

2023 Public Relations Industry Trends Report

Davis+Gilbert’s 11th annual confidential survey of public relations industry firms had the highest level of participation in the history of this report. The results demonstrate the significant trends and challenges in the sector. Fewer firms than last year experienced increases in either revenue or profits, as firms navigate client budget constraints and macroeconomic headwinds. New to the survey this year were questions regarding firms’ use of artificial intelligence (AI), which is already proving to be a game changer in the industry. This report reveals how firms of all sizes and specialties feel about the outlook for their businesses now and in the future.

Survey Respondents’ Profile

182 Total Number of Respondents
(with 82% from North America)

Projected 2023 revenue in excess of \$5M* **70%**

Describe their companies as:

58% Integrated/Full-service

10% Technology

8% Corporate/Financial

8% Consumer

8% Other



4% Public Affairs

3% Healthcare

1% Digital/Social Media

More firms have built an **integrated service offering** of earned, shared and paid media, describing themselves as integrated/full-service, compared to **46%** in 2022 and **35%** in 2021.

In 2023, fewer firms expect an increase in revenue or profits and many more firms expect a decrease in revenue or profits. This year, remaining “flat” was the new “up” for many firms.

2022-2023 Revenue Comparison

predicted for the projected year (2023) when compared to 2022

53% predict an **increase** in revenue
(88% last year)

34% predict a **decrease** in revenue
(5% last year)

13% predict **no change** in revenue
(7% last year)

2022-2023 Profit Comparison

predicted for the projected year (2023) when compared to 2022

47% predict an **increase** in profit
(69% last year)

40% predict a **decrease** in profit
(15% last year)

13% predict **no change** in profit
(16% last year)

Revenue & Profitability Trends



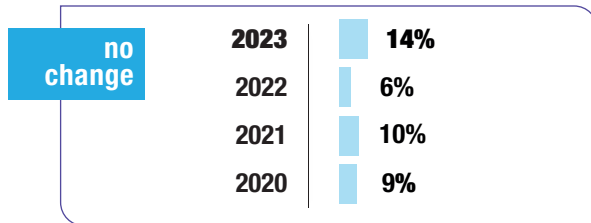
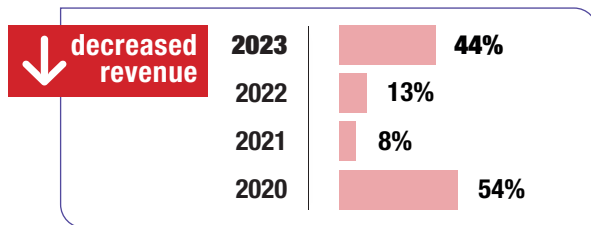
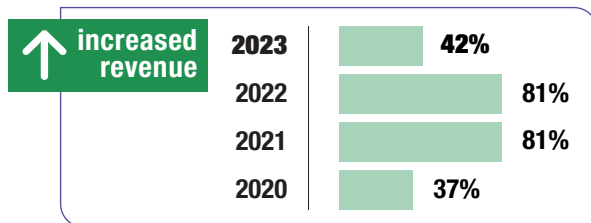
Firms are experiencing financial trends that mirror the global economic environment.

2020-2023 Revenue Comparison

for the First Eight Months of 2023

Key Takeaways

- » Half as many firms have **increased revenue** this year.
- » **More than three times** as many firms have **decreased revenue** this year.

