



SI PARTNERS' PATH TO GROWTH SURVEY

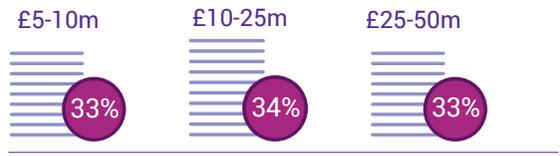
A global analysis of the growth challenges and aspirations of marcoms agencies

The SI Partners' Path to Growth Survey is based on interviews with 600 senior decision-makers at marcoms agencies worldwide

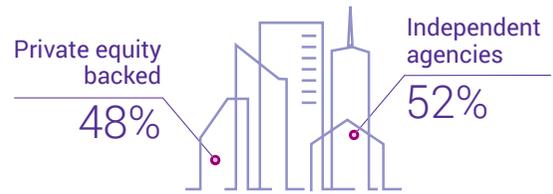
600 agency leaders
worldwide across
16 countries



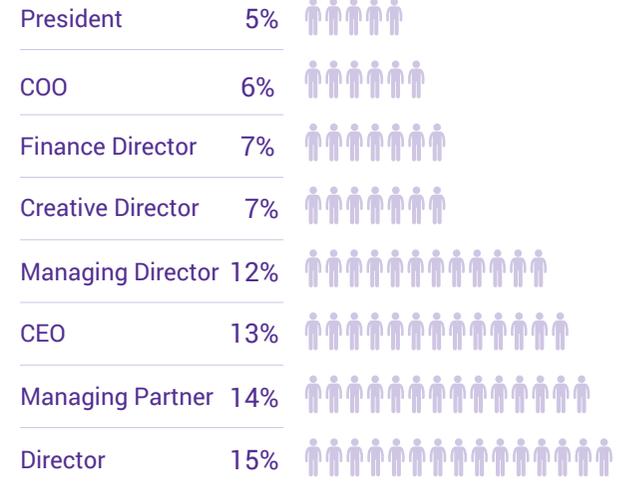
GLOBAL VIEWPOINTS



AGENCIES' GLOBAL REVENUE



AGENCY OWNERSHIP STRUCTURE



AGENCY LEADERS*

*21% = other board-level roles

Executive summary

What are the aspirations of global marcoms businesses? Where are they seeking new opportunities? What are their doubts and concerns, and are their growth plans best suited to their overall strategy?

What is it like being an agency in the US, Europe or Asia? What commercial and internal pressures do they face and how are they planning to develop their offer in a fast-changing environment?

These and many other questions relating to the pressures and barriers to growth are regularly asked by agency leaders. SI Partners, global consultancy and M&A advisor to creative and technology businesses, commissioned this study of 600 businesses in every major national and regional marcoms market to share insight on the current state of agency growth and the challenges faced by leaders.

The research captures agencies' common aspirations, expectations, outlook and concerns on a global level, as well as identifying particular issues and challenges they face in different regions.



82% of agencies plan to grow internationally



88% of agencies plan to diversify their service offering



56% of agencies don't have a talent management plan

Global highlights: agencies' growth strategies and their plans to achieve them

The survey revealed four key challenges facing growing marcoms agencies.

01 Growth opportunities: ambitious and (reasonably) optimistic

The survey also shows that marcoms leaders are optimistic about the opportunities available to them. The great majority of agencies want to grow against every metric – revenues, client size, international presence and service offering. The results suggest many agencies are adopting a broad approach that is potentially overly diverse, and also potentially higher risk as they stray from core competencies. Greater strategic clarity and a keener focus on defined priorities may yield better results and mitigate risk for a high proportion of those looking to diversify and expand in the short to mid term.

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02 International expansion: planning with limited confidence

Growing into markets overseas is a common desire among agencies in all regions, with 82% planning to expand internationally within the next 2-3 years. The US is the number one destination. However, while businesses are keen on expanding abroad they are also wary of the risks of doing so and are not confident in their ability to fulfil their plans in the mid to long term. Agencies may need to reflect on how overseas expansion fits their appetite for risk and its timing relative to other development priorities.

