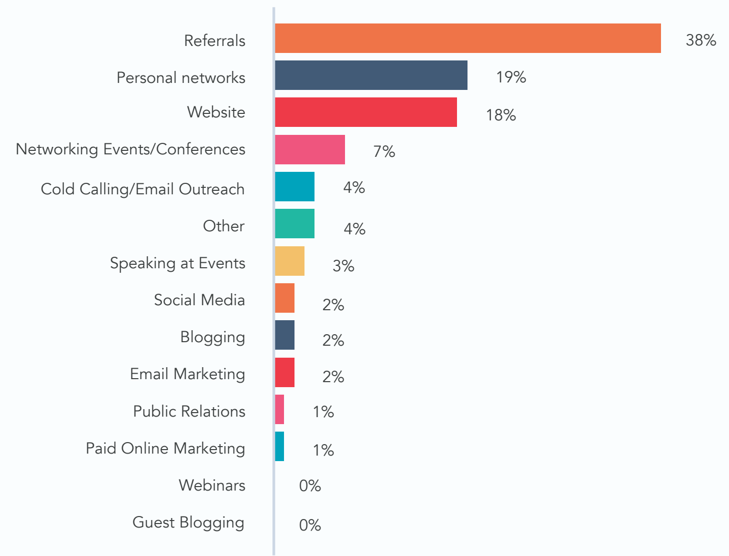


Geoff McQueen @ Accelo

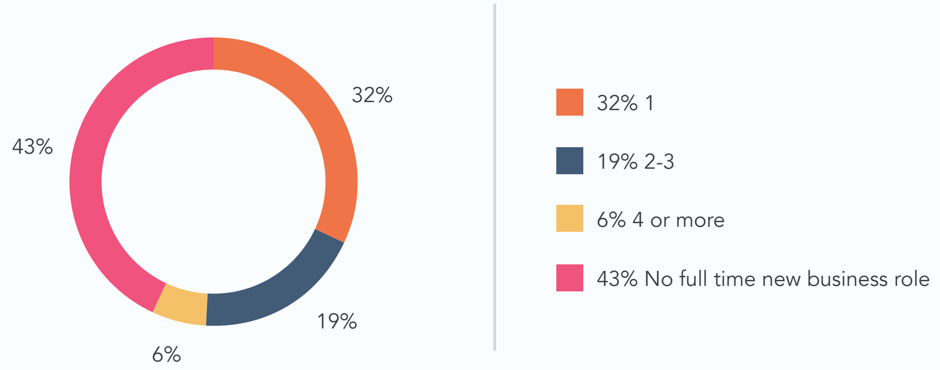
NEW BUSINESS

In 2016, our research team published the "[Agency Pricing and Financials Report.]" In that report, we found that 34% of agencies employed a new business representative. That number has improved in 2018, as 57% of agencies surveyed this time around reported employing at least one new business representative. While it's a welcome trend to see agencies committing resources to sales, one concerning data point that remained the same was the reliance on referrals and personal networks for new business. In the 2016 survey and this report, referrals were chosen as the most important lead driver for agencies.

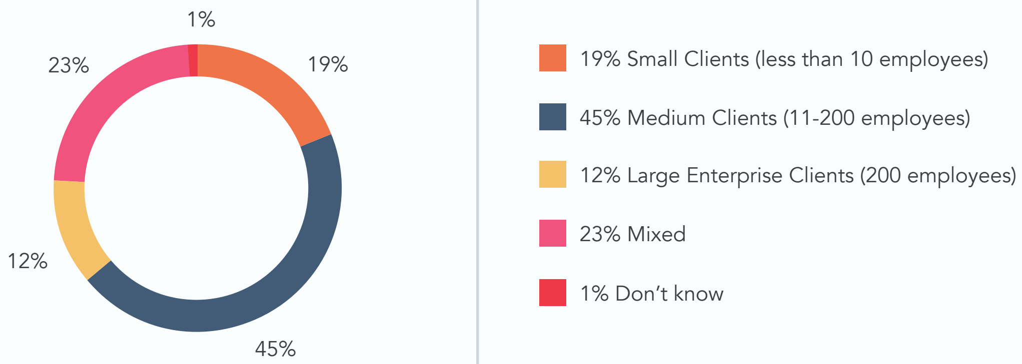
What is your main source of leads?



