

2020 RESEARCH FROM SODA

**AGENCY  
TRACKING  
STUDY.**

**So  
DA**

# RESEARCH

PERFORMANCE, SENTIMENT & OPERATIONAL PRIORITIES

SoDA conducted three tracking studies in 2020 (Q1, Q2 and Q4) to better understand how agency leaders were navigating the disruption, their financial performance in 2020, operational pain points and priorities, and the initial outlook for 2021. This presentation is a summary of what we found across the three studies.

# Q1 STUDY

Fielded as an online survey between March 13-22, 2020, the following slides provide a glimpse into changing forecasts, sentiment and levels of preparedness in the early days of the pandemic.

# Q1 Study Overview

## SURVEY

- 1 **A snapshot during a period of uncertainty.** This survey was fielded from March 13-22, 2020 and reflects the deep uncertainty of an accelerating global pandemic and the suddenness of a global economy grinding to a halt. The sentiment and anticipated actions by agency leaders in these early days will undoubtedly evolve. We plan to field this study again in June to help benchmark the change.
- 2 **Duration and depth of impact unknown.** Agencies have taken initial steps to adapt to remote teams, travel restrictions and a diminishing revenue outlook for 2020. Economic stimulus is ramping up from governments across the globe and the duration and severity of community health measures will likely vary by region. It's still early days and we should view this initial market response as Phase 1.
- 3 **Agency strength, decisiveness and resilience to be tested.** Agencies delivered solid financial performance in 2019 and many entered 2020 in a strong financial position. Timing and severity of impact on revenue for agencies will be distributed unevenly depending on industry focus, client mix and project types. Cash position, cultural resilience and decisiveness are critical for every agency.

# 2019 – A Good Year For Agencies

60% of agency leaders reported strong financial performance in 2019 with 21% calling it was one of their best year's on record. In SoDA's Digital Outlook Study (Q4 2019), 53% reported improved margins in 2019.

report a strong year in 2019

60%

of agency leaders say they had a very strong year for financial performance in 2019... *21% report that it was one of their best year's on record.*

## 2019 Financial Performance

21% Great... one of best year's ever.

39% Good... a very strong year.

21% Average... an ok year.

16% Poor... a challenging year.

02% Terrible... one of our worst year's ever.

# 2020 Outlook Crashed In Q1

While many agencies entered the year with a high-degree of optimism, the outlook for 2020 crashed in March.

## Confidence in 2020 Outlook (Q1)

10%	Very confident
26%	Somewhat confident
17%	Meh
31%	Not very confident
17%	Not confident at all

### A Falling Outlook For 2020

% of agency leaders confident that 2020 will be better than 2019 in terms of profitable growth.

Q4 2019	Q1 2020
82%	36%
March 13 – 16*	March 17 – 22*
38%	31%

\* Sample size less than 100 and should be viewed as such.

# Revenue Forecasts Down

45% of agency leaders have already downgraded their 2020 revenue forecast and another 19% expect to do so. Surprisingly, 18% of agency leaders say they've increased their revenue forecast since the beginning of the year.

cut revenue forecast for 2020

45%

of agency leaders *have already cut their revenue forecast for 2020* and another 19% expect they will do so in the coming weeks and months.

## Annual Rev Forecast (Now vs. January)

45% Decreased

19% No change yet but expect to decrease

18% No change yet but expect to stay on plan

18% Increased

**Some agency leaders have increased their revenue forecast for the year.**



# Project Delays & Cancellations

Agency leaders are already reporting an increase in delays and cancellations for active projects and RFPs.

project delays have increased

51%

... of agency leaders have already seen an *increase in delayed projects* and another 39% expect to see an increase in the coming weeks and months.

**Agencies have already seen an impact on projects and RFPs.**

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51% Report increase in *delayed projects*.

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34% Report increase in *cancelled projects*.

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26% Report increase in *delayed/cancelled RFPs*.

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# Impact & Anticipation

## Delayed Projects

51%	Occurring already
39%	Expect to occur
06%	No change expected
04%	I have no idea

## Cancelled Projects

34%	Occurring already
48%	Expect to occur
13%	No change expected
06%	I have no idea

*Agency leaders report increases in delayed and cancelled projects and RFP's along with project budget cuts. More than 75% anticipate an impact to occur in these areas.*

## Shrinking Sales Pipeline

29%	Occurring already
52%	Expect to occur
11%	No change expected
08%	I have no idea

## Longer Sales Cycle

26%	Occurring already
59%	Expect to occur
08%	No change expected
07%	I have no idea

## RFP's Cancelled/Delayed

26%	Occurring already
50%	Expect to occur
12%	No change expected
13%	I have no idea

## Reduced Project Budgets

24%	Occurring already
52%	Expect to occur
17%	No change expected
08%	I have no idea

## Longer Payment Terms

08%	Occurring already
43%	Expect to occur
41%	No change expected
08%	I have no idea