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03 Talent management: a major challenge, but not a strategic imperative

In many countries, agencies reveal the challenges they face in recruiting and retaining talent but admit they do not prioritise strategies to resolve these issues. Given the majority plan to diversify services and expand their geographical presence, some may struggle to achieve their strategic plans if talent does not become a greater priority.

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Execution gap: bold plans, but how to deliver?

Marcoms agencies have bold aspirations for the coming few years but admit confidence in their ability to achieve all of these goals is not as high as it could be. They are short of answers to some of the big internal challenges, such as increasing profit. They have similar concerns regarding external challenges, including strong competition, a changing marketplace and the challenges posed by overseas growth. Although agencies recognise the challenges facing them, the route to overcoming these barriers to growth remain unclear for many.

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Conclusion: charting a better path to growth

The survey clearly shows that most marcoms agency leaders see the need to look beyond business as usual. Many plan to grow by expanding geographically and also by cultivating new areas of expertise, but while many recognise the need to change, their answers show that some lack focus. Others are failing to identify or prioritise the most pressing strategic objectives and in some cases agencies are uncertain about how to execute on their plans successfully.

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A detailed analysis of marcoms agencies' plans and trends is also available for the following key markets: US, Greater China, UK, Sweden and the Netherlands.



01 Growth opportunities: ambitious and (reasonably) optimistic

Marcoms leaders are ambitious about growth opportunities, looking to win new clients by offering new services in new markets. But despite this optimism regarding the possibilities, confidence in their ability to execute is mixed.

New clients, new horizons

Agency leaders believe their businesses will grow by attracting new clients – and their route to new clients is through diversification and international expansion. The vast majority (88%) are looking to diversify their service offering either now or in 2-3 years' time and 82% are looking to internationalise.

The survey reveals that the immediate imperative for agencies is to grow by attracting new clients (38% listed this as their most important growth strategy). Over time, however, more have ambitions to expand into new geographic regions (24%) as well as to diversify their service offering (21%).