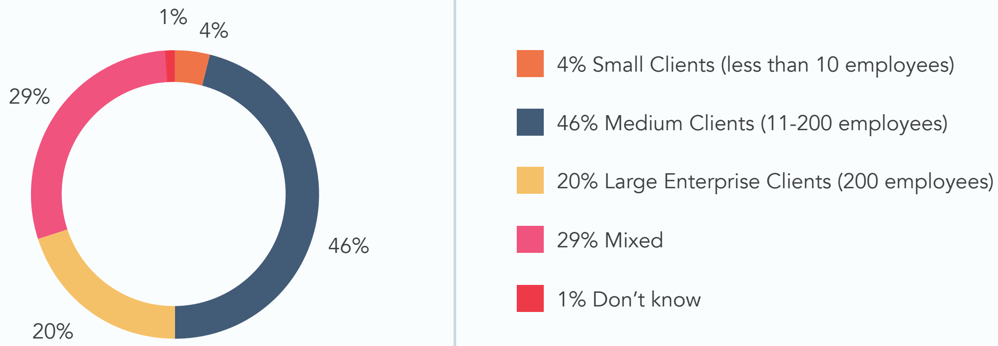
How many full-time new business/sales people do you employ?



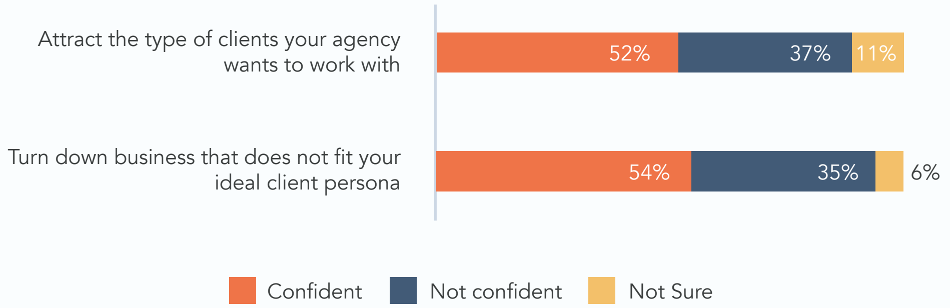
What makes up the majority of your current book of business?



Ideally, what kind of businesses would make up your book of business?



How confident are you with your agency's ability to:



EXPERT INSIGHTS

One of the questions asked of agencies was, "What Are Your Agencies Biggest Pain Points?" and I wasn't surprised at the top two answers: finding new clients (60%) and not enough free time to focus on new business investments (43%).

In working solely with agencies to drive new business, we also create a fair amount of new business content, and in one of our previous reports, 69% of agencies described their biggest challenge as being able to break through to prospects — in keeping with the findings in this report.

Continued on following page...

So why is it so difficult for agencies to find and break through to new clients? Here are a few of the main reasons:

They don't have a new business process to find new clients. Agencies often start out with the best of intentions, planning out the initial few weeks with some email blasts, buy into a CRM, purchase a list and write a blog post or two. And that's about it. Rarely is there a value-based, repeatable process aimed at multiple touches through a variety of channels.

They don't give the process a chance. You do have some agencies who actually follow a process, but who give up far too quickly when prospects aren't breaking down the door. They won't. It will take anywhere from 7 to 12 touches to break through on average, which leads to the third reason.

They don't have solid positioning. It may seem very obvious to point out, but the majority of agencies have ineffective positioning. So even when they are targeting the right prospects, those prospects don't see the value in what they're offering, or even worse, don't understand the agency is even a fit.

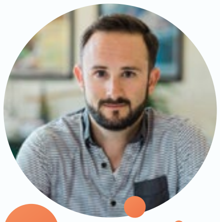
Agencies say it's hard to find new clients, and they are absolutely correct, it is hard. There is no magic bullet to find them, although agencies often think there is. Unless you truly have an inside track to a prospect, no software or methodology will know the exact moment a prospect is looking for a new agency. Which is why agencies need to be on a prospect's radar consistently, effectively, and with value.

Lee McKnight @ RSW/US

EXPERT INSIGHTS

The fact that a full 47% of agencies say that their main source of leads is referrals or personal networks does not surprise me.

I have seen many agencies over the years struggle to grow their lead pipeline and expand their business because they are so reliant on referrals and personal networks that they have not learned how to get in front of a larger target audience (if they have even identified who that bigger audience is). Agencies that are struggling with profitability and revenue would do well to understand where their potential clients are, as opening up the funnel of leads allows you to set more aggressive pricing, and ultimately take a lot of the financial stress out of a business.