## Reduced Billing Rates

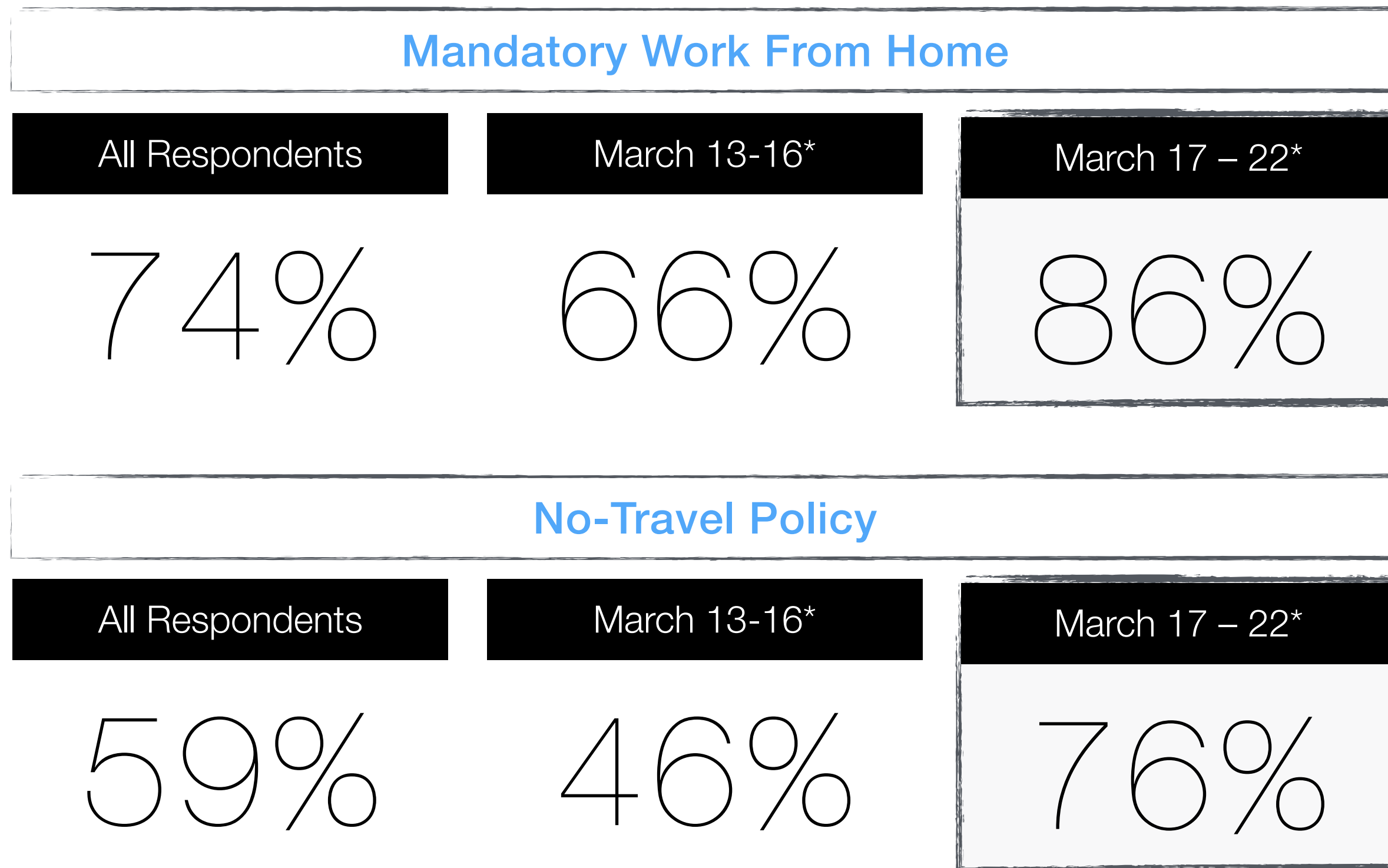
08%	Occurring already
25%	Expect to occur
61%	No change expected
05%	I have no idea

## Client Payment Default

05%	Occurring already
33%	Expect to occur
50%	No change expected
13%	I have no idea

# Early Actions

Agency leaders moved very quickly to implement “work from home” and “no-travel” policies. The percentage of those implementing these actions accelerated rapidly over the 10-day period of this study.



\* Sample size less than 100 and should be viewed as such.

## Implemented as of March 22nd

- 74% Mandatory work from home
- 59% No-travel policy
- 24% Reduced contract staff
- 07% Reduced full-time staff
- 04% Financial aid for dependent care

# Staff Reductions In The Works

As of March 22nd, just 7% of agency leaders had made cuts to full-time staff and 24% had reduced contract staff. Many more indicate they are planning to make staff adjustments soon.

expect to reduce full-time staff

44%

of agency leaders plan to reduce full-time staff... as of March 22nd, *7% had already made cuts and 37% expected to do so soon.*

expect to reduce contract staff

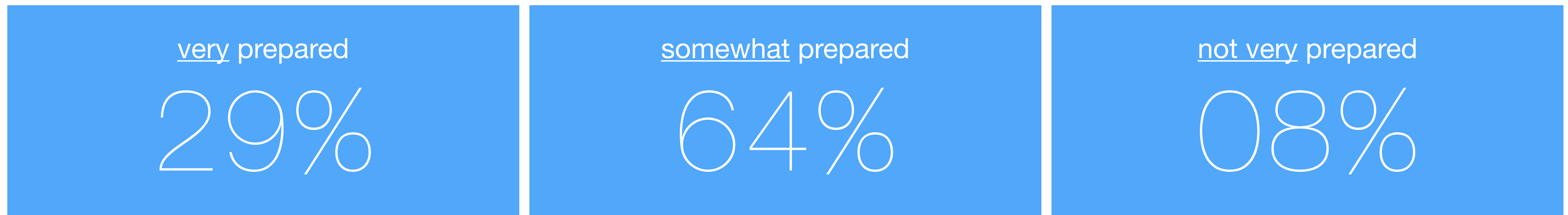
62%

of agency leaders plan to reduce contract staff... as of March 22nd, *24% had already made cuts and 38% expected to do so soon.*

# Level Of Preparedness

*When looking at the need to adapt quickly to the current environment (both COVID-19 and economic disruption), the vast majority of agency leaders feel they are at least partially prepared. Just 29% say they're "very prepared."*

**More than 90% of agency leaders said they felt "very" or "somewhat" prepared to make adjustments necessary to respond to the impact of Coronavirus / COVID-19.**



# Areas Of Readiness

*We explored agency leaders' levels of confidence across 11 areas that could impact their ability to quickly adapt and weather significant economic disruptions to their business.*

## Technology & Infrastructure

(redundancy, remote accessibility, security)

## Team & Culture

(cohesive, adaptable, collaborative)

## Policies & Procedures

(clear, enforceable, supportive)

## Process & Workflow

(clear, documented and adaptable to remote teams)

## Client Contracts

(reasonable terms for payment and cancellation)

## Business Insurance

(protection against major business disruption)

## Financial Visibility

(detailed and accurate insight into financial position and ability to quickly project future scenarios)

## Cash Reserves & Credit

(weather at least 3 months significant disruption to cash flow)

## Decision-Making

(clear hierarchy and ability to make quick, essential decisions)

## Sales & Marketing

(an active, always-on marketing and lead generation program)

## Redundancy & Knowledge Management

(few single points of failure relative to people and organizational knowledge)



# Confidence In Preparedness

*We found the highest levels of confidence in decision-making capabilities, technology/infrastructure set-up and team/culture cohesion. Close to one-third have concerns with cash and sales/marketing capabilities.*

## Most Prepared

**50% or more are  
“very confident”  
in these areas**

- ✓ Decision-Making
- ✓ Technology & Infrastructure
- ✓ Team & Culture

## Somewhat Prepared

**75% or more are “very” or  
“somewhat confident”  
in these areas**

- ✓ Policies & Procedures
- ✓ Process & Workflow
- ✓ Client Contracts
- ✓ Financial Visibility
- ✓ Redundancy & Know. Mgmt.

