

The 2024 Industry Report

Financial, productivity, and technological insights for small and medium-sized creative agencies

This report is in partnership with FunctionFox and Second Wind's expert analysis



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Introduction

As 2023 nears its close, we've seen the initial concerns over inflation and economic uncertainty highlighted in our last report come to a head. Economic hardship is taking its toll, though the rise of artificial intelligence (AI) has led to some efficiency benefits almost across the board.

In short, the year has seen some interesting challenges and, in some cases, novel solutions to overcoming those challenges. For our 2024 report, **we've surveyed over 180 small- and medium-sized (SMEs) creative agencies** to discover both how the industry has changed during the year and what we may be able to anticipate as we move into 2024.

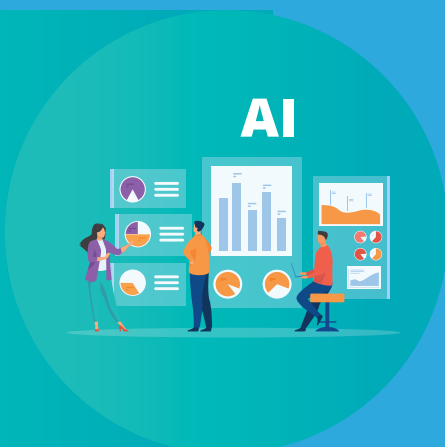
Think of the results shared here as **benchmarks for creative agencies in North America that shine a light on what your contemporaries are doing to embrace changing technology and confront economic uncertainty.** Not every aspect of this report will be rosy.

180
Agencies Surveyed

Our data suggests that staff are feeling increasingly overworked, and many agencies still struggle with maintaining high levels of client satisfaction. However, we also see clear paths to success emerging, especially with the increasing adoption of AI, which may show the way for agencies that are currently struggling.

Read on as we dive deep into the trends that are influencing the creative industry. **You'll discover exclusive Function Point insights that show how revenue, client relations, and productivity have changed in 2023.** Furthermore, this report was created **in collaboration with FunctionFox, as well as Laurie Mikes**, the Lead Consultant and Chief Operating Officer at Second Wind, who provides further analysis throughout.

2024




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Demographics

The Makeup of the Agencies We Surveyed

The agencies that have set our benchmarks for this year predominantly aim to do it all for their clients. Over half of them – **56%** - **are full-service agencies**, with the rest being scattered throughout the design, advertising, media, internal marketing, and digital sectors.

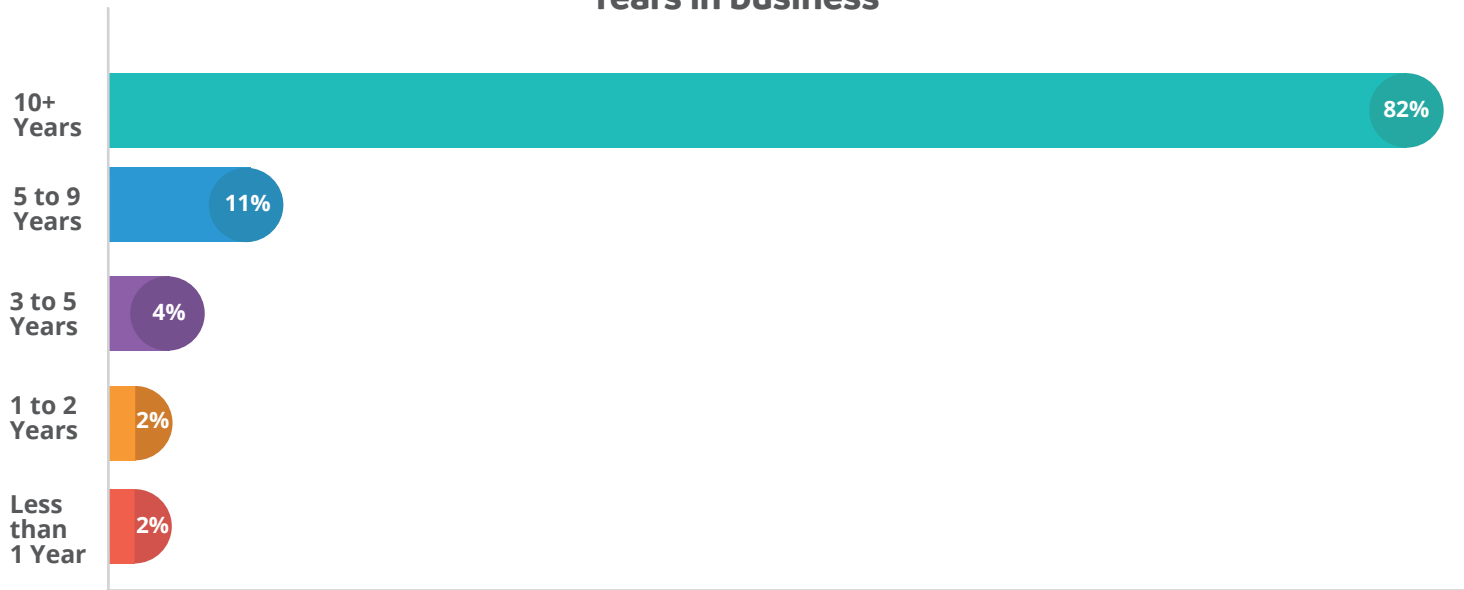
This is consistent with our 2023 report, which also saw the majority of those surveyed offer a full service.

Our agencies also have experience by the bucketload, with **82% of them having been in business for over 10 years**. These are all agencies that managed to make it



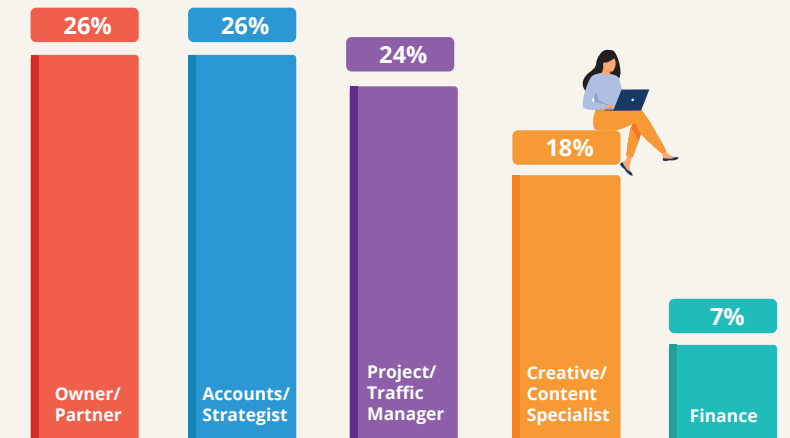
through the challenges that coronavirus brought to the early 2020s, making the benchmarks they set valuable sources of learning for agencies that struggled through that period, as well as those trying to set up in a postcoronavirus world. You'll also see a fairly even split in terms of the roles each survey participant plays in their company, though **the majority of respondents typically work in senior roles within their agencies**.

Years in business

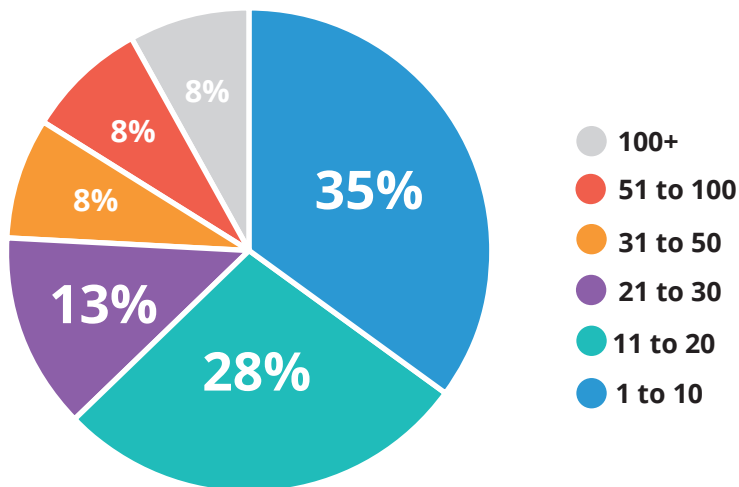


As with last year's report, the majority of these companies are also boutique firms, with **84% of them having 50 employees or fewer**. While that doesn't mean this report contains no useful insights for larger firms – 16% of those surveyed have over 50 employees, with 8% having over 100 – it does mean that **the report will be a crucial wellspring of information for SMEs moving into 2024**.

