MANAGEMENT STRATEGIES

For Public Relations Firms

Vol. XX, No.4
April, 2010

A collection of thoughts, theories and trends aimed at improving public relations firm operations, income and profit. Collected by Al Croft, APR, President, A.C. Croft and Associates, Inc.
140 Cathedral Rock Drive • Sedona, AZ 86351-8638 • Tel: (928) 284-9054 • Fax: (928) 284-1791 • Email: alcroft@npgcable.com

UK FIRM SETS VALUE-BASED BILLING EXAMPLE; Says, "We Tore Up The Time Sheets."

Over the years, there's been a lot of discussion in the agency world about "value billing." Nobody's quite figured out how to do it realistically and profitably. Probably the purest way is to follow David Maister's recommendation: **Be confident enough to tell your clients**, "If you judge that our work has not added value to your organization, then we will refund your fee." Ahh, probably not; who's to judge what value's been added?

There's a Dutch agency that gets around the whole value question with a **concept called *Editorial Marketing*** which the firm describes as, "Editorial Marketing ensures you of a solid and durable press policy and the continuous presence of your organization in relevant media. Free publicity new style: a fixed number of publications for a fixed price per month." **In others words, you pay per clip**.

However, the firm wants to make it clear that no journalists are paid. The firm says in-house PR managers welcome this sort of arrangements as it "… **provides some sort of predictability** in terms of coverage as opposed to the 'We don't guarantee placement; we just do media relations.'"

I've no idea how this concept is going over in Holland. However, there's been scattered attempts over the years by U.S. agencies to advocate similar approaches, **none of which have encountered a whole lot of success** that I know of. I spent a good deal of time several years back contending with the owner of a Midwest agency following the pay-per-clip approach that his concept was faulty and finally decided it was a no-win discussion. **The firm is out of business**.

Most agencies continue to earn their daily living charging clients hourly rates times the amount of time invested in behalf of clients no matter whether they're on a flat fee or hourly billing. Some agencies claim that because all their clients are on a flat monthly fee, they don't have to establish hourly rates. And **those firms often wind up over-servicing clients** by a substantial but hidden amount. (Incidentally, every survey I've run over the past several years has indicated that the industry pretty much divides client business equally between hourly/project work and flat fees.)

Here's another approach based on charging for "value" that seems to be working very well, according to the chairman.

An agency in the UK, by the name of Franks Public Relations, follows an interesting policy; they pursue a billing model set by Art Fry who **helped establish the standard for the value of "Eureka," ideas** and other valuable Intellectual Property(IP). Who was Art Fry, you ask? He was the Minnesota choir singer who became frustrated because the bookmarks kept falling out of his hymnbook. To solve the problem, he came up with the idea to use adhesive to anchor bookmarks. Thus were born Post-It Notes.

Which set an example for **the value of PR agencies' creative Intellectual Property**.

Writing in IPRA *Frontline*, Franks' founder/chairman Graham Goodkind said, "There is massive value placed on coming up with a brilliant, creative idea. And rightly so. A great idea can cross marketing disciplines and be the starting point for a whole integrated communications program. The creation of Intellectual Property (Those off-the-cuff spur-of-the-moment "Aha!" light bulb moments that clients love.) is **probably the most important thing that an agency does**," he said. "But its value clearly does not lie in the actual time it takes to come up with the idea. It comes from the quality of the idea itself."

Goodkind said that, given the value of a creative idea,(it seems strange that)"…the foundation of the **business model of most PR agencies is build on charging by the hour**. Instead of placing a value on the often brilliant IP, agencies only charge for the administration and process involved in its implementation." Goodkind claimed that was missing the point and probably the profit as well. "**Charging by the hour doesn't make sense**," Goodkind said, "It completely ignores the value a PR agency produces and commoditises the whole creative process. At Frank, **we've ripped up the timesheets**; actually we never had them in the first place."

Instead, the London/Australia based firm charges clients a fee based on two things; the value of the IP that it creates; plus the value of the skills of the firm's practitioners to make the IP happen and get the "…brilliant results that we expect the IP to be responsible for."

Goodkind said, "We have found that clients are not really that bothered if it takes us ten minutes or ten days to do the job for them. Results speak for themselves and we work to these, not the clock. We don't talk time. Running an agency this way feeds back into the creative desire and ethos within. The better ideas we come up with the less actual time it takes to implement them.