## Least Prepared

**30% or more are  
“shaky” or in an  
“oh shit” situation.**

- ✓ Cash Reserves & Credit
- ✓ Sales & Marketing
- ✓ Business Insurance

# Contingency Planning

*COVID-19 has quickly revealed where agency leaders are the most- and least-prepared for this disruption.*

	Very Confident	Somewhat Confident	Shaky	Oh Shit
Decision-Making	65%	28%	07%	01%
Tech & Infrastructure	63%	33%	02%	02%
Team & Culture	55%	38%	06%	02%
Cash Reserves & Credit	38%	31%	25%	07%
Policies & Procedures	36%	57%	06%	02%
Process & Workflow	36%	51%	11%	03%
Financial Visibility	34%	42%	21%	03%
Business Insurance	28%	40%	25%	08%
Client Contracts	24%	55%	18%	03%
Sales & Marketing	23%	45%	26%	07%
Redundancy & KM	21%	55%	19%	05%



# Confidence In 2020 Outlook\*

36% of agency leaders said they were “very” or “somewhat” confident that 2020 would be better than 2019 in terms of profitable growth. Here’s how they differ from the average respondents in this survey.

strong performance in 2019

70% vs. 60%

70% reported *strong financial performance* in 2019...  
10 points up from the average.

increased revenue forecast in 2020

40% vs. 18%

40% *increased their revenue forecast since earlier this year*...  
22 points up from the average.

confident in decision-making

79% vs. 65%

79% are “*very confident*” in *their decision-making abilities*...  
14 points up from the average.

confident in preparedness

40% vs. 29%

40% are “*very confident*” in *their preparedness for this crisis*...  
11 points up from the average.

\* Sample size less than 100 and should be viewed as such.

# Confidence Vs. Optimism\*

Those that maintain confidence in the 2020 outlook point to similar levels of immediate disruption and don't appear to have greater confidence in their financial visibility or sales and marketing capabilities. For this group, it is possible that the confidence is driven by a specific industry focus, client mix or project speciality. It could also be optimism.

**Interestingly, this cohort points to the same levels of immediate impact as the rest of the group and are no more confidently prepared in the crucial areas of financial visibility and sales and marketing capabilities.**

delayed projects

53% vs. 51%

53% reported an *increase in delayed projects* versus 51% for all respondents.

delayed and cancelled RFP's

28% vs. 26%

28% reported an *increase in cancelled or delayed RFP's* versus 26% for all respondents.

sales & marketing capabilities

35% vs. 33%

35% say their *sales/marketing is "shaky" or "oh shit"* versus 33% for all respondents.

financial visibility

78% vs. 76%

78% are *"very" or "somewhat" confident in their financial visibility* versus 76% for all respondents.

\* Sample size less than 100 and should be viewed as such.

# Confidence In Preparedness\*

Agency leaders that feel “very prepared” for the current climate have higher levels of confidence across the board. They also exhibit lower levels of vulnerability in at least two key areas.

	“Very Prepared” All Respondents	“Very Prepared” Prepared Cohort	Difference
Decision-Making	65%	91%	+26
Tech & Infrastructure	63%	91%	+28
Team & Culture	55%	69%	+14
Cash Reserves & Credit	38%	54%	+12
Policies & Procedures	36%	60%	+14
Process & Workflow	36%	51%	+15
Financial Visibility	34%	43%	+09
Business Insurance	28%	46%	+16
Client Contracts	24%	40%	+16
Sales & Marketing	23%	31%	+08
Redundancy & KM	21%	37%	+16

**Less exposed when it comes to financial visibility and sales & marketing capabilities.**

**financial visibility... “shaky” or “oh shit”**  
 24% vs. 06% (-18)

**sales & marketing... “shaky or “oh shit”**  
 33% vs. 17% (-16)

\* Sample size less than 100 and should be viewed as such.

# SUMMARY

A few thoughts on the Q1 data and what it might mean for agency leaders going forward.

# Q1 Findings

## SO WHAT?

- 1 **Agencies are adapting quickly.** 74% of agencies have already implemented a mandatory work-from-home policy and nearly half are planning reductions in full-time and contract staff. In the coming weeks (and months) agencies will work to get their remote team model dialed in, hunker down on their best pipeline opportunities and hustle to keep their revenue/cost equation balanced.
- 2 **Agency decisiveness, resourcefulness and resilience will be tested.** Agencies delivered solid financial performance in 2019 and many entered 2020 in a strong financial position. Timing and severity of impact on revenue for agencies will be distributed unevenly depending on industry focus, client mix and project types. Cash position, cultural resilience and decisiveness are critical for every agency.
- 3 **An opportunity for accelerated evolution.** Agency leaders already faced pressure for talent, billing rates, cost structure and a cluttered competitive landscape. The abrupt arrival of a global pandemic and economic slowdown will accelerate the urgency with which agencies tackle these systemic, structural industry issues. Many will find an opportunity (necessity) for re-invention.



# Q1 Study Respondents (n=122)

The Q1 study was fielded as an online survey between March 13-22, 2020. Respondents were primarily agency founders and partners from an equal split of SoDA agencies and non-member agencies. The sample and subsequent findings largely reflect the views of small and mid-sized agencies in the United States and Europe.

Revenue (USD)	Agency Type	Respondent Role	Location / HQ
50% Less than \$5MM	48% Digital Agency	71% Founder / Partner	41% United States
30% \$5 – \$10MM	17% Integrated Agency	20% Executive Leadership	36% Europe
09% \$10 – \$25MM	10% Digital Product Studio	05% Operations Leader	12% APAC
05% \$25 – \$50MM	08% Consultancy	02% Sales/Marketing Leader	06% Canada
03% \$50 – \$100MM	07% Production Company	01% Finance Leader	03% Latin America
03% Greater than \$100MM	10% Other Agency Type	01% Other	01% Middle East

# Q2 STUDY

Fielded as an online survey between June 22 - July 6, 2020, the following slides provide a glimpse into how agency leaders were adjusting plans and expectations several months into the pandemic.



# Q2 Study Overview

## SURVEY

- 1 **A snapshot during a period of uncertainty.** This survey was fielded from June 22 – July 6, 2020 and reflects a great degree of uncertainty (and lack of clear visibility) that agency leaders are experiencing as they navigate the year. Sentiment and the outlook will undoubtedly continue to evolve and we plan to field this study again in early October to help benchmark the change.
- 2 **Duration and depth of impact still unknown.** Agencies have taken initial steps to navigate a slowing economy and new conditions/constraints imposed by a global pandemic. While optimism is on the rise, the business outlook for 2020 remains unchanged from March and there is little external clarity on how long the pandemic will last and when the global economy will pick up again.
- 3 **From thriving to barely surviving... impact has been unevenly distributed.** Many agencies have moved quickly and decisively to adjust plans this year... some from a position of strength, others in full-on survival mode and others from places in-between. Broadly speaking, the market is challenging but we also see a healthy minority of agencies still reporting strong growth and a positive outlook.