John Doherty @ Credo

EXPERT INSIGHTS

REFERRALS ARE HOLDING YOUR BUSINESS BACK

One of the big problems I often see with agencies is generating leads, and in this survey, it only confirms it more. A shocking 38% of agencies rely on referrals to generate leads with the next closest being their personal networks at 19%. Let me tell you that referrals are not scalable!

What is your main source of leads?

Don't get me wrong. I love referrals, and referrals mean that you did a good job so someone is endorsing your services.

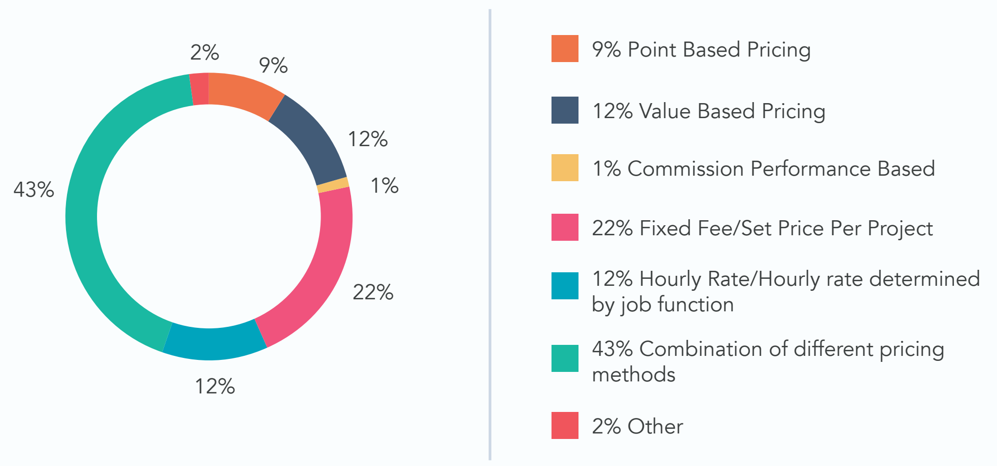
Here's the problem with referrals: Usually, referrals are the same type of lead, with the same budget you are working with now or smaller. Which means you are going to have to keep your pricing the same, even as your experience and expertise improves.

You get better and more efficient yet the smarter you get, the more profit you lose. You're stuck charging the same prices because you're working with the same types of clients who are a network of referrals.

Continued on following page...

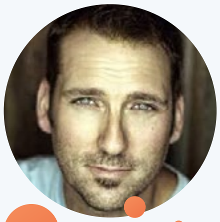
I have so many agency owners come to me and say they are growing year over year, but they are making less and less in salary and distributions. This is because they haven't raised their pricing to what it needs to be. If they were able to raise prices, they would make more money and be able to hire the right people in order to stop having to do everything themselves.

What kind of pricing models does your agency employ?



If you constantly tell yourself that you don't have enough time to do everything, that is the telltale sign that you are not charging enough.

So, referrals are great, but more than one-third of agencies are relying on them too much! Referrals are just not scalable. Do you see how relying on referrals could be holding you back?