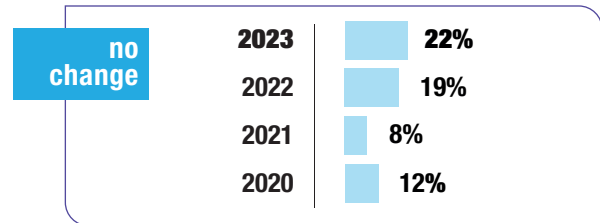
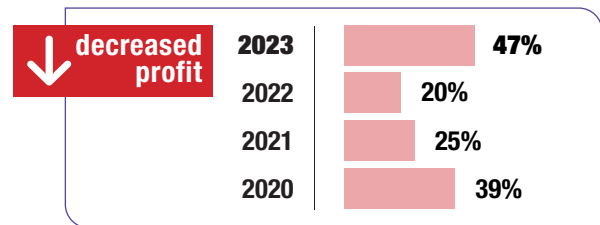
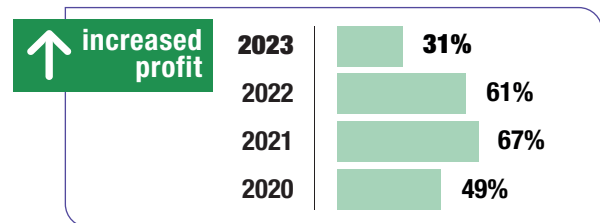


2020-2023 Profit Comparison

for the First Eight Months of 2023

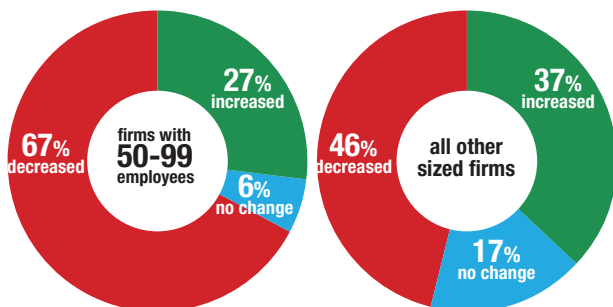
Key Takeaways

- » Half as many firms have had an **increase in profits**.
- » **More than two times** as many firms have **decreased profits**.

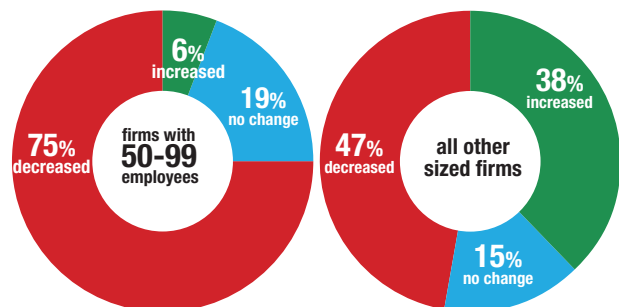


Firms with 50-99 employees were hit the hardest with revenue and profit decreases, although firms of all sizes experienced weaker financial performance than in 2021 and 2022.

Revenue Performance by Firm Size



Profit Performance by Firm Size



Specialty Areas & Their Financial Performance

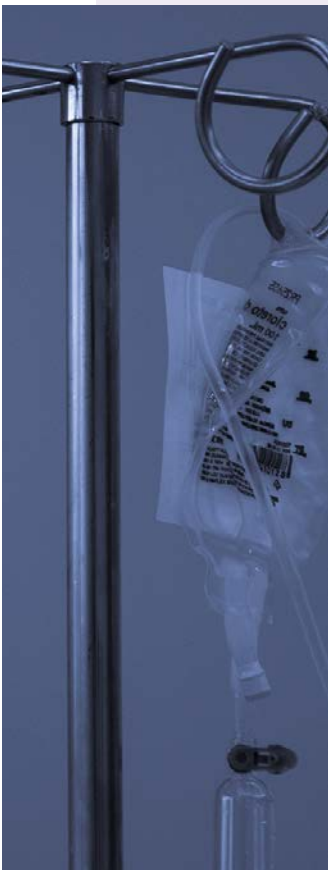


There was an across-the-board decrease in the number of specialty firms reporting increases in revenue and profit from last year. Some specialty firms – particularly those in the healthcare, public affairs and corporate/financial sectors – were more resilient in the face of the economic challenges of 2023 than their peers. Notably, these same specialty areas were the most frequently sought after acquisition targets this year (see p. 10).

Technology firms did not appear as a top specialty this year. Technology is now an essential part of all businesses and because of this, fewer firms identify themselves as solely technology specialists.