# Leaders See Performance Hit In 2020

Agencies entered the year with a high-degree optimism. As COVID-19 interventions escalated in Q1, the outlook for 2020 performance crashed and has not improved since late March.

## Confidence in 2020 Outlook (Mar vs. July)

March 13 – 22		June 22 – July 6	
10%	Very confident	13%	
26%	Somewhat confident	23%	
17%	Meh	21%	
31%	Not very confident	24%	
17%	Not confident at all	20%	

### The Outlook for 2020 Relatively Unchanged

% of agency leaders confident that 2020 will be better than 2019 in terms of profitable growth. Confidence in early July was static relative to late March and still 36 points off from the outlook in Q4 2019.

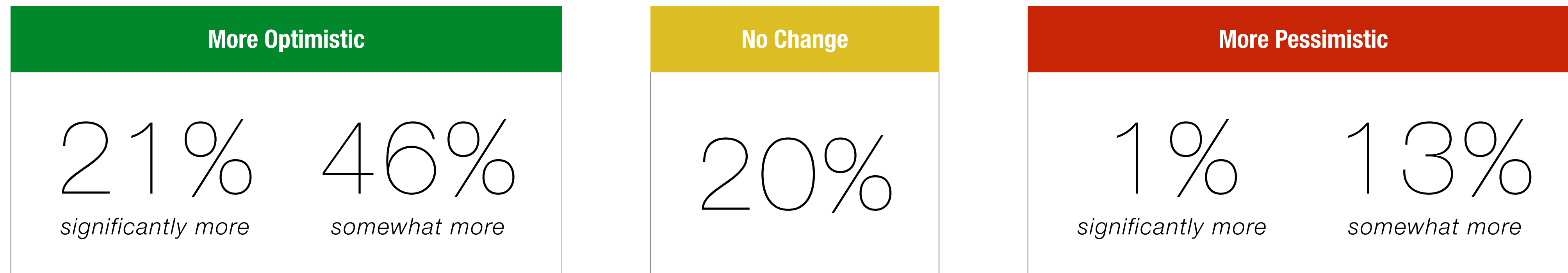


*In terms of profitable growth, how confident are you that 2020 performance will be better than 2019 performance?*

# Optimism Slowly Growing

67% agency leaders are more optimistic about the business outlook than they were in mid-April. 20% say there is no change and 14% say they are now more pessimistic about the remainder of the year.

**Even if the outlook for 2020 is not entirely rosy, 67% of agency leaders are feeling more optimistic about the year than they were in mid-April.**



*Compared to 8 weeks ago (mid-April), how do you feel about your business outlook for 2020?*

# Flat And Declining Revenue In 2020

Halfway through the year, the majority of agency leaders anticipate that revenue will be flat (25%) or declining (36%) in 2020. That said, a healthy minority (39%) said they expect to see revenue growth this year.

## 2020 Revenue Forecast (as of June 30)

4%	Increasing... more than 25%
15%	Increasing... between 10 – 25%
20%	Increasing... up to 10%
25%	Flat... no change from 2019
11%	Decreasing... up to 10%
13%	Decreasing... between 10 – 25%
12%	Decreasing... more than 25%

revenue growing in 2020

39%

of agency leaders are *projecting revenue growth for 2020* but the majority anticipate flat or declining revenue this year relative to 2019.

Compared to 2019, what is your projected net revenue for 2020?



# A Tough Year For Many

*Just 66% of agency leaders expect to be profitable in 2020 with another 22% planning to break-even and 11% anticipating that they will lose money. 61% of leaders expect revenue to be flat or decline in 2020.*

## One-third of agencies expect to lose money or break-even in 2020

66% Expect to be *profitable* in 2020.

22% Expect to be *break even* in 2020.

11% Expect to be *lose money* in 2020.

*What is your projection for bottom line performance in 2020?*

revenue flat or declining in 2020

61%

... of agency leaders report that their *2020 revenue will be flat or declining* compared to revenue in 2019. 33% say they expect to lose money or just break-even.

# Hiring Plans, Forecasts Are Cautious

The majority of agency leaders expect no change (46%) or a decrease (17%) in FTEs in the second half of the year. While 37% said they expect to add FTEs, confidence in the accuracy of business forecasts for Q3/Q4 is split.

**Even if optimism is growing, agency leaders point to a slow rebound with 63% projecting they will not be adding FTEs in the second half of the year.**

Expect to Hire FTEs	No Change in FTEs	Expect to Cut FTEs
37%	46%	17%

*When it comes to full-time staff, what is the most likely scenario for your agency in the second half of the year?*

## Confidence in Forecast for Q3/Q4

10% Very confident

37% Somewhat confident

27% Meh

20% Not very confident

07% Not confident at all

*How confident are you in the accuracy of your business forecast for the second half of 2020?*

# Navigating The Market This Year

Agency leaders have already taken a wide range of actions this year to navigate a slowing economy – spending cuts, emergency loans (US), reductions in freelance staff and pursuing a wider range of work top the list.

## Actions Taken This Year

\* Note: The Payment Protection Program (“PPP”) was available to small businesses operating in the US. 49% reflects all respondents. 77% of agencies headquartered in North America received PPP funds.

Cut discretionary spending	69%	Laid off employees	32%	Reduced billing rates	19%
Received funds from PPP*	49%*	Renegotiated lease agreement(s)	29%	Exited/terminated lease agreement(s)	15%
Pursued work we normally wouldn't	47%	Imposed temporary salary cuts	25%	Consolidated and/or closed office locations	15%
Cut contractors / freelance staff	46%	Changed our strategic direction	23%	None of these actions	7%
Expanded our service offerings	35%	Furloughed employees	21%	Reduced service offerings	4%

Which of the following actions has your agency taken this year? (Select all that apply)



# A note on the operational readiness data...

For the upcoming slides related to operational readiness, there was a slight variation in the source question as asked in the March study versus the June/July study. The March study was forward-looking and asked about “confidence” anticipating the environment ahead. The June/July study asked about operational strength in these areas given actual performance so far this year.

While not a perfect “apples-to-apples” comparison, the data does provide some good insight into how prepared agency leaders “thought they were” versus how agency leaders view their “actual strength” of performance in these areas six months into the year.