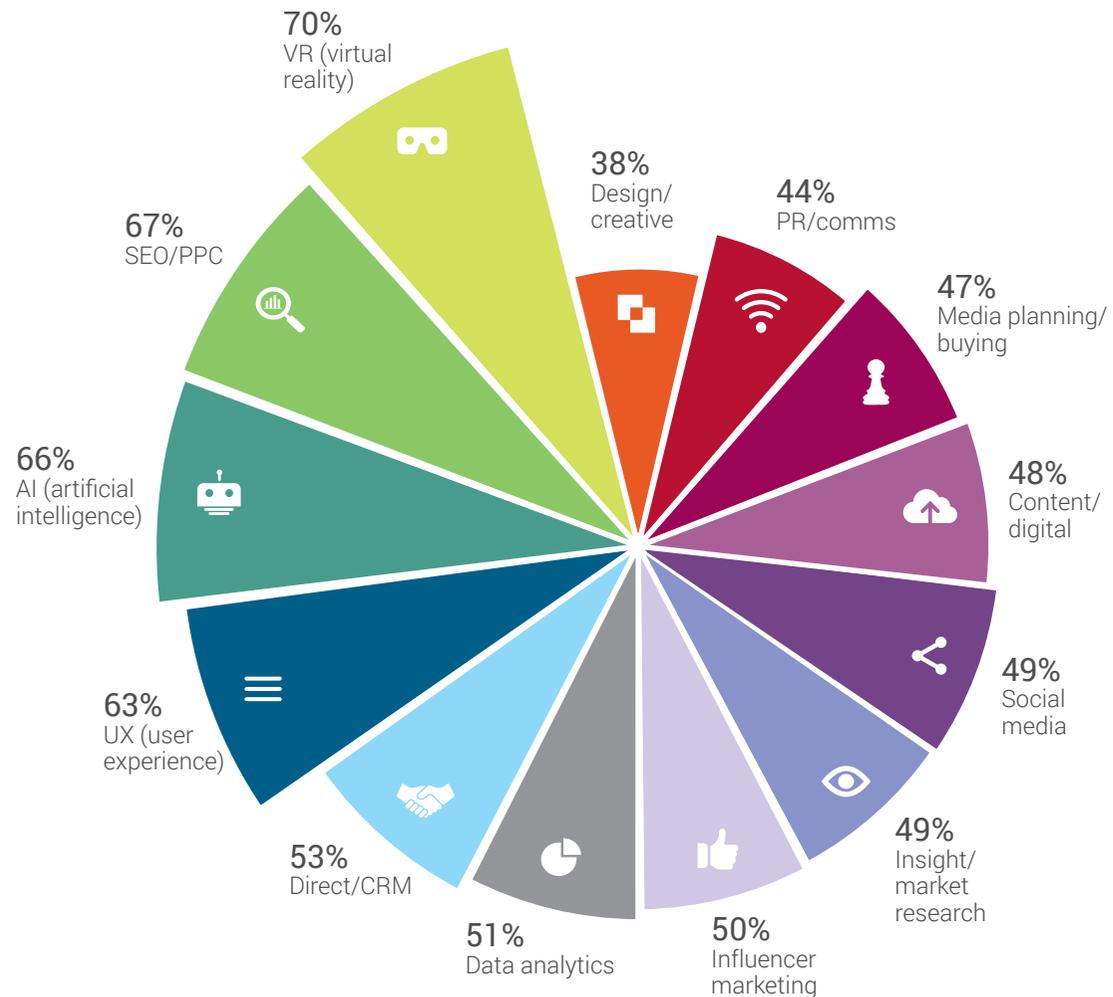
GLOBAL AND DIVERSIFIED

Agency 3-year priorities focus on clients, geographies and diversification

88% of agencies are looking to diversify their service offering

When asked what areas they were looking to expand their service offering into, agency leaders included a wide variety of new service offerings. For example, 70% are targeting virtual reality (VR), 67% said SEO/PPC, 66% said they would be developing artificial intelligence (AI) capability, 63% will diversify their user experience (UX) offering, and 51% plan to add data analytics to their portfolio.

The wide variety and number of new service offerings that respondents indicated as areas of future development for their business potentially suggests a lack of strategic focus. It points to doubt about how to truly innovate, how to complement existing specialisms which enhance their appeal and how to provide a relevant offer that is differentiated from rivals'.



SEEKING TO DIVERSIFY

Virtual reality tops the list of new areas where agencies aspire to diversify in the next 2-3 years

02 International expansion: planning with limited confidence

Expansion into new geographical markets is a key growth strategy for agencies, but leaders are wary of the risks and have limited confidence in achieving their ambitions.

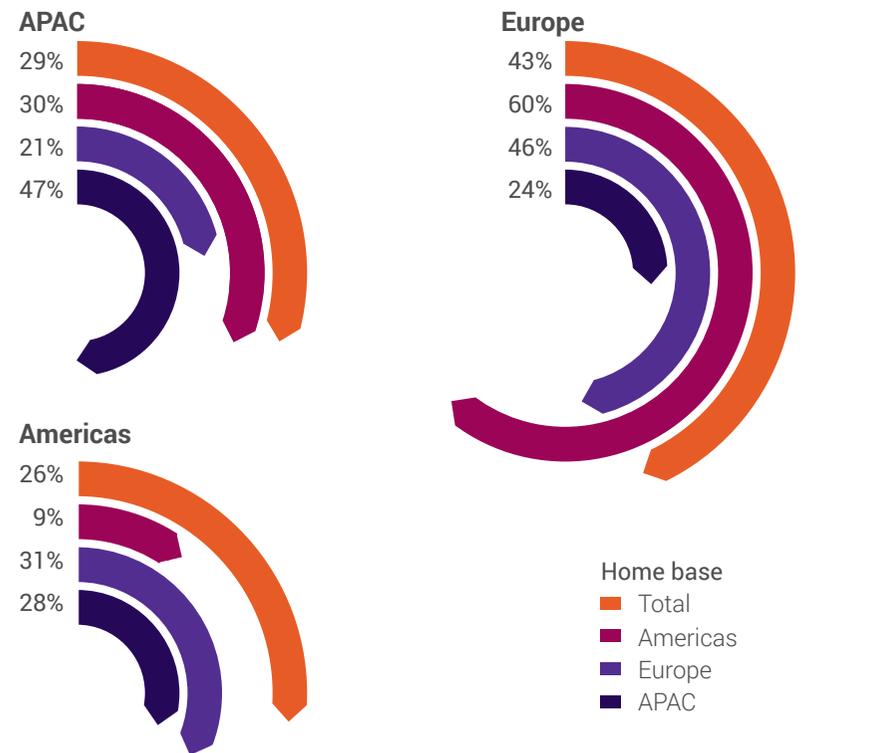
Some 82% express a desire to expand globally, yet they admit to being uncertain about their tactical plans to do this: 61% don't currently have a plan in place. Less than half (49%) expect to have such a plan in the next 2-3 years and only one third (32%) are extremely confident they will successfully achieve these plans. This lack of certainty around tactical plans to grow the business into new geographies increases the risk of adopting a complex mix of strategies.