Specialty firms that saw financial success



Healthcare

80% increased revenue
with 20% increasing by more than 10%

60% increased profits
with none increasing by more than 10%

Public Affairs

67% increased revenue
with 17% increasing by more than 10%

34% increased profits
with 17% increasing by more than 10%

Corporate/Financial

58% increased revenue
with 8% increasing by more than 10%

34% increased profits
with 17% increasing by more than 10%



Consumer

49% increased revenue
with 16% increasing by more than 10%

23% increased profits
with 8% increasing by more than 10%

Integrated/Full-service

40% increased revenue
with 16% increasing by more than 10%

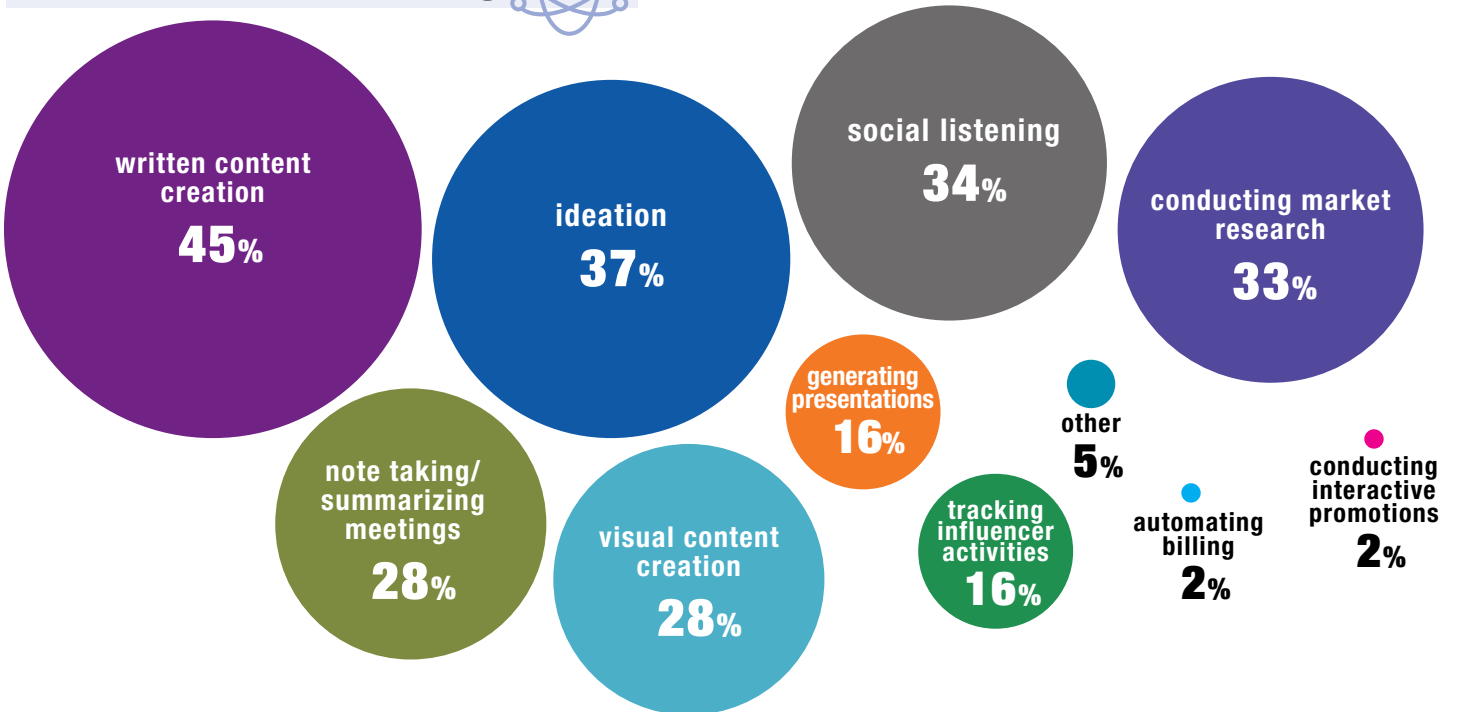
33% increased profits
with 12% increasing by more than 10%

Artificial Intelligence



AI impacted every industry this year — and that is especially true for the PR industry, which is increasingly known for using innovative ways to deliver communications and marketing services quickly and cost-efficiently. With budgets flat and financial performance trending down this year, AI gave firms opportunities to use this evolving technology for a variety of services.