Agency roles

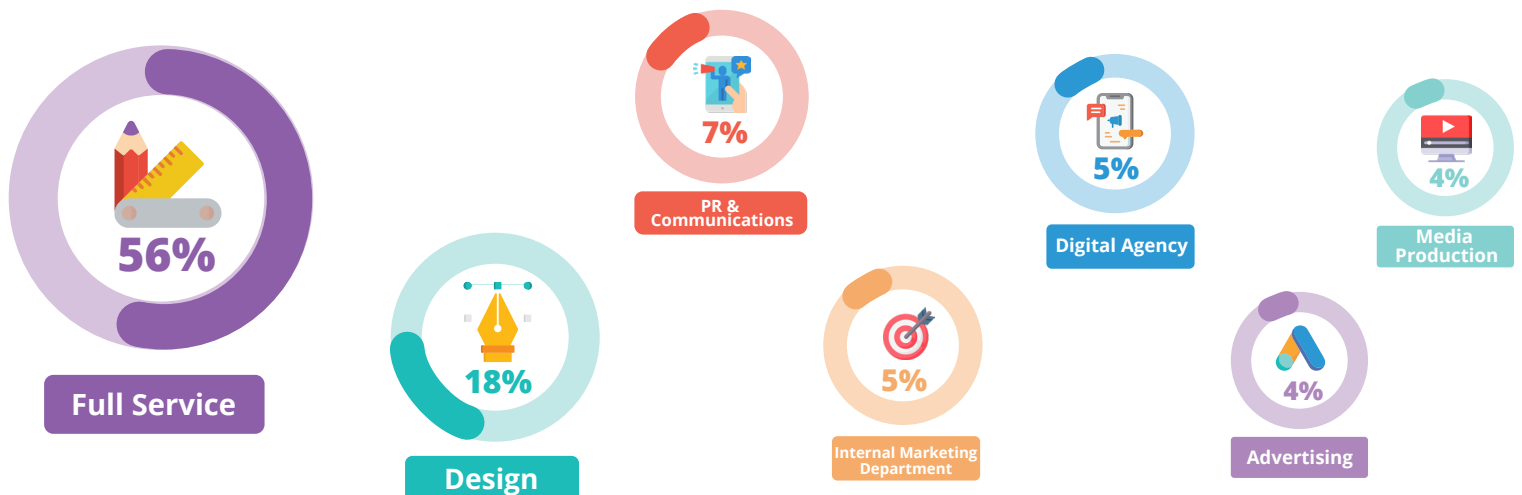


Employees per agency:



Around 8% of agencies have more than 100 employees which represents a small portion, therefore, this report and its findings are suitable for small to mid-sized agencies.

Agency type that best describes your business

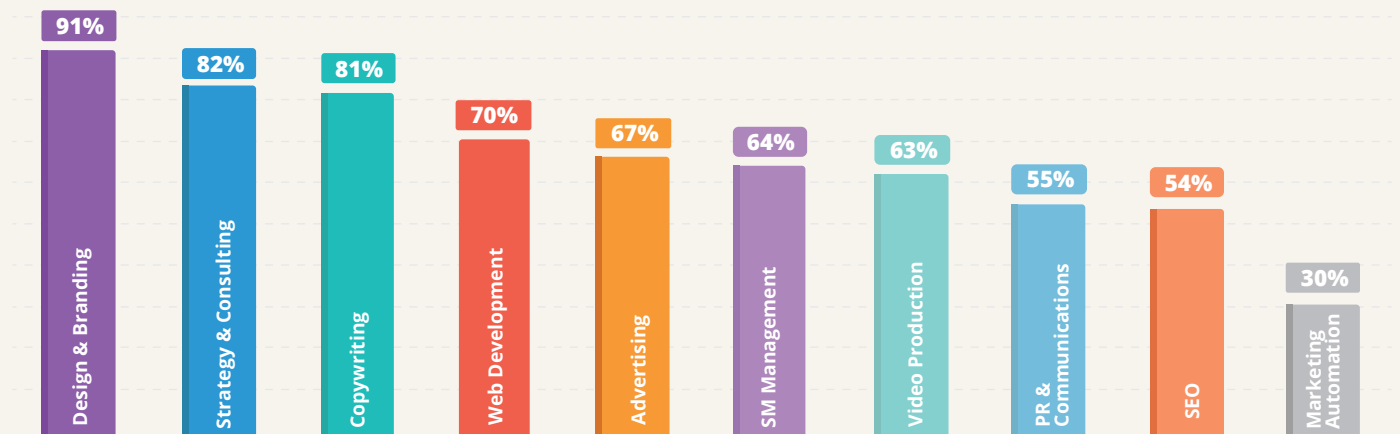


Industry Trends

Continued Growth of Hig-Demand Services: Design, Branding and Strategy Lead the Way



% of agencies that provide the following services



“
As marketing opportunities become increasingly fragmented, brands are seeking advice and guidance about how to pull everything together and present a cohesive and effective message across all channels.

Laurie Mikes, COO
Second Wind



Design and branding remain the most popular service offered by creative agencies, with 91% of agencies helping clients with these challenges in 2023. That's a slight increase on the 2022 figures – 89.7% offered them last year – and it showcases a continually increasing desire from companies to get their messaging right through visuals and messaging.

Over 44% of agencies surveyed said they saw an increase in demand for design and branding services. It's one of three high-demand services for the year and one for which we project a future increase in demand in the coming year.

Following hot on design and branding's heels is strategy consulting, which is now offered by 81.9% of agencies. More than 40% of agencies reported seeing increased demand for this service.



Copywriting



Design



Strategy

top agencies'
offerings in
2023

As with design and branding, the industry anticipates that demand throughout 2024 will only increase, likely opening the door for more creative agencies to introduce a consulting arm into their businesses.

Companies Need to Adapt to Increasing Demand for Video

Video was one of the more interesting industries seeing increased demand, with **37.8% of companies saying that more clients came to them for video than in 2022.**

While we still classify this service as having “Medium” demand – meaning between 40% and 70% of your clients may ask for it.

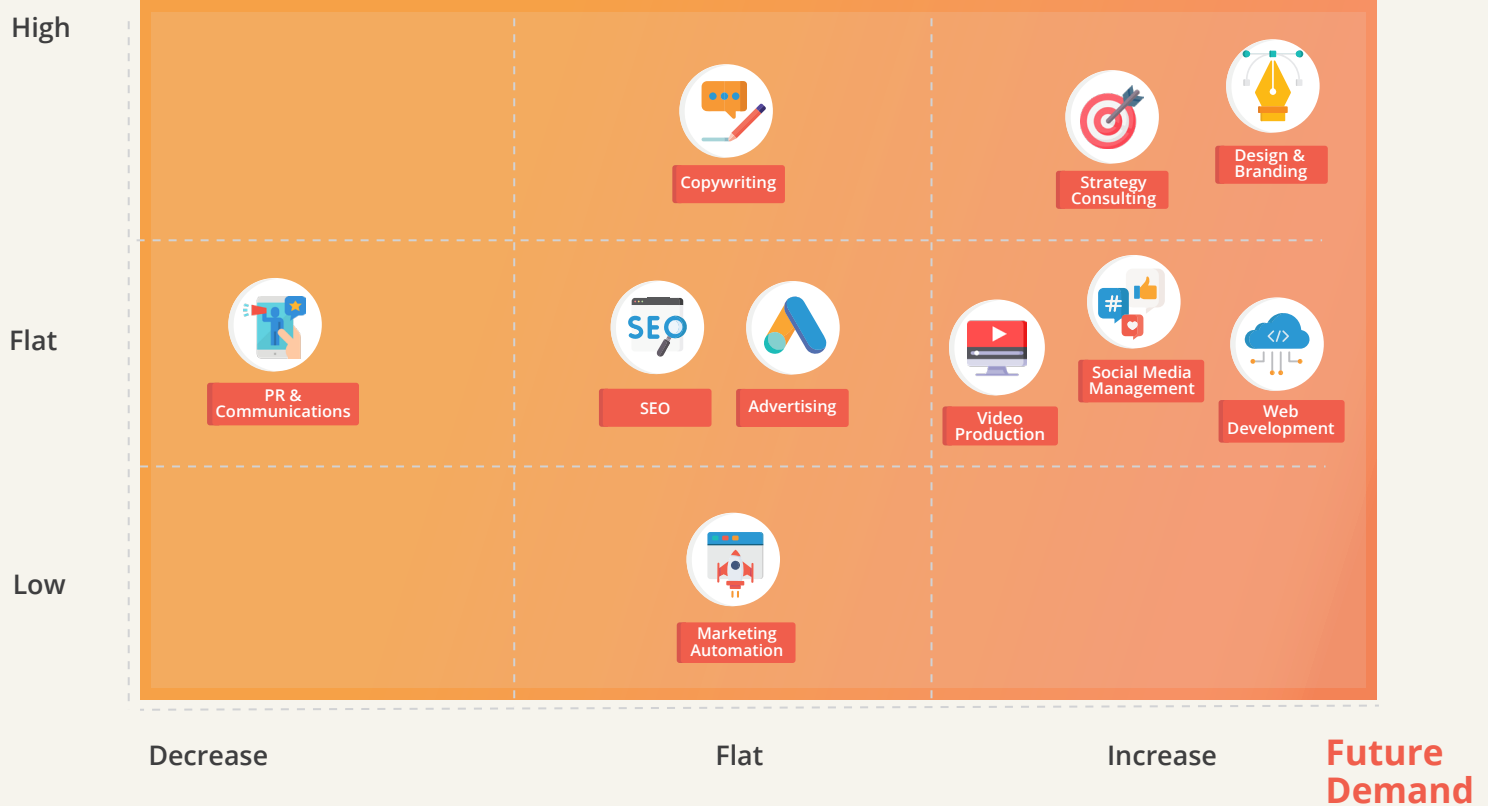
We also anticipate that 2024 will see an increase in the number of clients that want to incorporate this media element into their strategies.

That increase provides your agency with ample opportunity to monetize video creation services, an opportunity that only 63.3% are currently taking.

Laurie points out that the production required for video may be holding many smaller agencies back from getting their slices of this particular pie:

Existing & Future demand for Agency Services

Existing Demand



Many smaller agencies are still growing these capabilities to meet the increasing demand. They need to take the time to ramp up internally or align themselves with partners who can react quickly when needed.

Laurie Mikes, COO
Second Wind



Agencies May Have to Offer More Than Digital Marketing and Writing Services

Four of the most common forms of digital marketing saw marked decreases in demand. They include copywriting (18.1% decline), web development (22.3%), SEO (19.1%), and PR & communications (26.6%).

That requirement for agility is both the biggest hurdle and the largest opportunity for agencies.

Average Billable Rate per Service

Billable \$ by Service	Average Hourly Rate
 Web Development	\$144
 SEO	\$136
 Social Media Management	\$144
 Copywriting	\$141
 Design & Branding	\$145
 Strategy Consulting	\$178
 Project Management	\$145
 Administrative	\$118
 Video Production	\$160
 Advertising	\$143



Those that can make fast – and high-quality – video turnaround one of their core offerings may be able to achieve rapid expansion by fulfilling a demand that over a third of agencies weren't servicing in 2023.