"In addition, not having discussions with clients about time also leads to a more harmonious client/agency relationship. Being frank though, it is not always that easy to get a client used to value charging and I guess it's probably even harder to do so if you have always charged by what's on the clock. We do bang heads with procurement departments on occasions. They want to buy something concrete and measurable, like hours. We want to sell something more intangible. But we have always managed to reach a consensus where everyone agrees that the outcome is more important than the input and we agree on a value of that outcome."

Goodkind concludes his article with, "Maybe this article has got you thinking that value charging is the best thing since sliced bread. If it has, then **you can thank Otto Rolhwedder**, an Iowa jeweler, who in 1912, while preparing breakfast one morning before going to work in his shop had a brainwave about how his daily loaf of bread would be much easier to consume if it had already been cut into slices. The rest, as they say, is history."

I emailed chairman Goodkind and inquired **how his firm monitored individual client profitability** without yardsticks such as time sheets or hourly rates. Here is his response:

"Basically, we don't! We have fee income over ($$$$) which makes us the **fifth largest consumer PR agency** in the UK. I don't look and never have looked at individual clients and how profitable each one is. I guess my view is that I look at the big picture and have learned over the years that **with some clients you 'win' and some you 'lose**.' Some will be very profitable, some moderately profitable and some with probably not much profit at all. I take the view that you have to take the rough with the smooth and as long **as your profitability overall is to your satisfaction** and meets whatever target you seek to attain, then that is the most important thing. My belief is that some clients will be more unprofitable than others; you'll have to spend longer to make their campaigns happen. But then some will be much easier. That's just the way it goes and in PR you have to accept this.

"Our **profit margin for the past five years has been (Editor's note: very healthy)** each and every year and I would have thought there can't be too many consumer PR agencies out there operating at this sort of level of profitability, given our size and income. I do this by looking at the overall margin rather than individual margins with the knowledge that this is the way this business just works. I guess it's more entrepreneurial than process driven, but there's no wrong or right way in my opinion."

Sounds marvelous!! Too bad every agency in the U.S. doesn't/can't follow the same golden path. I'd tell you what Frank's profits are, **but you wouldn't believe me**. Or maybe you'd want to cry because you can't accomplish the same feat. Frank's policy is not something I'd generally recommend. But then, one can't argue with success, can one?

If you're interested in learning more about how Frank Public Relations works its "value-heavy" magic, chairman Graham Goodkind can be reached at Graham@frankpr.it.

COMPETITION FOR SOCIAL MEDIA BUSINESS COULD BE INTERNATIONAL; Here's Israel's Blonde 2.0

Social media programming provides an increasing source of income to PR agencies. But there's lots of competition for the business. For example, marketing **firms who specialize in this relatively new marketing tool**. And the competition is international. For example:

According to its website, "Blonde 2.0 was founded (in Israel) in 2006, back when almost no one knew what social media even meant. Blonde 2.0's mission then and now is to **help brands understand how to use social tools** – social networks, the blogosphere, social software, etc – effectively in order to carry their messages to their target audiences and create brand awareness, find users, recruit employees or achieve any other goal online." The firm's introduction goes on to say, "We build a customized social marketing strategy for each company we work with…"

Isn't that what you're trying to do to succeed in this new cybersphere biz world? And isn't every ad agency, promotional firm, social marketing agency, addendum trying to do the same thing? At least what with being public relations experts, you can rightfully claim a head start over all the other **johhny-come-latelies trying to prove they can "do PR."** In the competition for social marketing biz, it seems like everyone's pretty much starting from the same line in the sand. And it's up to you to prove you can do it better than those other folks.

In case you wondered, the **founder/CEO of Blonde 2.O is an attractive blonde** named Ayelet Noff who is anything but a "dizzy" blonde. Check out the firm's website.

INDICES, METRICS AND PERFORMANCE INDICATORS Checked Regularly by Round Table Alumni.

Here's an alphabetical list of indices/metrics and performance indicators that participants in a recent Sedona Round Table said they monitor regularly. How many do you check habitually?

- Accounts payable
- Accounts receivable
- **Business development hit rate**
- Business development investments
- CEO time tracking
- Client expectations
- **Client satisfaction survey**
- Commission revenue
- Contracts-expiration, provisions
- Credit line
- Employee satisfaction survey
- Employee vs. contractor count
- Existing client growth
- Gross profits

Key ratios
Net profits
Operating expenses
Overhead expenses
% revenue/client
Utilization rate
Profit by client
Profit by employee
Project vs. on-going work
Realization
Return on equity
Revenue
Revenue above salaries & bonuses

PRINT IS NOT DEAD; Executives, Educated, Wealthier Still Read Daily Newspapers.