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## Question for March Study

*When considering contingency plans, business continuity and your ability to quickly adapt to a major, external disruption (such as COVID-19), please rate your level of confidence in the following areas.*

*Very Confident – Somewhat Confident – Shaky – Oh Shit*

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## Question for July Study

*Given the need to quickly adapt to external disruptions and economic uncertainty this year, how would you rate the relative strength of your agency operations in the following areas?*

*Very Strong – Solid – Shaky – Oh Shit*

# Areas Of Operational Readiness

*We explored agency leaders' levels of confidence/strength across 12 areas that impact their ability to quickly adapt and weather significant economic disruptions to their business.*

## Decision-Making

(clear hierarchy and ability to make quick, essential decisions for business operations)

## Technology & Infrastructure

(redundancy, remote accessibility, security)

## Team & Culture

(cohesive, adaptable, collaborative)

## Process & Workflow

(clear, documented and adaptable to remote teams)

## Policies & Procedures

(clear, enforceable, supportive)

## Redundancy & Knowledge Management

(few single points of failure relative to people and organizational knowledge)

## Financial Visibility

(detailed and accurate insight into financial position and ability to quickly project future scenarios)

## Cash Reserves & Credit

(weather at least 3 months significant disruption to cash flow)

## Client Concentration

(healthy mix of clients without too much concentration in any one account or industry segment)

## Sales & Marketing

(an active, always-on marketing and lead generation program)

## Client Contracts

(reasonable terms for payment and cancellation)

## Business Insurance

(protection against major business disruption)

# People, Process And Culture...

		Very Confident / Strong	Somewhat Confident / Solid	Shaky	Oh Shit
Decision-Making	March 13 – 22	65%	28%	7%	1%
	June 22 – July 6	40%	47%	12%	1%
Tech & Infrastructure	March 13 – 22	63%	33%	2%	2%
	June 22 – July 6	40%	54%	5%	0%
Team & Culture	March 13 – 22	55%	38%	6%	2%
	June 22 – July 6	39%	49%	12%	0%
Process & Workflow	March 13 – 22	36%	51%	11%	3%
	June 22 – July 6	32%	50%	18%	0%
Policies & Procedures	March 13 – 22	36%	57%	6%	2%
	June 22 – July 6	18%	70%	12%	0%
Redundancy & KM	March 13 – 22	21%	55%	19%	5%
	June 22 – July 6	15%	42%	40%	2%

*Decision-making capabilities a little more strained than anticipated.*

*Redundancy & Knowledge Mgmt a bigger issue than anticipated.*

# Finance, Clients And Sales...

		Very Confident / Strong	Somewhat Confident / Solid	Shaky	Oh Shit
Financial Visibility	March 13 – 22	34%	42%	21%	3%
	June 22 – July 6	28%	57%	13%	2%
Cash Reserves & Credit	March 13 – 22	38%	31%	25%	7%
	June 22 – July 6	35%	45%	19%	2%
Client Concentration	March 13 – 22	n/a	n/a	n/a	n/a
	June 22 – July 6	28%	42%	23%	7%
Sales & Marketing	March 13 – 22	23%	45%	26%	7%
	June 22 – July 6	8%	45%	39%	9%
Client Contracts	March 13 – 22	24%	55%	18%	3%
	June 22 – July 6	20%	58%	21%	2%
Business Insurance	March 13 – 22	28%	40%	25%	8%
	June 22 – July 6	18%	60%	16%	5%

*Fewer found Financial Visibility and Cash Reserves to be a problem.*

*More see the health of their Sales & Marketing approach as an issue.*

# SUMMARY

A few thoughts on the Q2 data and what it might mean for agency leaders going forward.



# Q2 Findings

## SO WHAT?

- 1 **Agency leaders are more optimistic but the 2020 outlook is still challenging.** 67% of agency leaders are more optimistic than they were in mid-April. That said, confidence that 2020 business performance will exceed 2019 performance remains unchanged from March and still down 36 points for the year. A majority expect flat to declining revenue and 33% say they will NOT be profitable this year.
- 2 **Caution and lack of clear visibility into Q3/Q4 are prevalent.** While many agency leaders have established some sense of stability since late March, just 10% report that they are “very confident” in their forecast for Q3/Q4. More than 50% say they don’t have much (if any) confidence in their 6-month forecast and 46% say they plan to keep headcount flat for the rest of the year.
- 3 **Growth, break-even, survival and everything in-between.** In the broadest brushstrokes, the mid-year outlook suggests an uneven distribution of economic impact across agencies – around 30-35% seem to be having a strong year, around 50-60% are having a mediocre to somewhat challenging year and another 15-20% appear to be having a very difficult year.

# Q2 Study Respondents (n=92)

The Q2 study was fielded as an online survey between June 22 – July 6, 2020. Respondents were primarily agency founders and leadership with more prevalent representation from SoDA members (73%). The respondent sample and subsequent findings largely reflect the views of small and mid-sized agencies in the North America and Europe.

Revenue (USD)	Agency Type	Respondent Role	Location / HQ
37% Less than \$5MM	44% Digital Agency	66% Founder / Partner	56% North America
33% \$5 – \$10MM	21% Integrated Agency	26% Executive Leadership	32% EMEA
18% \$10 – \$25MM	16% Digital Product Studio	02% Operations Leader	08% APAC
05% \$25 – \$50MM	08% Consultancy	02% Sales/Marketing Leader	03% Latin America
02% \$50 – \$100MM	06% Production Company	01% Finance Leader	
04% Greater than \$100MM	04% Other Agency Type	03% Other	



# Q4 STUDY

Fielded as an online survey between October 9 - December 22, 2020, the following slides provide a glimpse into how agencies performed in 2020 and the initial outlook for 2021.

# Q4 Study Overview

## SURVEY

- ① **Study fielded in Q4 2020.** This survey was fielded online from October 9 - December 22, 2020. When performance numbers are cited, they are qualified as “projected” year-end financial performance. We ran similar tracking studies in Q1 and Q2 and, where applicable, that data is used for comparative purposes.
- ② **A healthy mix of agency types, sizes and geographies.** Respondents were pulled from a broad spectrum of agency types and geographic locations. That said, the findings are most reflective of the following profile – small and mid-sized digital and integrated agencies in North America and Europe. (See slide 54)
- ③ **Survey questionnaire available for download.** In order to keep the presentation as focused as possible, we have omitted the survey questions from this document. If you’d like to review the source questions used for this study, you can download a copy of the survey instrument here: <https://bit.ly/38hd8tR>

# Revenue Growth In 2020

2020 was a challenging year for many agencies, but 46% still managed to deliver revenue growth. In a sign of gathering momentum, the second half of the year turned out to be better than was initially forecast in Q2.