That's not to say that SEO is on the way out. Though demand levels are somewhat flat, many full-service agencies are able to integrate it into an offering by positioning it as a long-term strategy alongside others that offer short-term wins.

But it's telling that only 54.8% of agencies offer SEO, with only marketing automation ranking below it.

Last year, we highlighted SEO as being a difficult offering for agencies to make because the slow-burn nature of the strategy runs counter to the desire for short-term wins that many agency clients desire, and we've seen the same thing in 2023.

Our survey showed that **80.9% of agencies offer it, though only 21.8% reported an increase in demand – among the lowest of the 10 services we examined.**

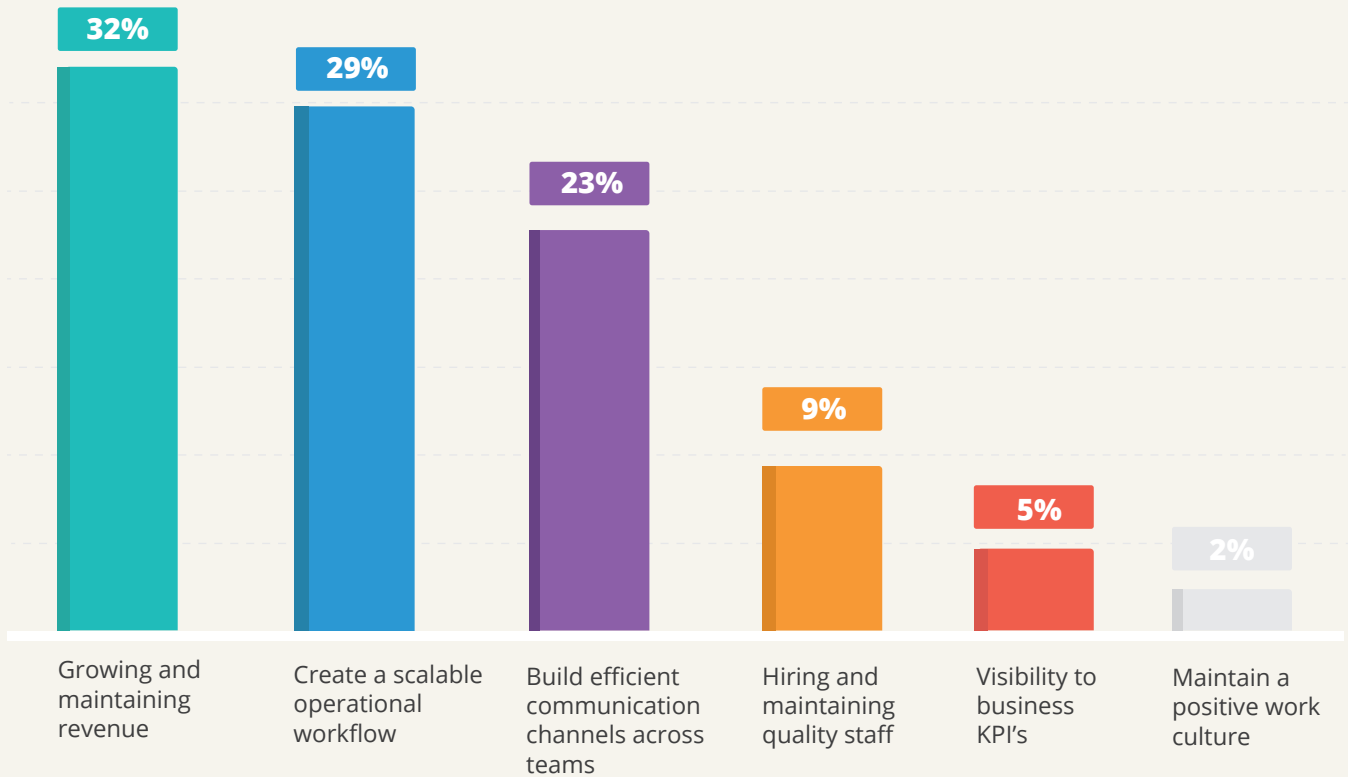
The industry anticipates the demand for this service to flatten out in 2024, along with SEO and advertising, with copywriting perhaps bearing the brunt of the impact of the rise of generative AI services.

Financials

Growing Revenue Is the Main Challenge That Agency Owners Face: Business Owners Should Focus as Much on Operations as They Do on Increasing Revenue



#1 challenges for owners to manage their agency on a daily basis



Revenue was high on the priority list for agency owners in 2023, with 31.8% stating that it was their number one challenge.

That was followed closely by creating scalable operational workflows (29.5%), which Laurie says should likely have ranked above revenue growth and maintenance. She states that **it's "extremely important" for agencies to master these skills because a lack of attention given to operations hinders the agency's ability to service clients and, ultimately, grow.**



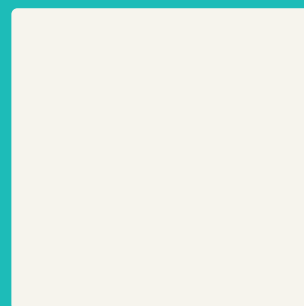
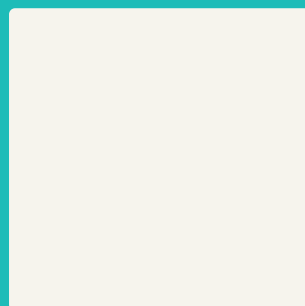
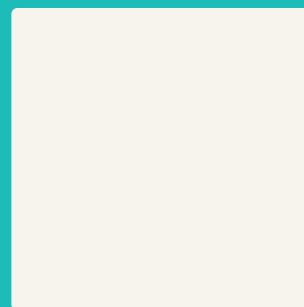
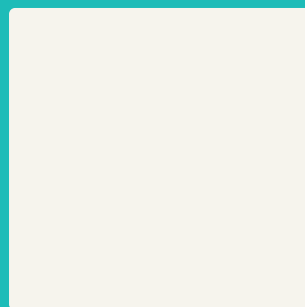
Agencies will find that implementing integrated toolsets – like Function Point and FunctionFox – into their operations can help them handle the entire workflow cycle in a scalable way that incorporates every department in their companies.



Price Increases Were a Definite Factor in Helping Companies Increase Revenue

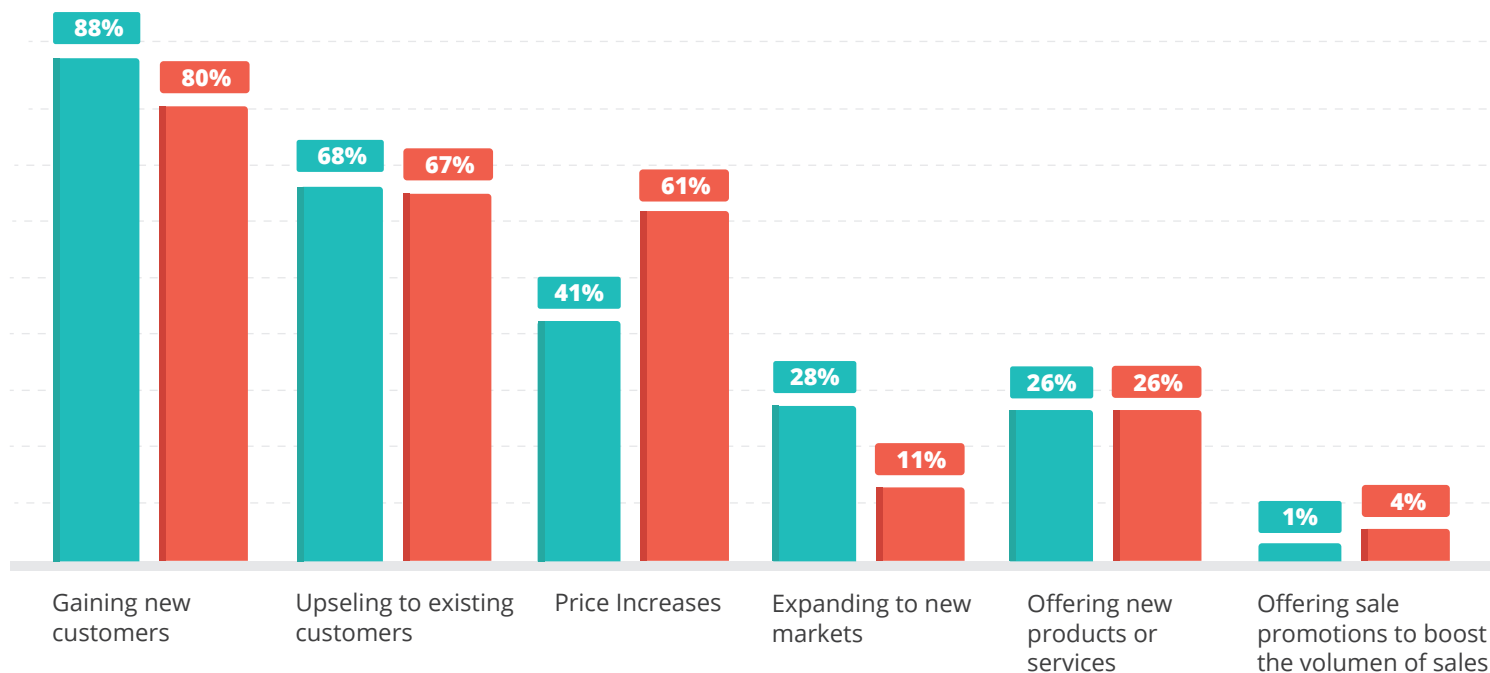
Four of the most common forms of digital marketing saw marked decreases in demand. They include copywriting (18.1% decline), web development (22.3%), SEO (19.1%), and PR & communications (26.6%).

