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ANALYSIS

Agency leaders cautious about recovery forecasts

Recent M&A activity and anecdotal evidence of increased recruitment have prompted talk of an economic recovery among PR pros. But is it premature? By Jonah Bloom

The media has tried to remain upbeat, to the extent that some publications might be accused of deliberately talking the economy up. Witness the March 19 issue of *BusinessWeek*, which sported a huge front cover headline, "The Surprise Economy," and pictured a suited arm pulling a rabbit-ear from a magician's hat. The premise of the piece introduced by this visual trickery is that the recession was "surprisingly mild" and that "first-half growth could be three or four times recent expectations."

PR pros could be forgiven for failing to recognize *BusinessWeek's* "mild" recession as the same one that has forced many firms to restructure, pare back their staffs, freeze or cut salaries, and put spending on hold. But even those hit hardest last year are finding reason to question whether there are now signs that recovery could be imminent.

A small resurgence of M&A activity in the industry, which has seen 13 deals in the past quarter, up on the two previous quarters according to Paul Holmes' *Holmes Report*, might appear to support the premise that the economy is rebounding, given that M&A activity is more generally associated with good times than bad.

Such a conclusion may be too presumptuous, however. Many of the deals are the conclusion of months of soul-searching by independent agency chiefs who have had to wonder whether revenues and profits could take much more of a battering. As Weber Shandwick Worldwide CEO Harris Diamond puts it: "Independent agencies with big tech practices are still suffering from exposure to that market, and that may have forced some to consider offers for their operations they wouldn't previously have considered." He also admits that now is a good time for larger agencies to buy revenues - though, of course, neither Diamond nor his peers would ever call it that - at relatively inexpensive rates.

A senior executive at one of New York's top IR agency also points to the fact that smaller

agency chiefs are feeling more insecure than ever before. "Increased M&A activity in the PR industry may be more to do with multiples shrinking than a general industry upturn," he says. "A lot of small firms are balancing the benefits of security and autonomy. When times are good, it makes sense to remain independent and keep control of your business. When things turn south however, it's nice to have a bigger firm to lean on." He feels that the M&A activity may actually be indicative of the recession's effect on the market, rather than a sign of recovery.



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president and COO
Publicis Dialog

Positive signs

But there are other signs of a marginal improvement in the PR economy, namely that many people are reporting an increase in new business, combined with an all-important slowing in the rate at which clients desert firms.

Diamond says WSW picked up \$3 million in new business last month, while stemming the loss of business that characterized the fourth quarter of last year. Andy Hopson, president and COO of Publicis Dialog, reports a similar increase in activity: "If new business is an economic indicator, things are indeed beginning to turn around. We're involved in twice the level of competitive pursuits we were at this time last year."

Ogilvy PR Worldwide chairman and CEO Bob Seltzer is seeing the same uptick. "I have probably seen more RFPs and RFIs in the past six weeks than I saw in the last six months of 2001. We've also had a lot of clients who held back on spending in the last quarter who are now starting to reopen their wallets." David Kratz, president and CEO of Magnet Communications - one of the agencies to make an acquisition in the last quarter - sees things similarly to Seltzer. "I'd say new business activity is double what it was in the last six months."

Chuck Meyst, chairman and CEO of Agencyfinder, says this is a trend for smaller agencies as well as the giants, adding that, "Search activity has been picking up since early January. In fact, January 2002 volume topped March 2001, our highest traffic month during all of last year. Our agencies also report that they are experiencing more activity."

Particularly positive is Glenn Karwowski, SVP and MD of Minneapolis-based Karwowski & Courage. "We've definitely seen business pick up, and in our case it's been new business more than expansion of the existing business we have," he says. "I think perhaps that clients who stopped spending last year have decided to reconsider existing agency relationships as they look at ramping up PR spending again. At the start of the year we were predicting flat to 5% growth. Now our projections are calling for solid 10%-15% growth."

Bob Angus, partner at A&R Partners, is experiencing a similar phenomenon in California. "All those wonderfully bright people that started companies that didn't make it have been thinking up the next big thing, and we see some of them starting to come to market. We are getting bona fide new business opportunities from legitimate clients with money to spend."

Betsy Cragon, cofounder and managing partner of Washington, DC-based Cragon Communications, is finding the upturn in business is spurred more by expansion of existing accounts. "Our clients are getting more work, and that means more work for us too," she says. "And they are more interested in work that will grow their business, and not as much in glamour PR."

While Kratz and Karwowski, among others, feel new business activity is picking up across all industries, others feel it is more sector-specific. Howard Rubenstein, founder and president of Rubenstein Associates, has noted a continuing uplift in crisis work and real estate, while media clients "still struggle." Dana Sokolsky, cofounder of San Francisco's Spark PR, sees "wireless and enterprise software" as booming areas. Bonnie Goodman, GM at Hill & Knowlton in LA, reports an uptick in corporate reputation programs and financial communications, as well as a wave of activity around IPOs. Diamond agrees that financial relations and IR work is picking up and says the consumer sector has stayed strong.

Tempering the enthusiasm

While many see positives, some agency chiefs still guard against over-optimism. Although Publicis Dialog's Hopson sees more

new business, he adds: "We're not out of the woods yet. Though client spending is starting to increase, many functions handled by us have been diverted internally. The new business might be out there, but we're having to compete very aggressively for it, with agencies as eager as us to make up for lost ground in 2002."

Howard Paster, H&K chairman and CEO, is similarly cautious. Rather than pointing to the upbeat predictions of the Federal Reserve or of *BusinessWeek*, he points to an article in last week's *Wall Street Journal*, entitled "Business



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sing bottom line blues." The article outlined the fact that despite signs of recovery, US CEOs are not "breaking out the champagne," and that though the GDP did not slow last year, corporate profits were down 15.9% - a fact that has taken its toll on business spending.

"My sense from talking to our people here and around the world is that there is still a great deal of caution in spending," says Paster. "A couple of months ago, one felt that the market had found a bottom. But any upturn has been slow in coming, and modest at best. As *The Wall Street Journal* pointed out, companies are reluctant to resume spending until they see a turn in profits. That's consistent with our experience."

Eric Yaverbaum, cofounder and president of Jericho Communications, agrees: "While I keep reading that the economy is improving - and there is a definite increase in business activity - I still worry that we have not seen the worst. Look at the Japanese economy; it's still in trouble. If it gets much worse, we will be feeling that long before our economy recovers here. And Wall Street is over-employed. If there are more layoffs there, it will have damaging psychological ramifications. And if both happen, all the optimistic forecasts and well-intentioned thinking will amount to nothing but poor planning."

Caution then, is the watchword. While there is mounting evidence of new business for the PR industry, *BusinessWeek's* "Surprise" could still turn out to be a nasty one if PR firms don't apply their wise thinking to the management of their own businesses' growth.



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