How Firms Are Using AI



Key Takeaways

AI and The Bottom Line

- » 75% of firms that have increased both revenues and profits over 10% are currently using AI.
- » 47% of the firms that have already incorporated the most common generative AI applications into their workflow processes expect an increase in revenue in 2023, and 24% project an increase in profits.
- » More than 70% of the firms indicate that improving **workflows and time efficiencies** was the biggest motivation for using AI.

AI in Contracts and Policies

- » Nearly 86% of the firms state that they have not updated **client contracts** to reflect AI use, and approximately the same amount have not updated **freelancer contracts** with AI provisions.
- » 50% of the firms do not have a **firmwide policy** for AI use and almost 75% of firms report they do not have a **legal clearance process** in place before externally distributing AI-generated material.

Artificial Intelligence

Firm Size and AI

AI has allowed small firms to compete with larger firms since many AI platforms are available with little or no cost.

- » While firms of all sizes use AI for written content, small firms (10-29 employees) and large firms (200+ employees) are relying on AI for **written content** more than mid-sized firms.
- » Small firms (10-29 employees) are using AI for **ideation** (33%) more than firms of any other size.
- » Large firms (200+ employees) use AI for **social listening** (38%) and **market research** (34%), which is significantly more than firms with fewer than 200 employees.
- » A quarter of firms with 10-49 employees and nearly a third of large firms (200+ employees) report using AI for **note taking**.



Client Service Offerings

Revenue was generated from these **top client service offerings** for the first eight months in 2023:

1. **Earned media***
2. **Social and content creation**
3. **Digital**
4. **Branding**
5. **Paid media**

The top areas that firms plan to **expand service offering** in the next year are:

1. **Social and content creation**
2. **Digital**
3. **Research/analytics**
4. **Paid media**
5. **Influencer marketing**

** Earned media – the cornerstone of PR – takes the top spot as clients and their audiences seek the credibility and authenticity that they may feel are missing in paid content.*

Incorporating AI

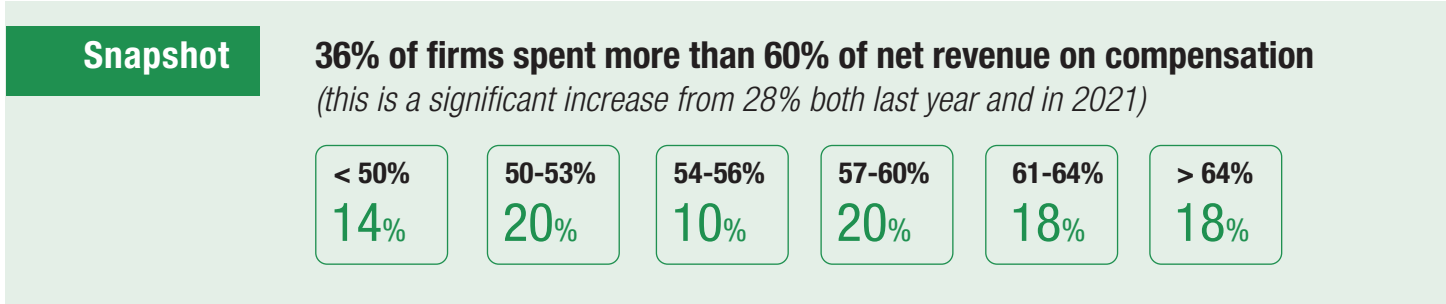
The areas where firms want to expand client services correlate with the ways in which firms are flagging AI into deliverables. For example, 45% of firms report using AI for written content creation — likely in conjunction with their efforts to focus more on social and content creation for clients. AI is likely making such expansions more attainable without adding significant resources.