Last year, we highlighted SEO as being a difficult offering for agencies to make because the slow-burn nature of the strategy runs counter to the desire for short-term wins that many agency clients desire, and we've seen the same thing in 2023.



What has helped your business increase revenue in the past?

2022 2023



Value-Based Pricing Is Here to Stay, Though It's Not the Be-All and End-All

Beyond adjusting prices to increase revenue, it's clear that **there's a definite trend towards adopting a value-based pricing model within creative SMEs.**

The hype of the last two years has died down, and what we now have is an established model that 47.5% of agencies are implementing. This isn't to say that other pricing models are falling by the wayside, with Retainer, Fixed Fee, and Time & Materials all seeing wide implementation. But it's clear that value-based pricing is here to stay, with agencies now facing the tough task of setting their prices accordingly, as Laurie points out:



Too many agencies set value-based prices using instinct. That often comes back to haunt them when the estimate doesn't provide enough hours or dollars to cover their time and costs.

Laurie Mikes, COO
Second Wind



With that baseline in place, agencies can then adjust their pricing based on the additional value delivered to clients. Therein may lie a challenge.



In 2024, we expect more agencies to incorporate the value-based model, with the caveat being that those that are most successful will do so by using their historical performance data to set minimum prices for their deliverables.

To set up correct value-based pricing, your agency needs to understand both the billable hours of its staff and the profitability of its clients and projects. Without those figures, you won't know whether your clients – or, indeed, your agency – are better off with a value-based model. Clear reports, such as those generated by Function Point's Business Reporting platform, are key to making appropriate pricing decisions.

Average Billable



Average Billability



The Economic Hardships of 2023 Hampered Growth for Many

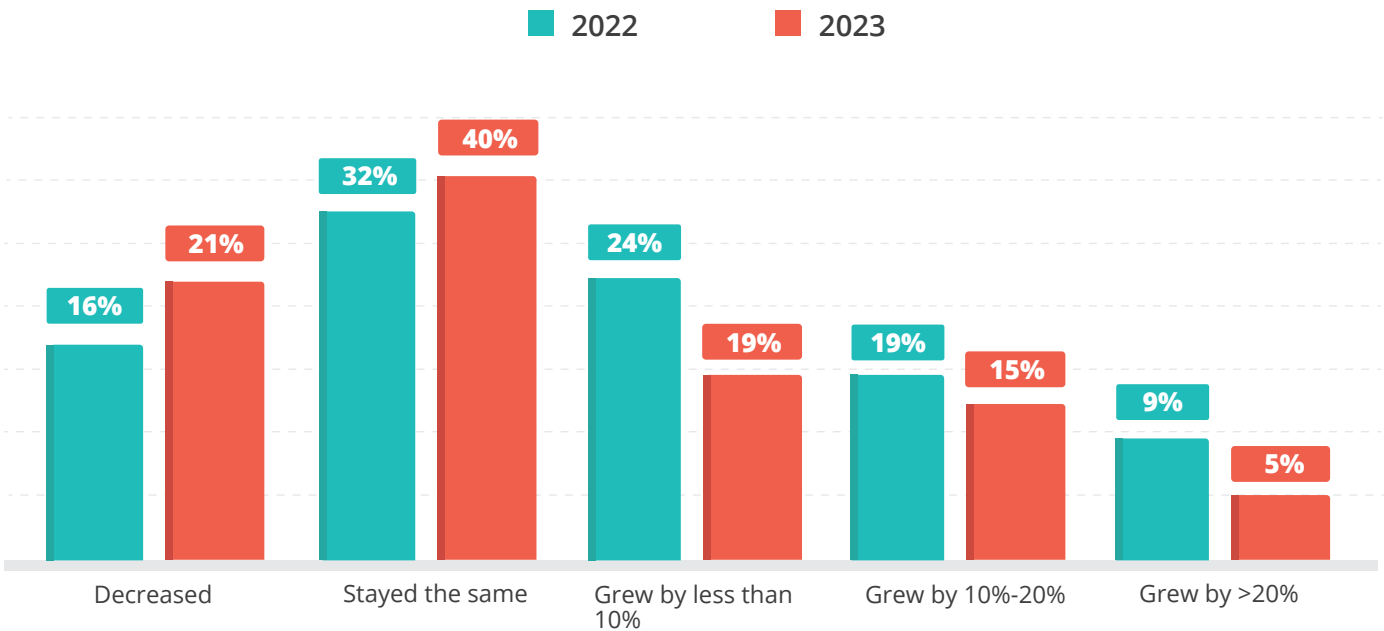
Agency Headcounts Decreased More Dramatically in 2023

Turbulent inflation levels and economic hardship most obviously reared their heads in the growth figures reported by our respondents.

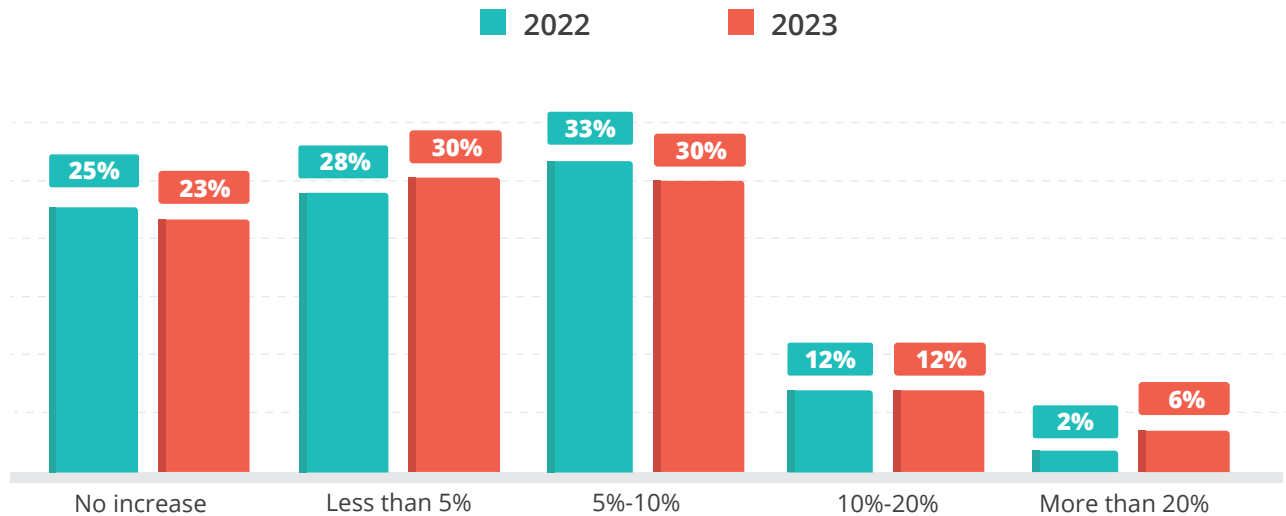
A shocking 80.39% of agencies failed to grow their agency headcounts in 2023, perhaps indicating hiring freezes being implemented across the board. However, Laurie also points out that the smaller agencies that lost staff may have done so by deciding to implement a hybrid or in-office model in place of the remote model they were forced to use during the pandemic.

Increased turnover may have been the result of employees not wishing to modify their working situation to come back into the office.

How did the headcount of your agency change?



Price increase 2022 vs 2023



Still, revenue was clearly an issue:

Over 60% of our respondents failed to increase their annual revenue, with about a third saying that they actually lost money.

Interestingly, a third of agencies losing money roughly corresponds to the number that didn't attribute revenue gains to price increases, perhaps suggesting that some agencies have been too slow to adjust to 2023's inflation, which leads us nicely to the next point.

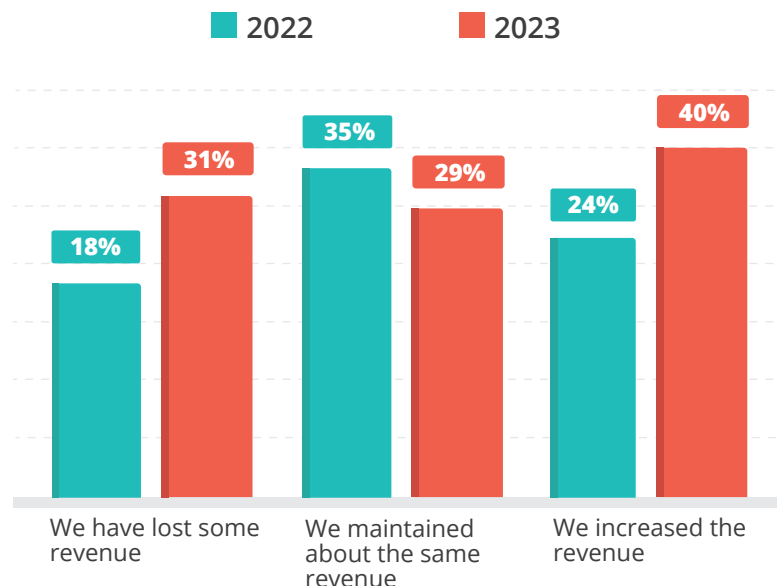
The Majority of Agencies Were Hesitant with Price Increases

It's interesting to see that price increases, assuming they occur, are generally failing to