Jason Swenk , Digital Agency Coach and Consultant

EXPERT INSIGHTS

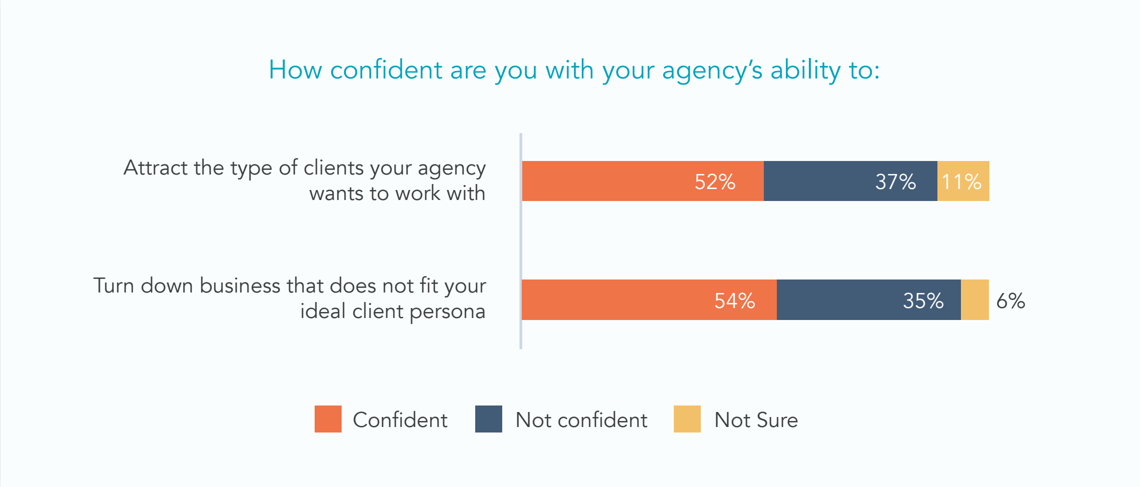
SEEKING TO STRIKE THE PERFECT MATCH

Among respondents to the survey, 60% of agency leaders were confident that they could generate new leads. Even more impressive (and optimistic), 63% were confident that they could grow new revenue. So, it's consistent that 72% of those leaders planned to invest in lead generation to make this happen. All good, right? The money will be spent to generate new business, and there's strong confidence it will pay dividends.

Better yet, it would seem, when naming top lead sources, 38% of new leads reportedly came from referrals, and 19% were from personal networks. With 57% of new leads (representing the combined two lead sources) stemming from networks close to agencies and their leaders, over half of the leads should have been teed up well.

Continued on following page...

But yet, the same pool of leaders noted that only 52% felt that they could attract the types of clients they wanted. And 60% stated that getting new clients was their biggest pain point. In other words, they are not sure they can attract the right prospects — and it is a big pain to do so, in any event!



To make matters worse, when asked what was preventing their agencies from growing as quickly as they would like, agency leaders noted that they believed they needed more sales and marketing. More sales and marketing to fuel wobbly new client value and return? A match that would serve to pump more gas into a not-well-aimed, expensive flamethrower, perhaps?

In light of this set of circumstances, many agencies would be well-served to take a step back and garner more clarity on who they serve best and how they reliably attract those well-matched new clients.

In light of this set of circumstances, many agencies would be well-served to take a step back and garner more clarity on who they serve best and how they reliably attract those well-matched new clients.

How do agencies make that happen?

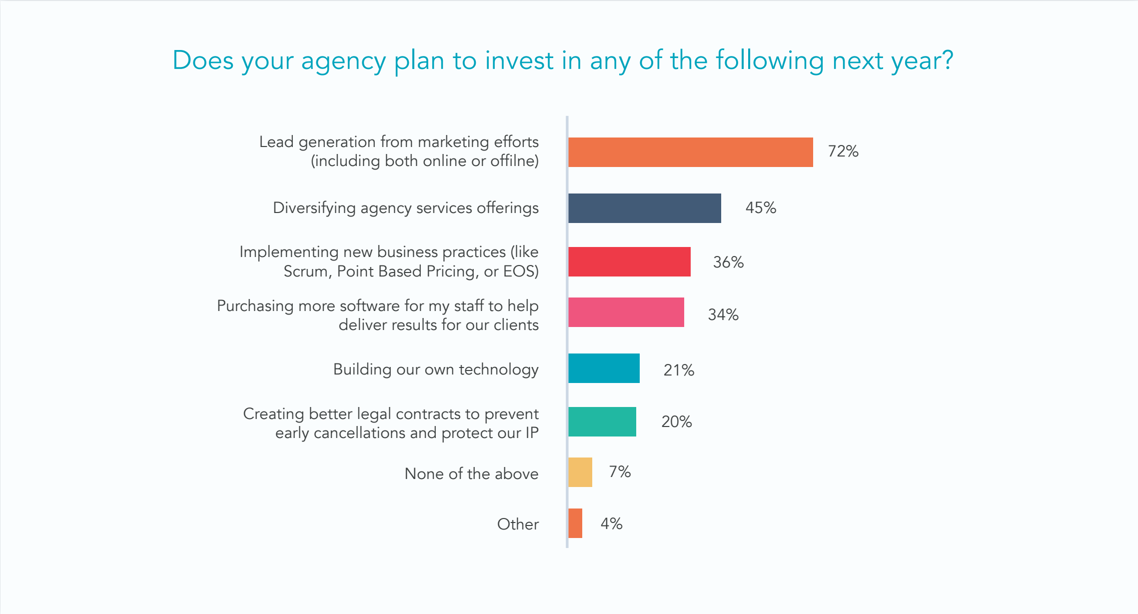
Identify your ideal client through a combination of research, behavioral data, and analytics. This type of research will reveal which clients are most profitable, stay the longest, are most satisfied, and spend the most on your services. Put in the time and effort to clearly understand this process. And then, plain and simple, think long and hard before selling to prospects that do not map to your ideal client profile. Then be sure to let your network clearly know with whom you work best.