Staffing Strategies

Talent Management and Utilization



A critical benchmark of overall firm profitability is the percentage of firm net revenue spent on compensation (inclusive of salary, bonus, employee benefits and normalized owners' compensation). It is not surprising that many firms reported a higher compensation-to-revenue ratio given that many more firms this year suffered a decline in overall profitability.



What actions have firms taken to right-size staff?

- 66% Manage out weaker performers
- 45% Adding freelancers
- 26% Layoffs
- 14% Reducing full-time workers to part-time
- 12% More frequent performance reviews

✓ The much envied firms that managed to increase revenues or profits this year by more than 10% did so without the need to take any action to right-size their staff. This suggests that these firms were already performing at a high level of staff utilization, enabling them to avoid the staff reductions and other right-sizing activities many firms were forced to take.



Staffing Strategies

Attracting & Retaining Top Talent

Top five actions used to retain existing staff:

1. Created more flexible working arrangements
2. Increased professional development stipends and/or opportunities
3. Introduced initiatives to promote mental health and wellness at work
4. Made one-time salary corrections
5. Expanded employee health benefits, 401(k) and other benefit program



53% of firms have a long-term incentive plans (LTIPs) for key employee

54% of firms have a program to award equity or equity equivalents (i.e. profits interests or “phantom” or “contract” equity)

Top employee trainings:

- 73% Client management
- 60% Artificial Intelligence
- 53% Presentation skills
- 42% Integrated marketing
- 24% Data analytics
- 20% SEO
- 19% Copywriting



Client management training is the most preferred way for firms to ensure they are simultaneously meeting clients’ needs while staying within the scope of work and the budget. A growing number of firms have used client management trainings as a strategy to help align the front line of account service with the financial realities of running an account and operating a profitable firm.



New to this list are artificial intelligence trainings. This is explained by the explosion and usage of AI-based creative and business operations platforms this year.



Copywriting training dropped two positions in rankings. One of the most foundational skills in PR, firms are either feeling confident about employees’ performance in this area or simply recognize the importance of focusing on the other emerging, technology-based skills that clients are increasingly expecting and demanding.

Diversity, Equity and Inclusion



Social and equal justice issues made headlines in the last two years, resulting in the expansion of DEI policies and initiatives in those years. Firms report somewhat less DEI activity in 2023.



42% of firms increased the number of employees from historically underrepresented groups *60% in 2022*

49% report no change

9% report a decrease

Firms took the following actions this year:

- 44%** Offered additional **educational and training**
- 42%** Set up a **DEI committee** to help shape DEI policy and monitor its progress
- 38%** Established a **pay equity plan** to ensure that all employees are being compensated fairly
- 36%** Tracked and disclosed **workforce diversity** data on an annual basis to create accountability
- 33%** **Contributed** staff time and/or money to organizations promoting racial and social justice
- 33%** Allotted money to **hire students and/or interns** from a wider set of schools, universities
- 20%** **Did not increase DEI activities** this year



Firms that increased revenue or profit by more than 10% did not do so at the expense of curtailing their DEI practices or hiring processes. In fact,

59% increased the number of employees from historically underrepresented groups this year over last year.

2024 Outlook



About 53% of the firms have an optimistic outlook on business for 2024 — significantly down from last year when 66% reported an optimistic outlook.

Meanwhile, 8% described their outlook as anxious — also a material increase from 4% last year. It stands to reason that firms are less optimistic and more anxious than they were last year given that so many firms saw revenue or profits (or both) decline in the first eight months of 2023.



This year, approximately **two-thirds of firms that outperformed the market** by increasing profits by more than 10% **plan to expand their firms' creative service offerings in the next 12 months.** This demonstrates that the most successful firms are proactive, not complacent.



Firms' biggest concerns for the next year are:

1. Client budgets remaining flat or decreasing
2. The rising cost of talent
3. Retaining existing talent

In the next 18 months, firms expect to see the greatest revenue growth from:

- 42% **Earned media**
- 31% **Shared media** (social media and online influencers)
- 17% **Owned media**
- 10% **Paid media**

Firms selected these same areas last year, but in a slightly different order, with paid media ranking higher than owned media. Also, the number of firms expecting to see revenue growth from earned media decreased from 49% while shared media increased from 22%.