82% of agencies are hungry to grow by entering new geographic regions in the next 2-3 years

Region by region

Europe is the most popular destination region for agency expansion (43%), followed by Asia Pacific (29%) and the Americas (26%).

Businesses from the Americas identify Europe as their main region for expansion (60%), perhaps unsurprisingly given the established market, growth rates and development in the region. Businesses from Asia Pacific (APAC) chose their own region as their preferred destination for expansion (47%). Similarly, agencies in Europe are mostly looking to their own region to expand (46%) – businesses from Spain and Italy are most eager for European expansion with 72% and 60% listing this region respectively.



TARGET REGIONS FOR EXPANSION

Europe is the top regional destination for overseas growth

02 International expansion continued

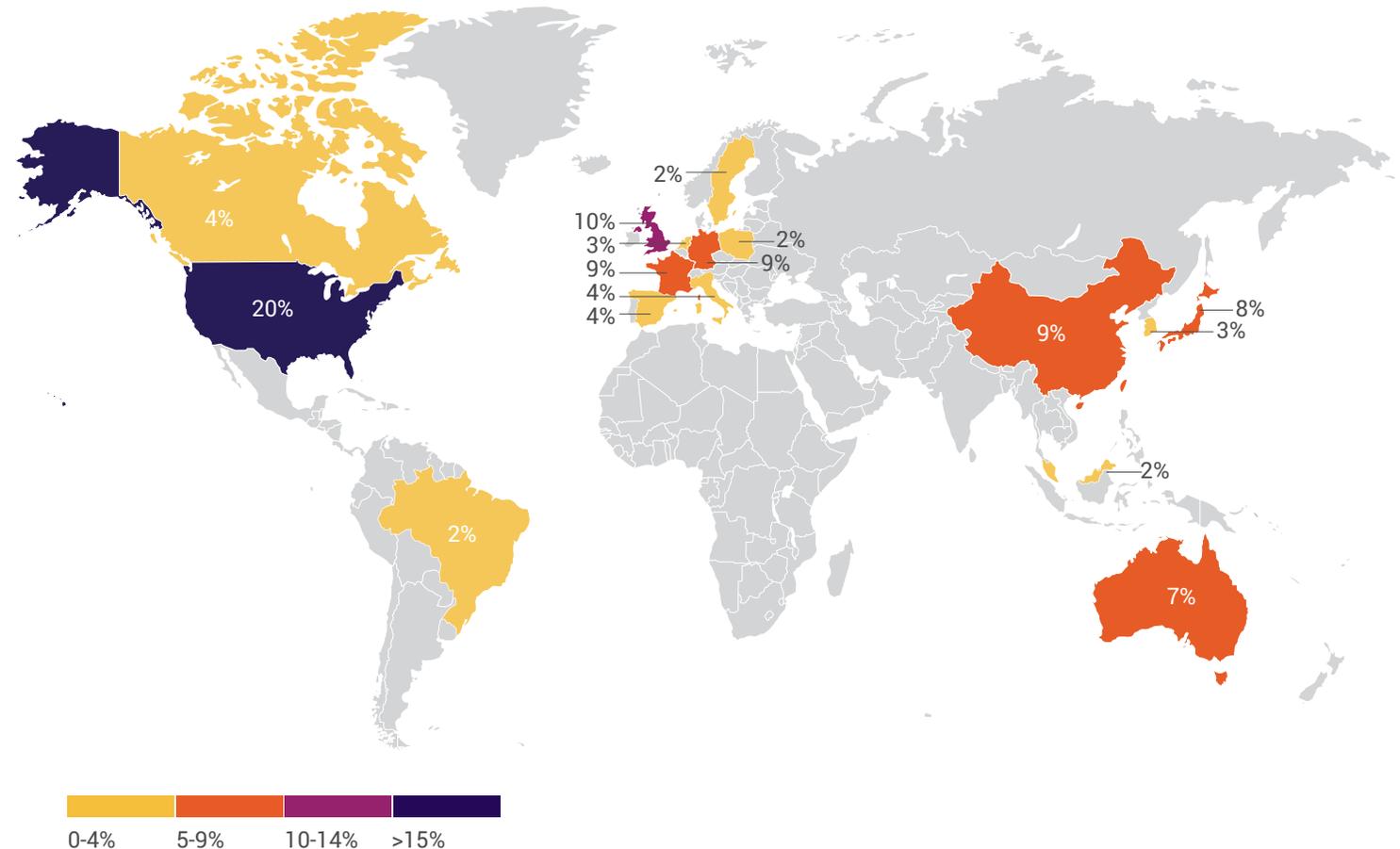
Country by country

The picture changes when assessed by individual countries. The single most popular destination agencies look to expand into is the US (20%).

Perhaps surprising given a degree of uncertainty regarding its commercial and political outlook, the UK followed in distant second place at 10%, suggesting that questions surrounding its future relationship with the European Union and the current government's slim majority are not putting agencies off the attractions of the UK market.

The next most popular destinations for expansion were Greater China (9%), France (9%) and Germany (9%).

Agencies in Greater China chose APAC as their most common regional expansion target (43%), and the US as their second (34%).



PLANS FOR BUSINESS EXPANSION – COUNTRY DESTINATION

US is the top target country for overseas growth

02 International expansion continued

Alive to the complexities of a fast changing, more global market

While agency leaders are keen to expand overseas, they are also aware of the challenges involved, citing the execution risk of doing so as their second most pressing external business challenge. Agencies in Asia are especially wary of the challenges; more than 60% listing risk and complexity of entering new markets as a top-three barrier to growth.

The inherent risks and complexities involved in expanding out of their established geographic market are a common worry for agencies. Almost half (46%) see it as a serious obstacle to their growth. This came second only to worries about the increased competition for clients, cited by almost half (49%) as a top external barrier to growth.