Identify your ideal offerings. Think of work you do well and compare it to what your competitors do well. Then compare those findings to the ideal clients you currently work with versus your non-ideal clients. You should stop pursuing leads that want services that you don't do well, or profitably.

"When we narrowed our focus to solely work with engineering companies, TREW Marketing gained significant momentum in thought leadership and business growth. We were thrilled to be named by the Wall Street Journal among the top ten most innovative entrepreneurs for simply following our mantra: "Say No to Grow."

Wendy Covey | COO at Trew Marketing

Watch Trew Marketing explain how they grew their agency.



No matter if you are selling a referral or not, educate your prospects beyond the pitch process. Does your website offer content that truly shines the spotlight on what you do well, the clients which benefit most and how they benefit? Does your website have testimonials and case studies? As Jody Sutter mentioned earlier in the report, it's never too early to think about the future. During the sales pitch make sure you negotiate the ability to create case studies based on your work. They won't only help you bring on new business, but they will also help educate new clients. Client that don't know how you work and what you do best churn the fastest or give you the most headaches.

Consider a different strategy on closing new accounts and compensating your new business representatives. Audit your sales process and ensure you are being honest with yourself and the client. Encourage anyone involved in the pitch and sales process to weed out bad fit prospects. If this a pain point, get creative and reward your sales people for turning away business that is not the right fit for your agency. Sometimes, it's better to step away from a prospect.

For agency leaders, it's time to make the most of all of the time and money spent on sales and marketing. It's time to know, meet, and happily serve those perfect matches. You don't need a lot of wrong matches, you need the right matches.

Jim Darcangelo @ [UpCity]

CONCLUSION

Agencies face a multitude of challenges that prevent growth. With clients demanding high-quality work, customized pricing and the ability to walk away from a contract when they choose, agencies are under pressure to manage immediate and future financial challenges. The balancing act of handling immediate concerns and investing in future growth is not an easy one.

This data can serve as a guide to help you avoid some mistakes other agencies have made and to recognize your own blind spots.

If you are committed to taking those next steps, solutions exist. Take the lessons offered by our agency experts to heart and be honest with what you can fix this year.

CREATED BY

TIMOTHY DEARLOVE

Tim works on the HubSpot Partner Marketing team. He is focused on growing the HubSpot Partner Directory and finding ways to connect small and medium-sized businesses with the perfect service providers.

MIMI AN

Mimi runs HubSpot's Research team, analyzing consumer data and customer trends to uncover insights for the marketing and sales community.

SARAH WILLIAMS

Sarah works on HubSpot's research team and executes research projects for HubSpot's Marketing Team.

RESEARCH PARTNERS

In order for this data to be most valuable, we knew it was important to reach a wide and diverse agency audience, both inside and outside of the HubSpot ecosystem. At HubSpot, we're committed to helping agencies grow, and in order to bring the best advice to agencies, it was important that we brought in diverse perspectives to analyze the data and offer solutions.

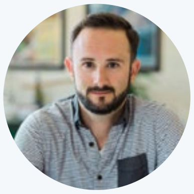
We collaborated with several partners to help promote our survey and to add their unique perspective on the data to the final report. These people and companies work with agencies every day, and they each provided their insight into how agencies can tackle growth challenges in relation to their area of expertise.

PETE CAPUTA

Pete Caputa, the founder of HubSpot's Partner Program, is currently CEO of Databox. Pete is obsessed with helping agencies grow revenue profitably. Databox currently helps hundreds of HubSpot partners pull all their clients' data from 60+ tools into one spot, so they can more effectively monitor KPIs, track performance against goals and report results to clients.

JIM DARCANGELO

Jim DArcangelo is Senior Vice President – Growth for UpCity, the leading online marketplace that connects businesses with locally-based qualified agencies and digital marketing service providers. A marketing organization leader for more than twenty years in the tech start-up space, Jim has worked with more than fifteen global, regional and local digital and traditional agencies, as they helped him drive high growth and successful exits.



JOHN DOHERTY

John Doherty is the founder of GetCredo.com where they help businesses connect with the right SEO or digital agency for their needs. John has a decade of SEO and digital experience, including time at two agencies and in house with Zillow Group's rentals brands. He lives in Colorado with his wife Courtney and their very large black labrador Butterbean, and they can often be found in the mountains on weekends.