Firms plan to maintain the following practices next year for talent utilization:

1. Greater investment in technology to work with client teams in a seamless way
2. Prioritizing retention and hiring practices
3. Training and implementing AI in client work and/or agency operations
4. Engaging client teams remotely in creative ways

M&A Market Insights



The comparative year-over-year data is both interesting and nuanced since the nature and size of the transactions has changed dramatically.

78 Number of M&A consummated deals
(through October 31, 2023)



This is **14 more deals** than occurred in the first ten months of 2022

Seller Profile

Seller Revenue

40% < \$3M

19% \$3M-6M

19% \$6M-10M

16% \$10M-25M

6% > \$25M

In 78% of these reported deals, seller revenue was less than \$10M. This reflects a substantial increase in the number of smaller and mid-size deals (compared to 70% last year).

Conversely there was a significant decrease in the larger transactions – only 6% of sellers had revenue of over \$25M (compared to 16% last year).

Sellers from North America accounted for only 49% of the reported completed transactions, down from 55% last year, with Europe gaining in overall number of completed deals (44% this year compared to 38% last year).

Seller Specialties

The top 3 specialties of firms that sold in 2023 were:

1. Technology/Digital
2. Public Affairs
3. Healthcare

» Technology/digital offerings are a necessary part of any public relations firm in today's technology-dominated world. To keep up with changes in technology, firms are acquiring more technology/digital-focused firms.



Firms likelihood to sell

19% said they would sell their firm in the next 12 months

43% said they would sell their firm in the next three years



Firms ranked their preferred type of buyer as:

1. Large independent PR firm
2. Private equity
3. Consulting firm
4. Small or midsize PR firm

M&A Market Insights

Buyer Profile

65 different buyers were involved in the **78 completed transactions**

Ten buyers reported closing more than one transaction:

Buyer	# of Completed
APCO	4
ICR	3
BerlinRosen	2
Edelman Global Advisory	2
Farner International	2
Finn Partners	2
MikeWorldWide	2
MMGY Global	2
Omnicom	2
Penta	2

- » Even though there have been headwinds to the M&A market conditions overall, **there has been a lot of activity with smaller/mid-size deals** so far this year.
- » There were **more buyers than ever in the marketplace**, including buyers of very different size profiles.
- » **19 buyers** had revenues of less than **\$25M**.

Buyer Type

Private Equity

- » **51%** (up from 28% last year and 10% in 2021)

Independent

- » **37%** (down from 58% last year and 76% in 2021)

Public

- » **12%** (down from 14% the last two years)



Acquired another firm

47% of survey respondents have acquired another firm at some time (up from 38% in 2022 and 28% in 2021).

This corresponds to the sharp increase in the number of small and medium-sized firms that were buyers, not sellers, this year and in the last several years.



Firms likelihood to buy

38% said they would buy one or more firms in the next 12 months (down from 41% last year).

50% said they would buy one or more firms in the next three years (down from 54% last year).

Following the surge of M&A activity after the pandemic, the second half of 2023 and expectations for the first half of 2024 are showing a measurably slower pace of M&A activity.

Terminology and Methodology

Background on terms used in this report and its methodology.

Davis+Gilbert annually compiles data on mergers and acquisitions based on publicly available deal activity, utilizing its extensive experience in the public relations and integrated marketing communications sector.

Buyers:

- » **Independent:** Agencies that are not publicly traded. The independent buyers are overwhelmingly owned by one or more of the executives working at the firms.
- » **Public Holding Company:** Companies that trade on a national or international securities exchange. Many of the public company buyers are holding companies primarily in the marketing communications sector.
- » **PE Firms:** Private equity firms and private equity backed PR firms that provide investment capital for the purpose of enhancing a business for a future sale. This includes capital for “tuck-under” or “bolt-on” acquisitions into an existing PE portfolio company.



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