How to mitigate risk when expanding overseas

The survey clearly reveals a sector that is excited about the opportunities presented by an ever-more globalised economy and consumer base. Yet many agencies, by their own admission, lack a plan or real confidence in successful execution.

Agency leaders' caution is warranted, given the costs and complexities of expanding into new and often unfamiliar markets. An expansion across borders that dovetails with the other strategic plans of the business, mapped against a talent plan that can deliver, is vital, especially for those businesses with ambitions to merge or sell on the near horizon.

Agencies may need to reflect on how overseas expansion fits their appetite for risk and its timing relative to other development priorities.

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03 Talent management: a major challenge, but not a strategic imperative

Agencies know they need new talent to meet their diverse growth goals, but many admit their plans for doing so have not yet taken form.

Although talent appears to be one of the main barriers to growth for marcoms agencies, there seems to be a reluctance to prioritise it.

56% of agencies don't have a talent management plan

While businesses in the Americas and Europe say recruiting senior talent and specialist skills is their top internal challenge to growth (52% and 50% placing it in their top three challenges respectively), 56% reported they do not currently have a plan in place to hire senior talent and only 41% intend to put such a strategy in place in the next 2-3 years.

It is somewhat surprising that, although talent is recognised as one of the main barriers to growth, agencies

don't have plans in place to resolve this issue. Given that the majority of businesses plan to diversify services and expand their geographical presence (as discussed in sections 2 and 3), the absence of a future talent plan in a high proportion of cases suggests many will struggle to achieve their strategic objectives, as talent is critical to success in expansion and diversification.

Indeed, when asked whether talent management was the most important strategy over the next 2-3 years, only 3% thought it was.