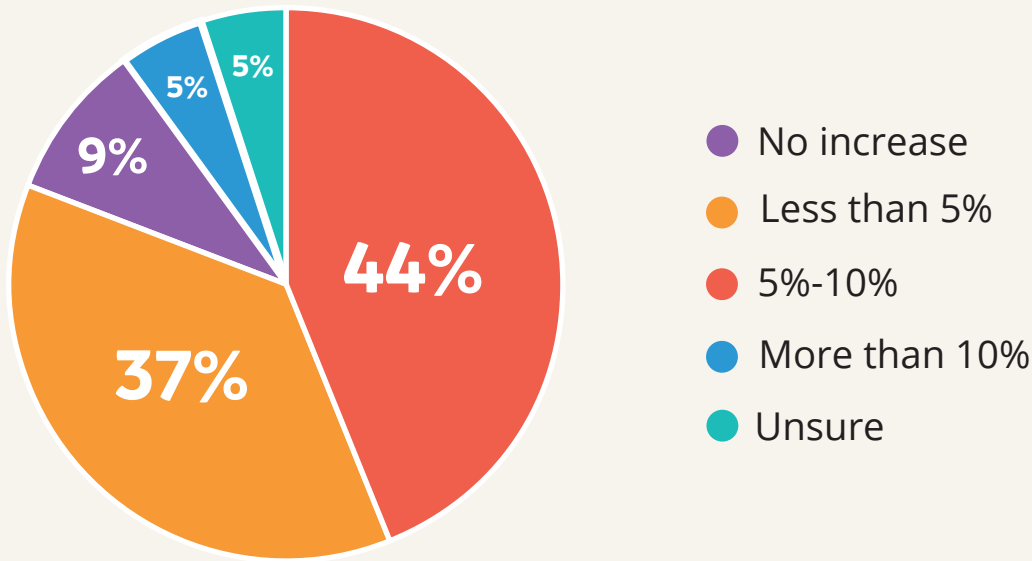
keep up with inflation.

Over half of respondents (53%) either didn't increase prices or only did so by less than 5%, suggesting that there is a pervading fear of passing on costs to clients. However, the agencies that did increase their prices by more than 5% were 45% more likely to see an increase in their revenue in 2023, suggesting that **those that didn't increase won't be able to hold back for long.**

How did your agency's revenue change?




What is the average planned salary increase for 2023?



Even a modification of 3%-to-5% typically has a positive impact on an agency's bottom line and will help the agency to operate more effectively by keeping its employees happier.

Salary increase figures for the year roughly correlate with price increase figures, as 45.6% of respondents said that they either planned to raise salaries by less than 5% or not at all in 2023.

Furthermore, only a fifth of agencies tell us they plan to increase salaries and prices by over 10% while inflation remains high. Again, **this is an indicator of fear of making changes**, though this fear could lead to unsatisfied employees who see their wages stagnating in the face of inflation.



Laurie points out that the quarter of agencies that didn't adjust their pricing should at least take a small step in 2024.

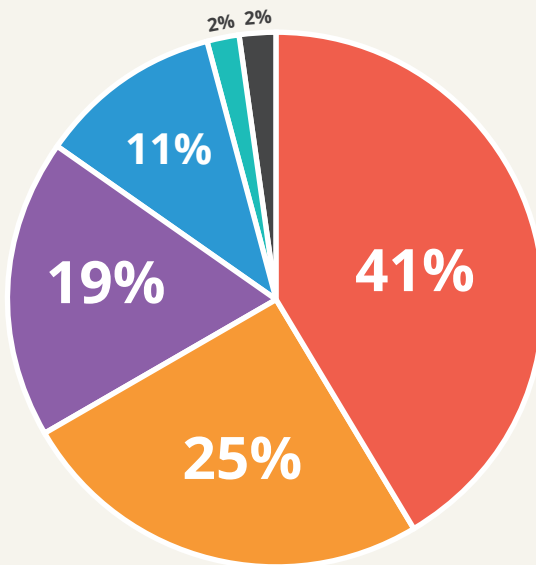


Client Relations

Agencies Can Do More to Prevent Clients From Leaving:
Switching to In-House Is the Main Reason Why Clients Leave



What is the #1 reason that existing clients continue to use your services?



- Quality of Work
- Expertise and industry
- Customer service & support
- Positive ROI on their investment
- Knowledge
- Unsure

The other reasons roughly match the figures in our last report, too, suggesting that agencies at least seem to believe that they have a good grasp on why clients leave. But is that really the case?

Where agencies may convince themselves that their clients leave because they're trying to cut costs switching to in-house, the reality may be that they're simply not telling their agencies that they're not getting the ROI they expect from the services they buy.

This could represent a focus area for your agency heading into 2024. By demonstrating the ROI of what you do – combined with emphasizing the time and cost savings you deliver to clients – you may be able to reduce churn.

Laurie says that she generally agrees that many clients leave an agency to cut their costs, but they often do so while underestimating what going in-house will mean in the long run. Momentum is lost as the client needs ramp-up time to get their in-house up to speed, essentially halting the progress the client made under their agency.

Clients switching their work to in-house may look like a cost-saving measure but, many times, it's not. Agencies need to work hard to convince clients that taking work in-house is not always beneficial.

Laurie Mikes, COO
Second Wind



This brings us back to the ROI point.



By offering more transparency – both in what you do and the results it generates – you can keep clients on board. Combining that with subtle highlighting of the true cost of your efforts, and thus the costs of taking that work in-house, may be enough to showcase your value to your clients.

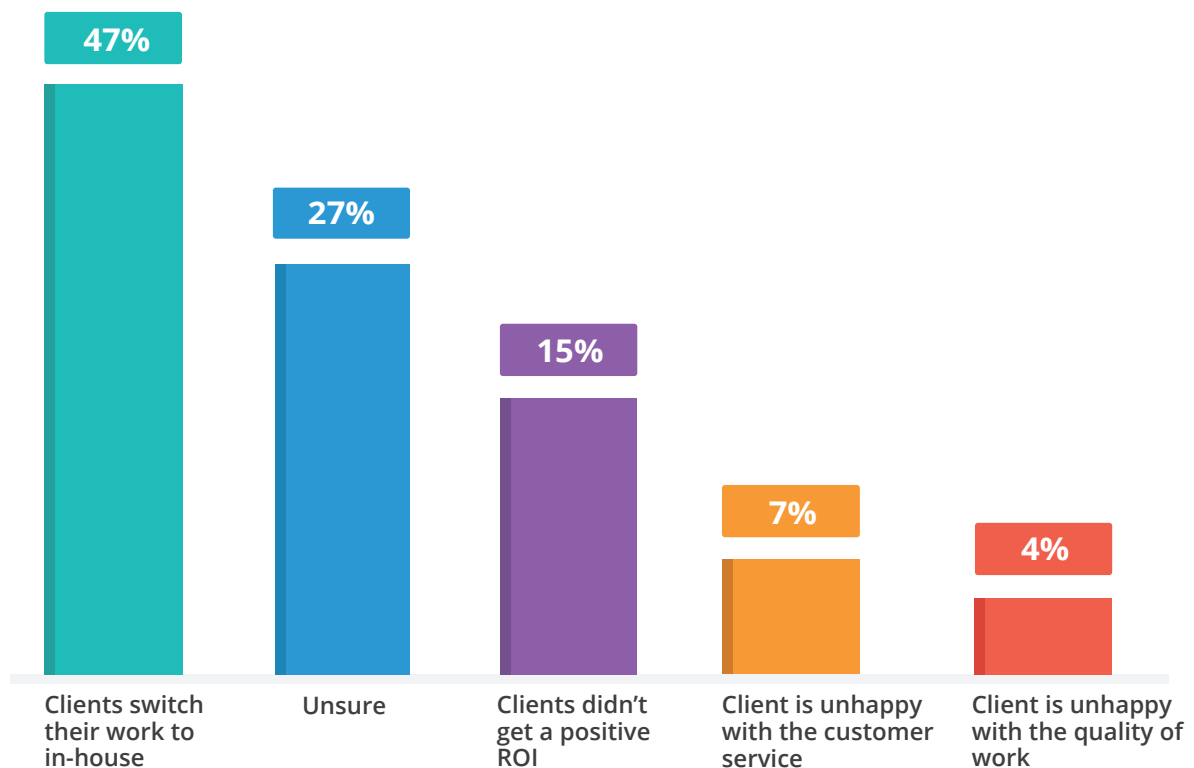
An all-in-one tool like Function Point can help with this, both by showcasing the sheer volume of work your agency does for clients and helping you to evaluate the true value that work delivers.

Why Agencies Believe Clients Stay

As for why clients stay, the majority of agencies believe that the quality of their work speaks for itself, with 41% saying that their output alone is enough to keep clients on board.

Expertise and customer service also ranked highly in our survey, though it's perhaps telling that only **10.6% of agencies believe that their ability to generate a positive ROI is the deciding factor in a client's decision to stay.**

What is the #1 reason that existing clients stop using your services?



As for why clients stay, **the majority of agencies believe that the quality of their work speaks for itself**, with 41% saying that their output alone is enough to keep clients on board.

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Consider that in terms of what we said earlier. There may be an ROI "blind spot" in some agencies, meaning that a few may underestimate just how important delivering a profit to their clients via their services actually is.

After all, consider the fact that **27.1% of respondents said that they were unsure why a client would leave**, and contrast that with the fact that only 2.2% of agencies are unsure why a client uses them. Everyone at the agency knows – or at least believes they know – why a client uses

them, but that doesn't explain why so many don't know why a client would leave.

Setting up proper processes to gather that information should be a priority to ensure agencies are as certain about their weak points as they are about their strongest.


Feedback forms and off boarding questionnaires may be suitable solutions to the lack of certainty. Plus, they may reveal that our earlier speculation about clients not admitting that they leave because of poor ROI is true.

Formal Processes and Client Satisfaction

Diving deeper into agency-client feedback processes, it's clear that a lack of formality in information collecting is a barrier for many SMEs. The majority rely on phone calls and emails to figure out where their relationships stand with clients, as 72.9% say they'll use these methods for checking in or asking about performance directly.

What do you do to track client satisfaction?