## Q2 Projection – 2020 Revenue

## Q4 Projection – 2020 Revenue

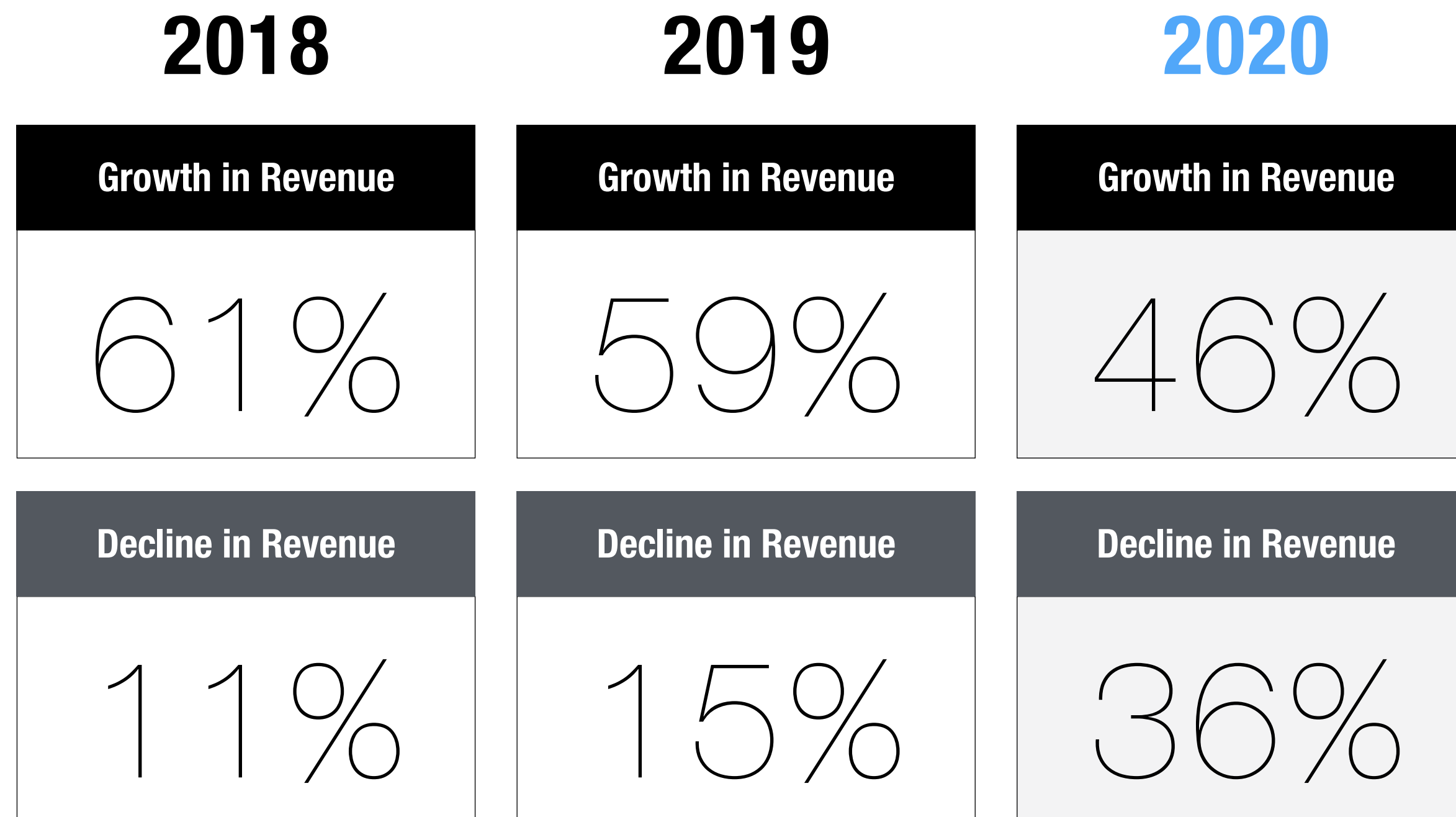
projecting revenue growth for 2020  
**39%**

04%	Growth of more than 25%	18%	Growth of more than 25%
15%	Growth between 10 – 25%	15%	Growth between 10 – 25%
20%	Growth between 0 – 10%	13%	Growth between 0 – 10%
25%	Flat... no change from 2019	17%	Flat... no change from 2019
11%	Down between 0 – 10%	15%	Down between 0 – 10%
13%	Down between 10 – 25%	15%	Down between 10 – 25%
12%	Down more than 25%	06%	Down more than 25%

projecting revenue growth for 2020  
**46%**

# 3-Year Revenue Comparison

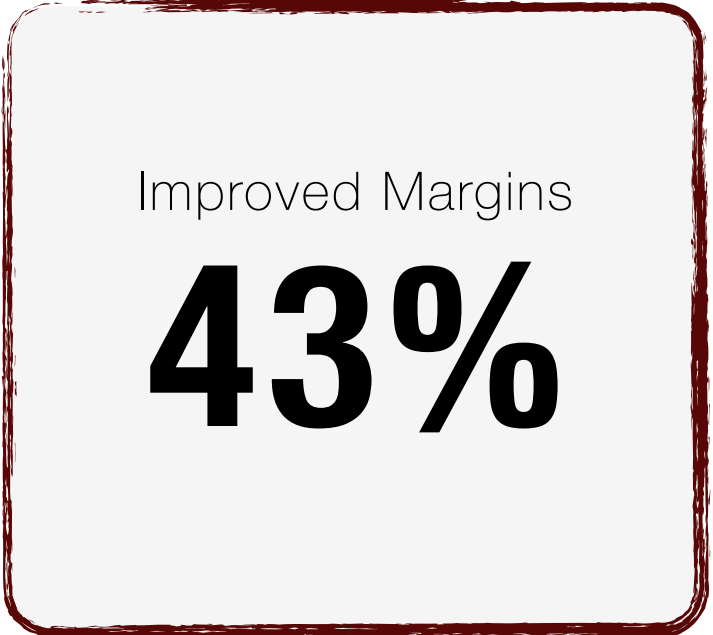
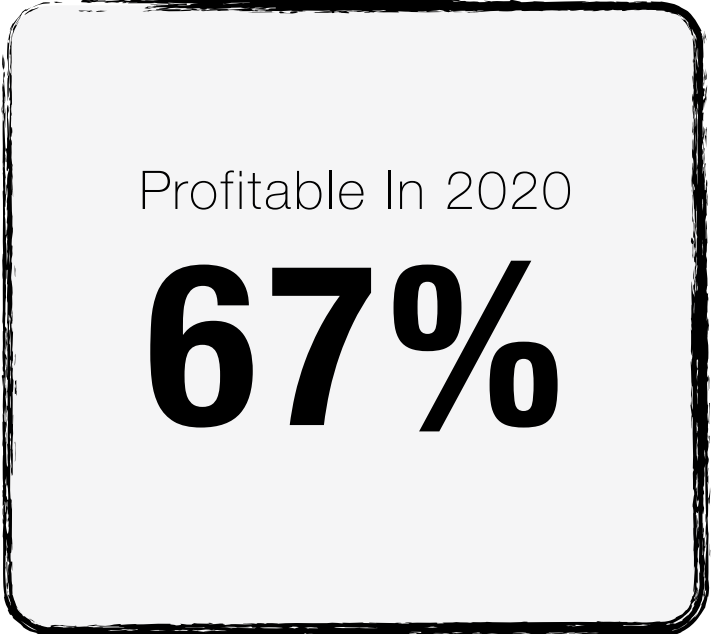
While a healthy swath of the agency segment delivered solid revenue growth in 2020, much of the market saw a negative impact... especially relative to revenue performance in 2018 and 2019.\*