A strategy for identifying and retaining the right talent will help agencies drive growth, keep focused and stay relevant in a fast-moving market, while cementing their value in the eyes of potential buyers.



HIGH IMPORTANCE, LOW PRIORITY

Although getting senior talent is a top internal challenge, it's not being prioritised



04 Execution gap: bold plans, but how to deliver?

Agencies are unsure about how best to overcome the barriers to achieving successful, sustained growth. Many lack a clear strategy for delivering consistently across their key business priorities.

While the vast majority of agencies (82%) plan to grow over the next three years, fewer than one third (28%) strongly agree that they have a solid strategy and business plan that will help them meet these growth ambitions.

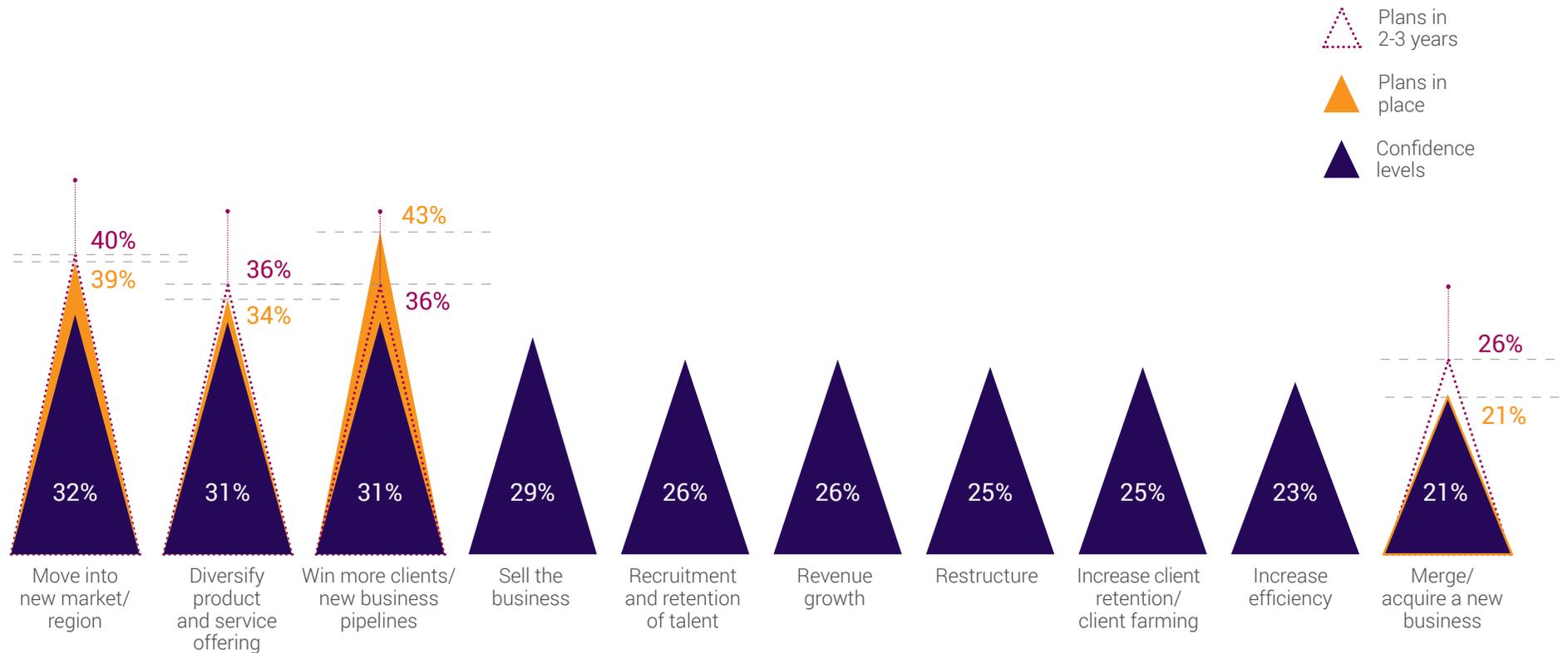
The survey also reveals agency leaders' lack of complete confidence in their abilities to execute on their plans. Only one third are very confident of being able to achieve their growth strategies in the next 2-3 years. In

addition to low confidence levels relating to international expansion plans (discussed in section 3), only 26% were highly confident that they would achieve revenue growth. Less than one quarter (23%) felt very confident they would increase their efficiency / GP per head, and less than one third were very confident in their ability to win new clients or successfully diversify their product or service offering (both 31%).