Diving deeper into agency-client feedback processes, it's clear that a lack of formality in information collecting is a barrier for many SMEs.

The majority rely on phone calls and emails to figure out where their relationships stand with clients, as 72.9% say they'll use these methods for checking in or asking about performance directly.

That's not necessarily a bad thing. Having regular check-in calls with clients is a good way to gauge how they're feeling about your service, meaning your customer service personnel should continue making those calls regularly. However, **making calls and sending emails should be an addition to your client relations strategy, rather than the whole thing.** People give more honest feedback in writing than they

do face-to-face – or when speaking directly to you by phone – meaning your calls may not paint the truest picture of how your clients feel about your service.

Customer surveys are often more effective at gauging your relationship, with phone calls being useful to gain context on the answers your clients provide.

Yet, you'll notice that only 13.8% of our respondents use customer surveys to gauge progress, meaning the majority miss out on a useful method for “breaking the ice” about issues a client might have. If yours is one of the agencies that doesn't use surveys – or one of the 12.8% that do no client satisfaction tracking – Laurie offers some useful insight into how you can build them into your processes.

“

An end-of-year survey to all clients offers the opportunity for more in-depth questioning on a variety of areas about agency performance.

Laurie Mikes, COO
Second Wind

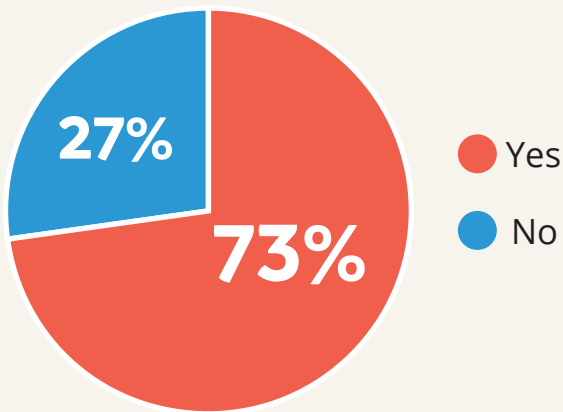


Laurie points out that **running these surveys consistently for all clients allows you to create historical records that enable you to see performance trends and how they change from year to year.** Increased clarity is the result, meaning fewer agencies would be “unsure” about why clients leave – they'll be able to see why in the data.

Over-Servicing in Agencies

Compared to last year's report, we've seen an increase in the number of agencies that believe they're regularly over-servicing clients:

Are you regularly over-servicing clients?



Are you regularly over-servicing clients?

■ Not Overserved ■ Over-served



Siloed Tools

Integrated Tools

The 72.9% who highlight that over-servicing was a problem in 2023 is a fairly significant increase from the 69.6% who said the same in 2022, and it shows us that the economic uncertainty that pervaded in 2023 has had an impact elsewhere.

Agencies are scared of losing clients. They're going above and beyond – doing unpaid work in the process – to keep clients happy, especially if they've raised prices to deal with inflation.

But as we also found last year, the tools the agency uses have a huge impact on the over-servicing issue.

Those using all-in-one tools are less likely to over-service than those that go down the manual or multiple-tool route.

All-in-one tools aren't perfect. As you can see, about two-thirds of the agencies that use them still feel that they over-service their clients. But putting them in place is a good start for confronting the myriad of issues that could result in doing too much for your clients.

These tools offer transparency across every department involved in your agency's operation, providing you with insight into where inefficiencies and lack of proper processes could be cutting into your revenue. In short – **all-in-one tool leads to better communication and workflow.**

An agency that uses all-in-one tool is twice as likely not to over-service their clients as one that uses a scattershot of tools or that uses a manual approach to try and stay on top of the information flow during a project.

There is really no need for agencies to be over-servicing accounts regularly. Over-servicing is a direct result of poor operational processes and oversight.

Laurie Mikes, COO
Second Wind



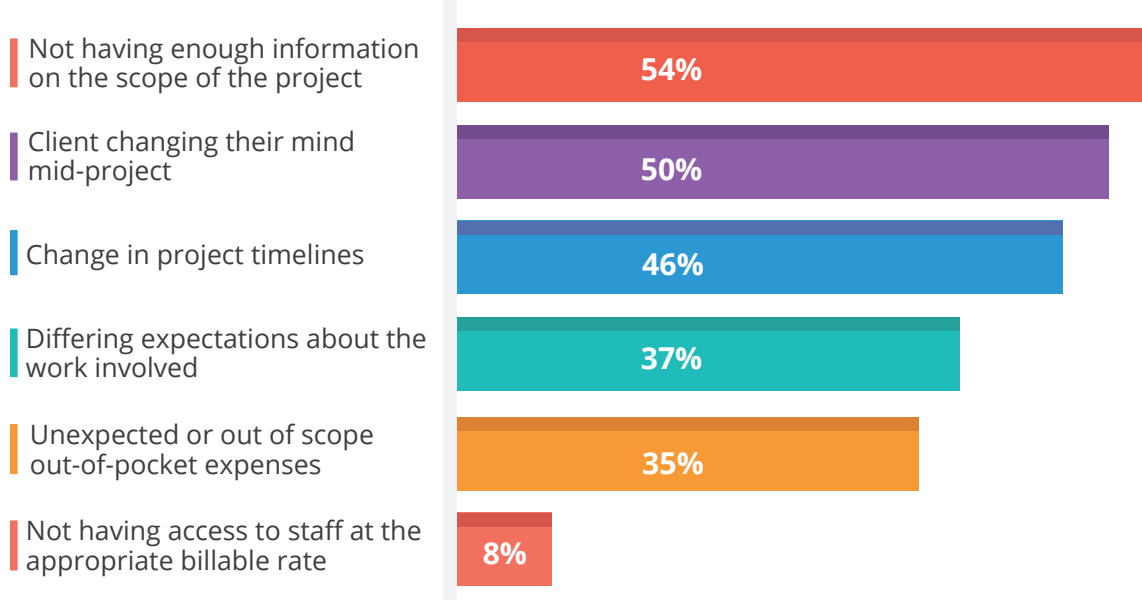
Laurie also highlights that many agencies may not understand the reasons why they over-service and, worryingly, **many need to recognize that over-servicing means they're losing revenue that may be extremely difficult to recoup in the future.**

That's where the issues with manual and multiple tools come in. It's tougher to create defined processes around these approaches because **there are so many variables at play that you may not catch over-servicing as it's happening.**

An evaluation of all processes – from job inception to delivery – is needed to confront the over-servicing problem. That evaluation will also help your agency determine an all-in-one tool that offers the functionality needed to keep your departments in touch with each other so they can reduce over-servicing to a bare minimum.

Improve Client Communication

What are the challenges of accurately quoting clients?



When we delve into our productivity figures later in the report, you'll see that **inaccurate project scope and changes in a project's scope are the top two barriers to completing projects on budget.** Those two issues account for 50.6% of all overruns, which shows us that quoting is still a challenge for many agencies. Thankfully, **these are both issues that can be overcome with appropriate estimate platforms, such as Function Point's CRM for Agencies.**

We also see this in our quoting challenges figures. How can you give an accurate quote if the work for which you're quoting is so fluid?

Not having enough information is also a major concern with 54.3% of respondents pointing out that they simply don't know

Almost half of our respondents (49.5%) pointed to clients changing their minds about what they want mid-project as being a main challenge when providing accurate quotes.

enough about the client and their project to deliver an accurate quote. This suggests there are communication issues at play similar to those we see in the agencies that don't fully understand why their clients leave.

In fact, five of the six challenges our respondents named as being key to inaccurate quoting have to do with project scope, with only one – not having access to staff at an appropriate billable rate – being a barrier. **The key to overcoming this challenges relies one on thing:**

Communication, communication, communication

Of the agencies surveyed, 68.1% say they set weekly or bi-weekly meetings with their clients to go over a project and its scope. A similar number say they set clear deliverables from the outset, with the meetings likely being used to reinforce those clear deliverables and prevent clients from getting any big ideas about getting more work without paying for it.

Almost half (47.3%) say that they reinforce the expectations they set initially with reminders about what those expectations are. While that’s a solid number, it also

means that **over half of agencies don’t do enough to subtly remind their clients that the project has a scope and that they’ll only be receiving X for their payment, rather than X, Y, and Z.**

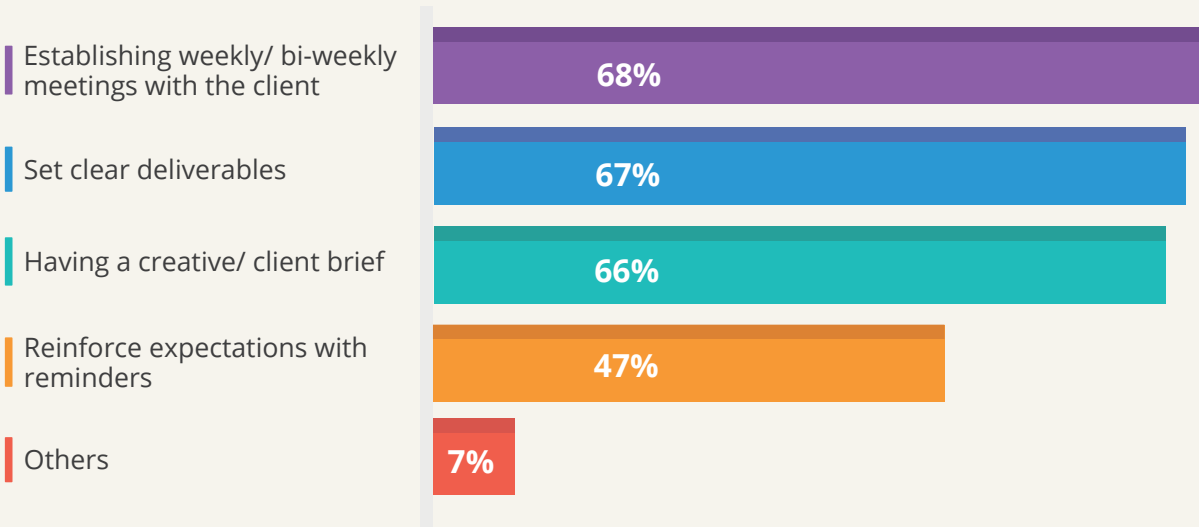


We’d like to see more agencies taking control of expectation reinforcement in 2024 by overcoming the fear of “upsetting” a client by ensuring that client knows exactly what their money pays for.