LEE MCKNIGHT

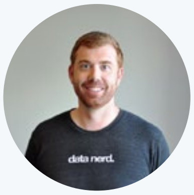
Lee McKnight is the vice president of sales at RSW/US, a business development/lead generation firm that only works with marketing agencies.

DREW MCLELLAN

Drew McLellan runs the Agency Management Institute (AMI), which is a consultancy for small to medium-sized agencies that has been helping agency owners grow their agencies since the mid-90s. He also runs McLellan Marketing Group, which he founded in 1995 after a five-year stint at Y&R.

GEOFF MCQUEEN

Geoff McQueen is the CEO and co-founder of Accelo, a startup that helps businesses to streamline and automate service operations. An Australian based in San Francisco, Geoff is a serial entrepreneur and investor. Through his deep experience with technology and track record of growing successful businesses, Geoff and his team create technology for businesses to boost revenue, double profitability and, most importantly, uses automation to help thousands of people to do the work they love.



JONATHAN MILNE

Jonathan is a growth and marketing optimization professional. Jon proudly leads the marketing team @ Klipfolio — a market leader in dashboarding, and reporting tools. He is usually spotted around the office with a coffee in hand. When he is not reading up the latest trends in growth and tech tools, he can be found playing with his three kids outside in Canada's great outdoors. Jon is also an active startup advisor and mentor.

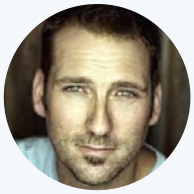
KARL SAKAS

Karl Sakas (@KarlSakas) helps agencies grow by solving six- and seven-figure business problems. As an executive coach at Sakas & Company, Karl has advised agencies on six continents about operations, strategy, and leadership. He is the author of Made to Lead, The In-Demand Marketing Agency, and 250+ articles on agency management. When he's not helping clients, Karl volunteers as a bartender on a 1930s railroad car. Get free tips to upgrade your management skills at 30DayManager.com.

JODY SUTTER

Jody Sutter is a veteran new business executive with 20+ years of experience running new business development teams for agencies, large and small and spanning a diverse list of disciplines. They've included R/GA, OMD, Havas Media and The VIA Agency.

Jody is currently owner of The Sutter Company, a new business consultancy that specializes in working with leadership at small ad agencies. She helps them identify and activate their natural talents for sales and marketing through programs that are easy to embrace because they take both the agency's strengths and available resources into consideration.



JASON SWENK

Jason launched a digital agency that quickly grew to a multi-million dollar operation working with brands such as AT&T, Hitachi and Lotus Cars. After twelve years of steady growth, they caught the attention of bigger agencies and sold the company in 2012. Now, Jason leads JasonSwenk.com, a unique consultancy helping digital agencies start, scale, enjoy, and sell their digital agencies by applying the exact proven formula he used.

SHARON TOEREK

Sharon Toerek is the principal of Toerek Law, where she focuses her national law practice on helping professionals in the advertising, marketing and creative services industries protect and monetize their intellectual capital as well as manage the legal implications of their marketing and advertising work. Sharon is an approved participant on the 4A's Legal Consultants Panel and a past president of the American Ad Federation (AAF) Cleveland.

TIM WILLIAMS

Tim Williams is one of the leading voices in the pricing revolution in professional services. As a career agency professional and founder of Ignition Consulting Group, Tim works with firms around the world in the areas of pricing and business strategy. Tim has worked with hundreds of agencies ranging from mid-size independents to multinational agency networks in the U.S., Canada, Europe, Asia, and Australia. As a perpetual student and member of the Professional Pricing Society, Tim serves as a global LinkedIn Influencer and writes the popular blog Propulsion.

Become A Better Agency.

HubSpot's Partner Program helps you market, sell, and deliver the remarkable results your clients expect.

HubSpot's Agency Partner Program Isn't About Software — It's About Solving Your Business Problems

Increase Revenue Per Client

Offering inbound services allows your agency to build larger retainer agreements with your clients. As you show the ROI of your services, it'll be easier to incorporate new strategies and services into each client engagement.

Implement ROI-Centric Services

HubSpot partners have a clear view into all the data and reporting necessary to quantify their return on client spend — all in one place. To your agency, this means you'll streamline internal processes and improve your operational efficiency.

Improve Client Retention

Offering inbound services enables your agency to clearly articulate the value you bring to your client. This enables you to offer repeatable services that keep clients engaged in recurring retainer services.

Learn more