72% of agencies do not have a well-defined growth vision and plan

04 Execution gap continued

Few agency leaders are 'very confident' about achieving their business priorities in the next 2-3 years – but they are making plans.



CONFIDENT PLANS?

Confidence levels for business priorities, compared with planning

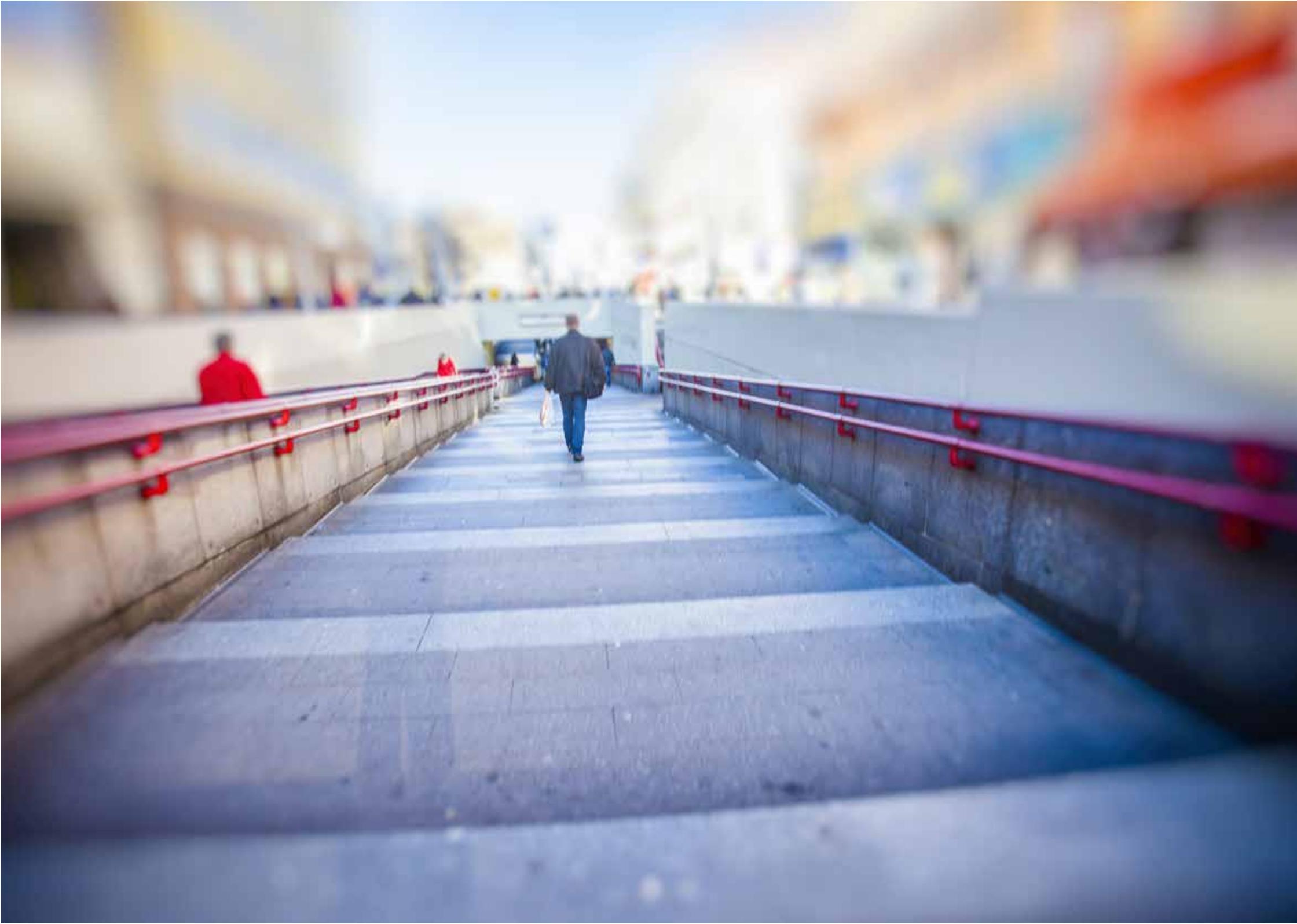
Taking risks with growth

Many agencies have opted for a high-risk strategy over the next three years. Venturing into new markets and building new product offerings offer multiple risks. Executing on these requires careful planning, but many admit they have no clear strategic plan setting out how they will achieve their aims.