**36% of agencies reported that their revenue declined in 2020... an almost 3x higher rate than the average of those reporting declines in 2018 and 2019.**

\* 2018 and 2019 data from the Global Digital Outlook Study with SoDA and Forrester Research.

# Profitability was a mixed picture in 2020.



## Profitability

67% Profitable

20% Break even

12% Lose money

## Profit Margins

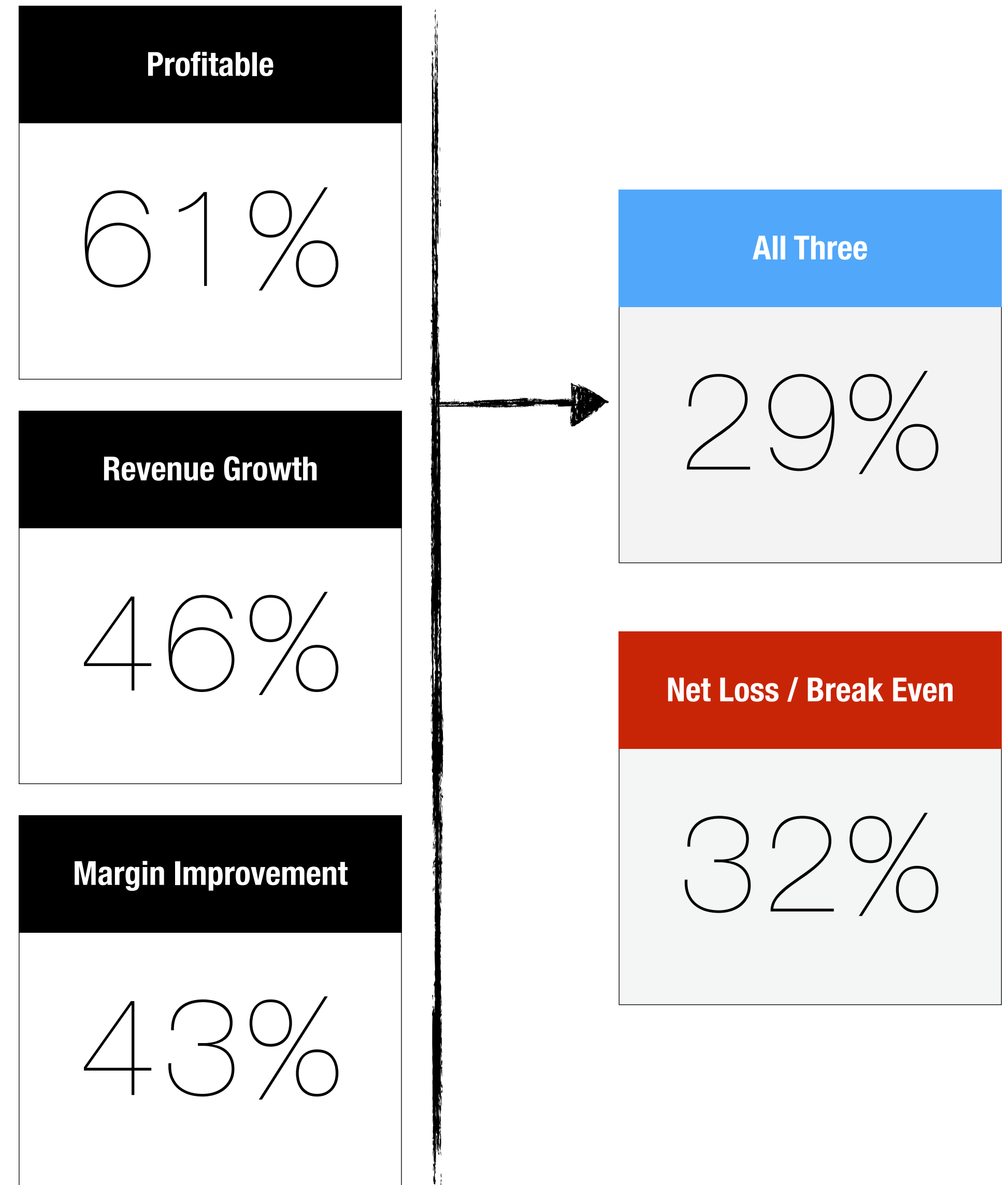
43% Higher margins

25% Same as before

32% Lower margins

# Competition + Crisis

The spoils of success went to fewer agencies in 2020.





# An Improving Outlook Since Q2

Despite a volatile year, 58% of agency leaders said that the second half of the year was better than forecast. 64% are optimistic that they will see improved performance in 2021. Note that this is still well below the levels of confidence we tracked in our 2017, 2018 and 2019 studies.

**2020... year-end performance improved in second half of year.**

**2021... a majority are optimistic that a better year lies ahead.**

58% Performance *improved* in Q3/Q4.

64% *More optimistic* in outlook for 2021.

21% Performance *unchanged* in Q3/Q4.

24% *No change* in outlook for 2021.

21% Performance *declined* in Q3/Q4.

13% *More pessimistic* in outlook for 2021.

# Agency Growth

Hiring plans for 1H 2021 show anticipated growth.

## Hiring Plans (1H 2021)

57% Hiring FTE's

33% No change

10% Reducing FTE's

81% 

of "top performers" plan to hire in 1H 2021.