Print is not dead! Much has been written about the demise of the daily newspaper. Yes, newspaper readership is not as robust as it once was and, **yes, some major dailies have gone out of business**. And yes, surviving dailies are madly trying to figure out how to make their online versions profitable. (Conversely, the most-any-weekday ad-starved edition of the *Arizona Republic* is never as thick as the ad-fat semi-weekly *Sedona Red Rock News*.)

However…

According to recent research conducted by Scarborough Research, 74% of U.S. adults – **nearly 171 million people – read a newspaper** – in print or online – during this past week. "While our data does show that newspaper readership is slowly declining, it also illustrates that reports about pending death of the newspaper industry are not supported by audience data," said Gary Meo, Scarborough Research SVP. "Given the fragmentation of media choices, **printed newspapers are holding onto their audiences relatively well**."

And it's not just old fuddy duddies – present company included – grade school grads and ne'er-do-wells who still hang on to the daily newspaper habit. Scarborough research shows that in an average week:

- **79% of adults employed in white collar jobs** read a newspaper in print or online;
- **82% of adults with household incomes of $100,000** or more read a newspaper;
- **84% of adults who are college graduates** or who have advanced degrees read a newspaper.

These are the kind of quality numbers your clients want to hear about, not necessarily the dumbstruck mass digital digits of a bunch of kidlings. As Ed James, president of New York's Cornerstone Communications said recently, "**It's not always about how many you reach, but rather whom you reach**. For some, print is still not only their primary resource for information, but also what they consider the only valid news source that has earned their trust. These are business and political leaders, key decision makers who **have the power to affect public opinion**. To ignore this group would be remiss and irresponsible."

Well said, Mr. James.

TOO BAD WE CAN USE THE SAME LANGUAGE But Not Understand Each Other.

Before I give up on this business, I'd consider that I had made some kind of a valid contribution if I could claim that I'd had a hand in establishing **financial and operating standards that most, if not all, independent firms could agree on**, or at least on the nomenclature describing such standards. But I fear such is not to be the case. Two decades ago I was telling clients that one of the "standards" about the agency business was that **there were no standards**. And that's still the "standard."

One of the first things I've needed to learn with a new client has been the way he describes his operating and financial factors. Such things as: What are "billable" expenses; does "net fee income" mean net revenue or net operating profit; and **how does he account for practitioners' billable time**?

Here's a good example of the confusion that I encounter. Let me make it clear: there is absolutely no intention here to embarrass or put down anybody; the example simply represents a different way of looking at things that can be confusing if you don't understand where everyone is starting from.

In one of my recent surveys, I asked agency principals to list the **average number of hours billed annually** per professional. In my ignorance, I thought that most firms would report that their billable hours averaged somewhere plus-or-minus 1,600 hours.

My assumption was based on 2,080 total hours in a 40-hours-per-week 52-week year, minus about 200 hours for vacation, sick time, etc, leaving **1,880 hours average number of hours individuals have available to work**. And reaching a utilization goal of 85% would leaves about 1,600 hours billed to clients. Not so.

One agency CEO reported that his **professionals billed an average 2,200 hours annually**! To which I smart-assedly inquired how he accomplished this when the total number of annual hours, given a 40 hour week and 52 weeks, was 2,080. To which his CFO responded:

"No, **I took the question to mean the average hours people actually work**, Otherwise, I would think he would have asked what is your standard annual hours."

Here's the "slap-yourself-on-the forehead" part. She continued, "If it was just the standard – **7.5 hours per day it would be 37.50 hours and not 40 hours per week** – 1,950 hours annually." Of course, stupid! Professionals in this agency only have to account for 37.50 hours weekly, not 40. I don't recall ever seeing an industry statistic recounting the number of agencies that work 40 hours a week vs. **those that only track 37.50 hours**. And that throws all my carefully calculated averages into the dust bin. She continued:

"The utilization percent was the hours billed against client work, nothing else. It's **better when the question specifically says client billable utilization** versus total utilization. Utilization, in any case, should never include vacation, sick, etc as it's how you're able to utilize your staff when they're working." And taking into account my folly, she kindly added, **"If they're on vacation, they're not working, right?"**

The critical communication problem here was that I didn't understand her and she didn't understand me. We were communicating in the same language, but **weren't reading each other**. In her bailiwick, I'm sure everything was crystal clear. But I didn't get it. And I didn't want to expose my dumbness any further so I just let it go that one of the "standards" of the agency business is that there are no standards.