Timing overseas growth is also important for those seeking to realise maximum value. Agencies who are in the midst of investing heavily in overseas expansion may well end up with less flattering profits and revenue growth levels while they establish themselves in new markets. This may limit their appeal should they seek a growth partner during this period.

One way to de-risk simultaneous internationalisation and diversification ambitions may be a well-considered and executed talent strategy, as having the right talent and skills in place will be critical for businesses in delivering successful entry into new markets and new services.

A more optimal approach to growth for some agencies will be one that emphasises identifying and building capabilities and expertise in areas that will appeal to end users, clients and acquirers, as well as nurturing internal talent to create a relevant, contemporary agency offer. Innovating in order to develop a higher quality product and service offering will stand agencies in better stead than striving for diversification that does not differentiate the agency.



Conclusion: charting a better path to growth

What does our survey reveal about the hopes and fears global marcoms agencies have and their plans to pursue new opportunities?

The survey clearly shows that most marcoms agency leaders see the need to look beyond business as usual.

Agencies' plans to grow by expanding geographically and also by cultivating new areas of expertise are understandable in a sector with an increasingly global character and rapidly evolving new digital specialisms.

While many recognise the need to change, their answers show that some lack focus, others are failing to identify or prioritise the most pressing strategic objectives and in some cases agencies are uncertain about how to execute on their plans successfully.

Many agencies rightly express caution about the risks inherent in pursuing a broader international presence and service offering, yet oddly seem not to be making talent a priority, given the importance they place on it as a potential barrier to success. Surprisingly few define talent as a strategic objective.

A more urgent and ruthless focus on the strategies that really matter should pay off. Arguably greatest among these is the pursuit of talent, particularly in areas that complement agencies' existing specialisms. This may make their efforts to expand their activities easier and less risky. The right talent will also provide the depth and breadth that will help an agency stay relevant and attract growth partners.

SI Partners services



GROWTH

Our purpose is to enable clients to realise their businesses' potential. We advise businesses on how to create, plan for and manage all aspects of growth, enabling stakeholders to achieve their ambitions.



MERGERS & ACQUISITIONS

We connect entrepreneurs and investors across the globe, leveraging our unique blend of human and financial capital expertise to originate strategic partnerships that maximise long-term value for owners and investors.



BUILDING A GLOBAL BUSINESS

SI Partners draws on the extensive international experience of the team across our global hubs, to support our clients to create global businesses and navigate the complexity of cross-border management and governance.



TALENT, LEADERSHIP AND CULTURE

Human capital is far scarcer than financial capital. We support our clients to build innovative talent-based businesses through leadership coaching and development, talent profiling and insights, and culture and proposition development services that put talent at the heart of the business.



COMMERCIAL IMPROVEMENT

We work in partnership with our clients to deliver insightful and actionable advice that challenges commercial behaviour, improves commercial performance and increases profitability to build equity value and better businesses for the future.

A passion for creative and technology businesses

SI Partners is a global M&A advisor and consultancy with a passion for creative and technology businesses. Our purpose is to enable our clients to realise their businesses' potential through trusted, insightful and actionable advice.

We have advised some of the most innovative creative businesses across the globe on growth, talent and leadership development, commercial behaviour, building global businesses and growth partnerships. Our knowledge of the industry coupled with our global acquirer network and cross-border expertise enables us to develop growth strategies and originate innovative deals that deliver maximum, lasting value for shareholders.

If you'd like to find out more about SI Partners, or any of the topics discussed in this report, drop in for a cup of tea. To arrange a time, get in touch at:

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