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INDEPENDENT PR FIRMS INCENTIVE COMPENSATION SURVEY HIGHLIGHTS

Survey Conducted by Davis & Gilbert LLP — October 2015

Davis & Gilbert conducted a confidential survey regarding the incentive compensation programs currently being used at independent public relations firms. Here are the highlights of the survey results.

WHO RESPONDED

- 65 firms responded to the survey. Approximately two thirds are headquarted in North America. 55% reported more than $5 million in revenue in 2014.
- Almost 72% of respondents describe their companies as full service PR firms. 44% have more than one office.
- Over 87% still have one of the founders active in the day-to-day management. 65% have two or more owners.
- More than half of the firms report that their 2015 revenues have increased by more than 5%. 24% indicate that revenues increased by more than 20%. Significantly, the same percentage of firms (24%) said that revenues were either flat or had declined by 5%, thus evidencing a substantial disparity in the PR marketplace. This is in sharp contrast to the Davis & Gilbert 2014 survey in which virtually no responding firms reported a decline in revenue over the prior years.
- Firms also report a wide variance of the overall ratio of total compensation expense to fee income. Approximately 30% of the firms said that their firm's ratio of compensation expense to fee income ratio was lower than 50%, but 22% indicate that they spend more than 60% of their total fee income on employee compensation.

IS CASH COMPENSATION STILL KING?

- 60% of firms compensate employees using cash compensation methods <u>other</u> than traditional annual base salary and discretionary bonuses. However, more than half (54%) use commission on new business as the <u>only</u> "non-traditional" method of cash compensation.
- 30% of the firms compensate employees using an annual "non-discretionary" bonus based upon pre-determined objective criteria. An even smaller percentage of firms (15%) use a long term incentive compensation plan, based upon pre-determined objective criteria over a period of years, to attract and retain talent.
- 56% of firms indicate that a relatively small percentage of their employees (10% or less) receive non-traditional methods of cash compensation. In fact, more than 75% of firms award non-traditional methods of cash compensation to less than 25% of their employees.

LONG TERM INCENTIVE COMPENSATION PLANS

- Of firms using long term incentive compensation plans, 60% said that their plans made payments to employees in situations other than upon the sale of the firm.
- 45% of firms that compensate employees using a long term incentive compensation plan design it with a performance period of more than three years, while an additional 25% use a period of just three years.
- Firms use a variety of objective criteria to determine payment terms under their long term incentive compensation plans. The most common include the firm's net income (43%). Other commonly used criteria include individualized employee goals (29%) and the firm's revenue (16%). The remaining 12% use criteria of the firm's profits before taxes or a blend of the firm's fee income and the company's ability to achieve its profit margin goal for the year.

DEFERRED COMPENSATION PLANS

- Almost two thirds of firms (64%) do not have any deferred compensation plan (i.e. 401k plans in the U.S.). 22% have a deferred compensation program consisting of contributions from both the firm and its employees, while 13% have a deferred compensation plan consisting of contributions from the firm only.

ANNUAL PROFIT PARTICIPATION

- 73% of firms do not share a portion of the firm's annual profits with their key employees who do not own equity. However, 27% of firms not only share their annual profits with non-equity owners, but also share their annual profits with five or more employees who do not own stock in the firm.

OWNING EQUITY

- 82% of firms do not have a program that allows key employees to buy equity.
- 77% of firms do not have a program to grant an equity equivalent to key employees in the form of "phantom stock" or "contract equity." However, for those firms that do award contract equity to key employees, more than one third (35%) award it to five or more employees. Another 18% of firms award "phantom stock" or "contract equity" to between two and four key employees.
- The vast majority of firms (84%) with two or more owners had a shareholders agreement in place, but almost 16% of firms with two or more shareholders had no shareholders agreement.

ACQUISITION AS A TALENT STRATEGY

- 30% of firms acquired another public relations or marketing communications firm as a way to gain key talent and/or expand the firm's leadership ranks. 9% said their firms had been sold or merged with another firm.
- Of the firms which either acquired another firm or had their firm acquired by another entity, every firm—100%—said that the acquisition in which they engaged was either very successful (40%) or somewhat successful (60%).
- Of those firms that participated in an acquisition, 25% indicate that the financial incentives which were part of the transaction were "very successful" and an additional 75% report they were "somewhat successful."

BEST INCENTIVE TECHNIQUES AND TYPE OF ADVISOR

- Firms have different opinions about which compensation techniques were the most effective to retain and incentivize key employees. 62% of firms thought that the annual discretionary bonus was most effective, with 19% believing that the award or sale of actual equity worked the best. 16% of firms favor a multi-year bonus pool with an objective criteria based on the performance of the firm. An equal number of firms (16%) believe that the most effective compensation technique was the payment of commissions on new business originations.
- Firms use multiple types of advisors, either alone or in conjunction with one another, to develop their incentive compensation programs. Many firms (39%) use a financial adviser <u>other than</u> the firm's outside accountant. 35% of the firms use their outside accountant, while 28% rely on the firm's external legal counsel. 25% of the firms said their incentive compensation plan is developed, in whole or in part, by their CEO. 15% work with an employee benefits compensation consultant, 15% rely on an attorney other than the firm's customary external legal counsel, and 10% relied, in part, on a valuation firm.

For additional information on these survey results, please contact:

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