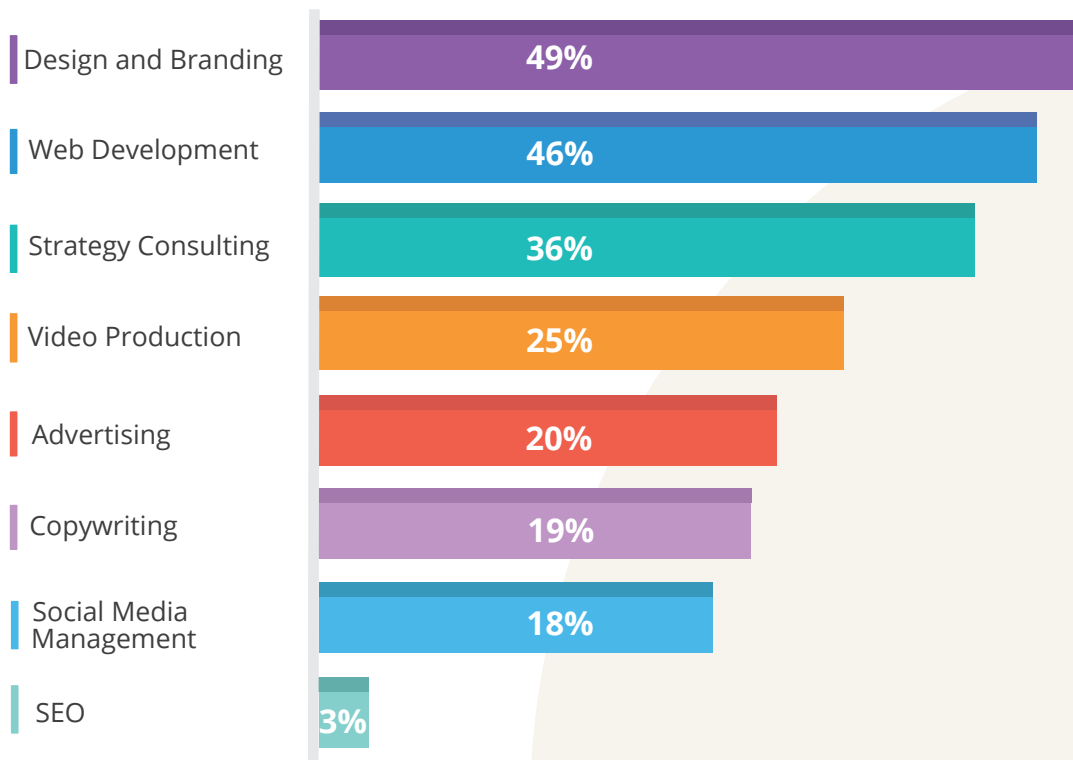
Focus on Services That Are Prone to Over-Servicing

Even agencies that set clear expectations from the outset will still see challenges with over-servicing, with those challenges varying depending on the type of work carried out:

Main techniques to better set and understand client expectations



Main services with over-servicing

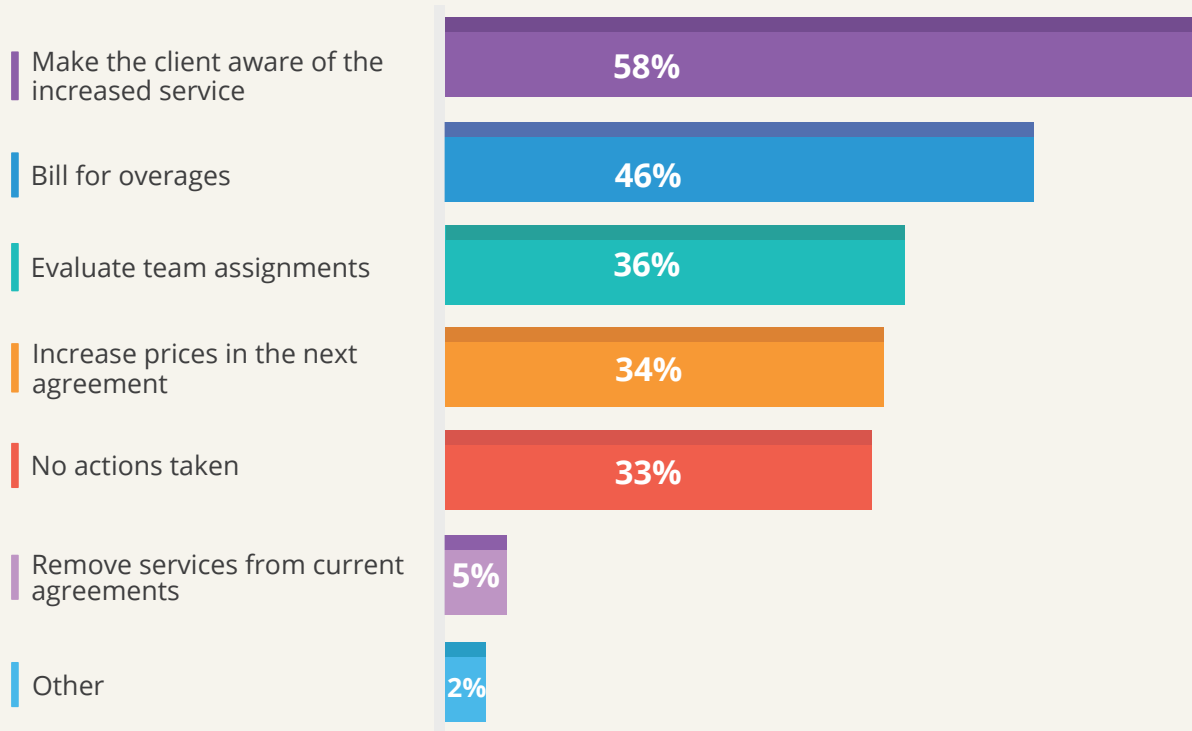


Almost 50% of our respondents point to design and branding as the biggest culprit for over-servicing, with clients perhaps expecting endless revisions – for free – until they get exactly what they want.

Laurie points out that the number one culprit of over-servicing is the endless rounds of revisions done on design work, and we see that manifesting in our results. While some may argue that the client should be entitled to get those revisions, constant changes to the original project scope often lead to these revision requests.

We see similar issues in web development, with 37.2% of agencies highlighting that as the type of work that leads to over-servicing. Interestingly, SEO rarely sees agencies offering more than they promised, suggesting that a service that clients can't actively see forming in front of them is less likely to be prone to scope creep.

Main tactics to address over-servicing



Thankfully, many of our respondents deploy tactics to confront the over-servicing issue.

Consider these responses to be a blueprint of what you can do to address over-servicing in your agency:

Enhance Awareness #1

When a client asks for more than they're paying for, making them aware that the scope of the project is creeping outside of its initial boundaries. Over half (58%) of our respondents do this, and **that awareness can either prepare the client to pay more for the extra work they require or stick with the project as it was planned initially.**

Evaluate Assignments #2

Clients aren't always the chief source of scope creep, as 35.6% of our respondents highlight. **Over-servicing can happen because members of your team may be doing more than you need them to do.** After all, they think that doing more will keep your client happy. That's admirable, but it's a situation your agency needs to manage to evaluate each team's assignments.

Charge When You Go Over

#3

The more that you over-service without charging for it, the deeper the expectation you set with your client that you'll always over-deliver. Though it's a scary action to take, **billing when you do more – as 45.7% of our respondents do – is a reminder to clients that they can't simply change scope mid-project for free.**

You'll also see that 34% of agencies take the somewhat crafty approach of increasing prices in their next agreement with the client. While that may work to recoup lost revenue, it relies on your client sticking with you for the next piece of work that they need. Plus, you're not confronting the over-servicing issue head-on. You may get a little more for the next project, but the scope creep that plagued the previous project will remain.

Finally, we need to highlight the "No Actions Taken" figure – **33% of agencies simply do nothing when they realize that they're over-servicing.** That's scary because it

suggests that agencies are so worried about losing their clients that they'll accept being overworked (and underpaid) for the sake of keeping the client happy. Again, that sets an expectation for future work.

Don't be afraid to utilize the tactics highlighted above to confront over-servicing and set appropriate expectations for your clients throughout 2024.

If you over-service on today's project, the client expects you to do the same on tomorrow's work.

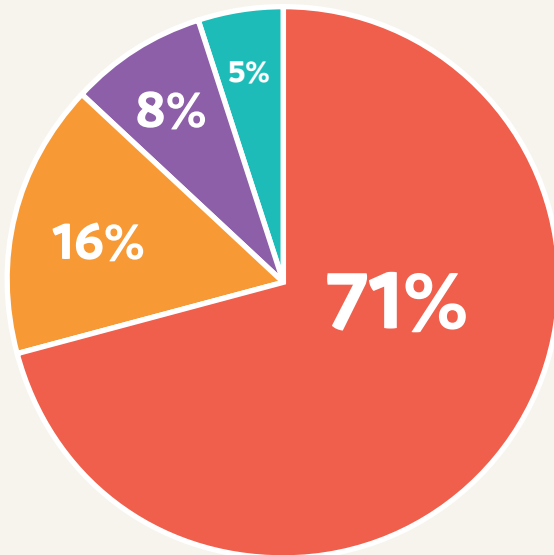


Productivity

The Role of Time-Tracking in Agencies: How Many Agencies Use Time-Tracking?