## Team Size in 2020

38% Team expanded

37% Same as before

26% Team reduced

# Top Performers

*“Top Performers” were the only respondents to report revenue growth, profitability AND improved profit margins in 2020.*

	<b>All Respondents</b> <i>n=136</i>	<b>Avg/Low Performers</b> <i>n=89</i>	<b>Top Performers</b> <i>n=47</i>	<b>Top performers were...</b>
SoDA Members	50%	42%	66%	<i>... more likely to be SoDA members</i>
Integrated Agencies	31%	40%	15%	<i>... less likely to be an Integrated Agency</i>
Longer Client Relationships <i>(compared to 12 months ago)</i>	44%	34%	64%	<i>... more likely to report longer client relationships</i>
Forecast improved in Q3/Q4	58%	43%	87%	<i>... more likely to see improved performance in Q3/Q4</i>
Concerns – Controlling costs	29%	38%	14%	<i>... less concerned about controlling costs</i>
Concerns – Attracting/retaining talent	44%	35%	61%	<i>... more concerned about talent</i>
Improvement – Productivity & Efficiency	54%	55%	52%	<i>... equally seeking improved productivity/efficiency</i>
Growing optimism for 2021	64%	63%	66%	<i>... equally growing more optimistic about 2021</i>
Adding FTE’s in first half of 2021	57%	45%	81%	<i>... more likely to be adding FTE’s early this year</i>

# Actions In 2020

Key operational actions taken by agency leaders in 2020 to navigate and weather the uncertain market conditions.

Cut discretionary spending	Q2 Study	69%	Imposed temporary salary cuts	Q2 Study	25%
	Q4 Study	67%		Q4 Study	30%
Received PPP funds (responses from North America only)	Q2 Study	77%	Changed our strategic direction	Q2 Study	23%
	Q4 Study	83%		Q4 Study	25%
Pursued work we normally wouldn't	Q2 Study	47%	Furloughed employees	Q2 Study	21%
	Q4 Study	29%		Q4 Study	19%
Cut contractors / freelance staff	Q2 Study	46%	Reduced billing rates	Q2 Study	19%
	Q4 Study	31%		Q4 Study	16%
Expanded our service offerings	Q2 Study	35%	Exited/terminated lease agreement(s)	Q2 Study	15%
	Q4 Study	38%		Q4 Study	17%
Laid off FTE's	Q2 Study	32%	Consolidated and/or closed office locations	Q2 Study	15%
	Q4 Study	26%		Q4 Study	20%
Renegotiated lease agreement(s)	Q2 Study	29%	Reduced service offerings	Q2 Study	04%
	Q4 Study	29%		Q4 Study	05%

# A note on operational concerns...

The upcoming slides are pulled from a series of questions in our Q4 benchmarking study and related to areas of operational concern and focus coming into 2021. They are not exhaustive by any stretch and some were tailored for partners focused on the project management discipline. That said, it is interesting to note that the disruption of 2020 has done little to change what are perpetual areas of improvement for agency leaders... business development, talent and productivity.



# Operational Concerns

*New biz tops the list of concerns for agency leaders. Talent and operating efficiency also earmarked for improvement.*

## What keeps you up at night?

## Where does your agency need to improve?

68%	Gaining net new clients	60%	More profitable new biz strategy
44%	Attracting and hiring the best talent	54%	Improving productivity / efficiency
40%	Being too reactive rather than proactive	54%	Improving profitability
36%	Resource planning	47%	Attracting / retaining the right talent
33%	Over-servicing clients / scope creep	19%	Better tech (for creating client solutions)
29%	Controlling our costs	19%	Better tech (for internal ops / support)
13%	Better tools/tech to get things done	04%	None of these / not applicable



**61%**

of “top performers”  
are concerned  
about talent.

# Longer Relationships & More Services

45% of agency leaders said that they had expanded their service offerings in 2020 and nearly the same percentage said that their average client relationships were now longer compared to just 12 months ago.

## # of Services Offered

45% More services offered

48% Same as before

07% Fewer services offered

## Tenure of Client Relationships

44% Longer client relationships

46% Same as before

10% Shorter client relationships

**64%** 

of “top performers”  
report longer  
client relationships

# Managing Project Budgets

Agencies use a variety of tactics to manage project budgets. Underestimation and client expectations tend to pose the biggest threats to delivering projects on-time and on-budget.

## How do ensure projects stay on budget?

74%	We monitor hours/costs and adjust
58%	We charge clients for change requests
55%	We use past data to build estimates
55%	We rely on previous experience
18%	We hope and we pray
06%	Other

## Common reasons for budget/delay risk

65%	Client expectations changed
53%	We underestimated the amount of work
50%	There were too many rounds of revisions
49%	Client took too long to review/approve work
16%	No capacity in-house to finish work
09%	Team took too long to review/approve work
07%	Other

# Finance Team Challenges

*While 75% of respondents note at least one challenge for their finance team, there was no single pain point that was common across a majority of respondents. Timesheets and data reconciliation topped the list.*

## Top Pain Points for Finance Leaders

34% Chasing late timesheets

33% Reconciling data from different sources

30% Following up on open invoices / PO's

27% Too much time spent generating reports

25% Manual process for data entry

25% None of these / not applicable

# SUMMARY

A few thoughts on the Q4 data and what it might mean for agency leaders going forward.



# Q4 Findings

## SO WHAT?

- 1 **2020 accelerated competitive pressure AND opportunity creation.**  
The agency landscape was already competitive, but 2020 seems to have widened the gap between agencies well-positioned to capture new opportunity and agencies struggling to stay relevant. In 2020, 33% of agencies saw revenue growth of 10% or more while 36% of agencies saw revenue decline... 43% of agencies delivered higher profit margins while 32% saw margins contract.
- 2 **Outlook for 2021 is improving.** For many agencies, financial performance improved in the second half of the year and that positive momentum seems to be carrying into 2021... 64% are optimistic about improved performance in 2021 and 57% are already planning to add FTE's in the first half of the year.
- 3 **New year, same issues.** Despite the challenging and unprecedented circumstances in 2020, agency leaders largely point to the same operational concerns and priorities as previous years... improving new business development, cultivating top talent and focusing on operational productivity are at the top of the “to-do” list for 2021.

# Q4 Study Respondents (n=136)

The Q4 study was fielded as an online survey between October 9 – December 22, 2020. Respondents were primarily agency founders and senior leaders from an equal split of SoDA member and non-member agencies. The respondent sample and subsequent findings largely reflect the views of small and mid-sized agencies in North America and Europe.

Revenue (USD)	Agency Type	# of Offices	Location / HQ
46% Less than \$5MM	37% Digital Agency	54% One	65% North America
30% \$5 – \$10MM	31% Integrated Agency	19% Two	24% EMEA
11% \$10 – \$20MM	10% Digital Product Studio	11% Three	08% APAC
08% \$20 – \$50MM	06% Production Company	15% More than three	03% Latin America
03% \$50 – \$100MM	05% Consultancy		
01% Greater than \$100MM	07% Other Agency Type		



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