What is the time tracking culture at your agency like?



- We track time on all projects & tasks
- We track time on most projects & tasks
- We track time for some projects & tasks
- We do not track time

We've just discussed how evaluating team assignments can be a good way to avoid over-servicing, and time tracking is something that can be built into these evaluations.



By understanding – and, to an extent, controlling – the amount of time their people spend on tasks, agencies can improve productivity and eliminate wastage.

Happily, the majority of the agencies we surveyed so that they track time on every project and task assigned, with 71.06% saying they have a strong time-tracking culture. Only 4.82% say they do nothing to track time at all. That's obviously problematic but, as Laurie points out, the

majority of agencies are going it and will reap the benefits of this cultural move by gaining insights and data into how their people work.

So, it's great to see so many agencies tracking time, but **our survey also revealed that teams within agencies may not be as accurate at tracking time as owners need them to be.**

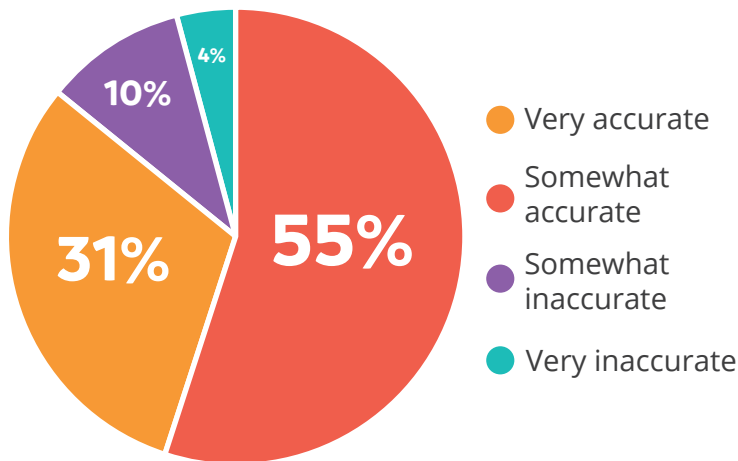


If we do not track how we are doing, we are unable to make educated decisions about the future of our businesses.

**Laurie Mikes, COO
Second Wind**



How accurate is your team at time tracking?



Just under a third say that their people are “very accurate” when tracking their time, with the other 69.2% saying they’re either somewhat accurate or generally inaccurate. That’s a clear challenge for agencies, especially those on the smaller end of the spectrum, that need to get their people focused on value-creation activities because **poor time tracking can lead to too much effort being spent on tasks that perhaps don’t require it.**

Laurie points out that education, both in why time tracking is important and how to properly implement it, is the key to bumping up the accuracy figures.

“

Agencies should strive to implement bi-weekly or monthly reviews of time entry to look for trouble spots, missing data, or inaccurate entries.

Laurie Mikes, COO
Second Wind



Regular tracking helps to keep your employees on course so that they provide better data. **The results are insights that can inform the decision you make about hiring, workload, accuracy of estimating, and account service trends.**

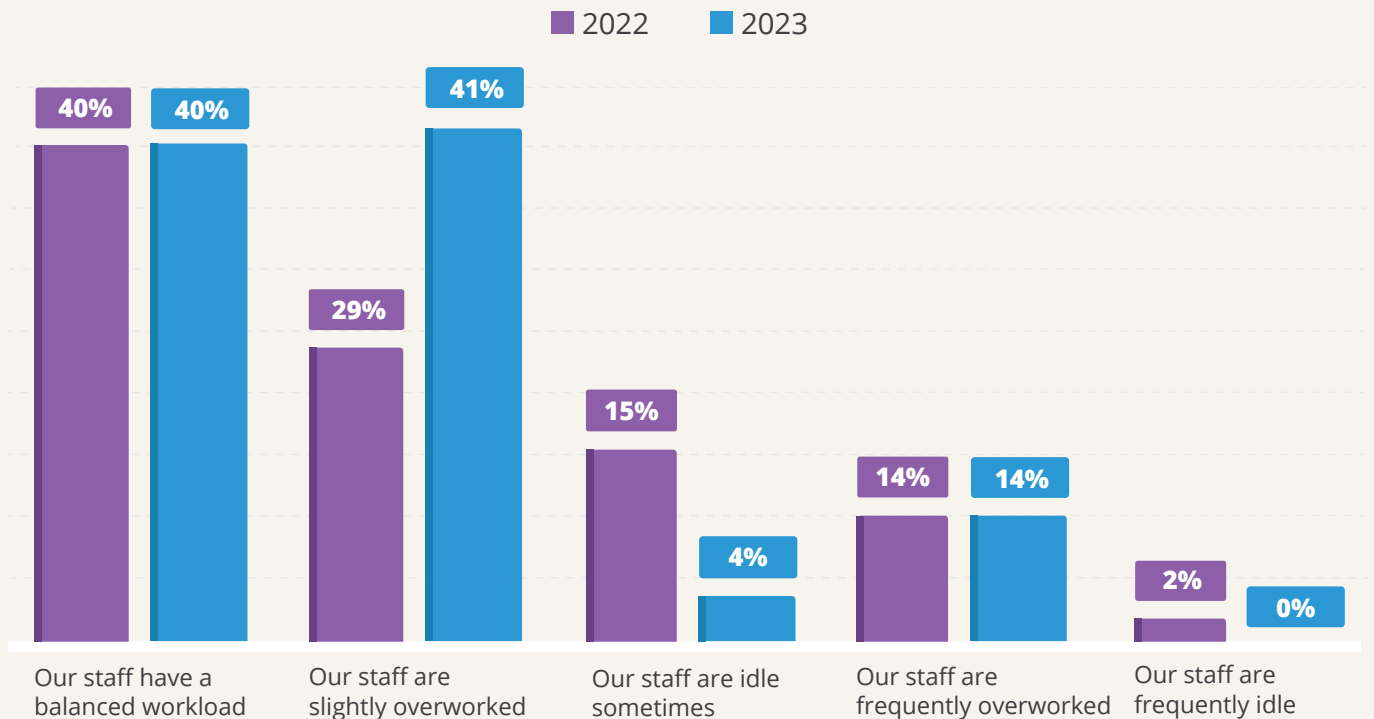
Balancing Employee Workloads

One caveat to the time-tracking wins we’ve seen in 2023 is that agencies are realizing that they may be overworking their staff more than they did in 2022.

Compared to last year, when 42% of employees said they were either slightly or frequently overworked, 2023 has seen a 13% increase in those sentiments.

Agencies are realizing that they may be overworking their staff more than they did in 2022.

What is the employee workload like at your agency?



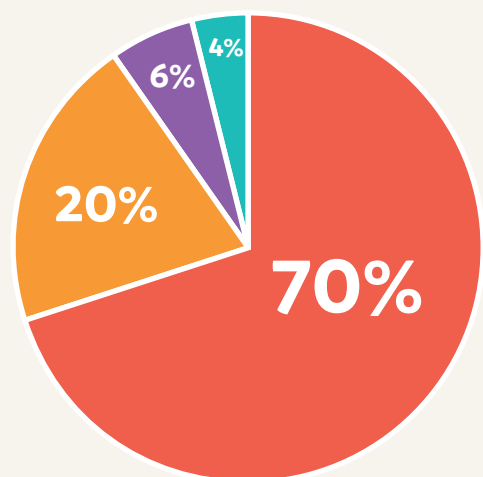
That is a cautionary message to agency owners. While we encourage time tracking and similar steps to ensure employees are making the most of their time, you need to keep the overworking problem in mind when pushing your staff to overcome the economic hardship the industry is confronting right now.



The over-servicing issues we highlighted earlier should be a priority as you can reduce the workload on your people by doing more to set client expectations, so your people aren't expected to do "free" work at the behest of your clients.

On-time Project Completion Trends

What proportion of your projects finish on time?



- Most projects finish on time
- Some projects finish on time
- Some projects do not finish on time
- Most projects do not finish on time

There's a definite increase in the number of projects finishing on time in 2023 compared to 2022 when we saw 52.7% of agencies saying that most of their projects finish on time. Interestingly, we also see a reduction in the number of agencies saying that some of their projects finish on time, with 34.8% in 2022 falling to 20.2% in 2023.

That suggests that **many of the agencies that were in the “some” category last year have improved to the point where most of their projects now finish on time**, which is a good sign. Perhaps they've started using **platforms that help them to automate workflow, such as Function Point's Project Management for Agencies software, to drive efficiency.**

We also see a reduction in the number of agencies that told us that some or most of their projects don't finish on time. Last year, it was 12.5% overall, whereas this year it's 9.6% total. Granted, that's a small decrease, but when combined with the increase in agencies saying most of their projects finish on time, we see a definite positive trend.

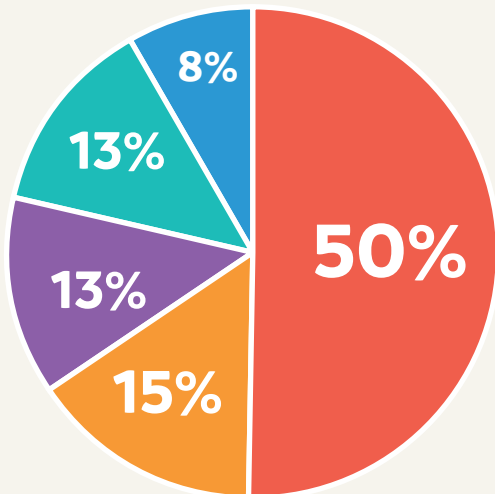


Scope Issues and Their Impact on Revenue: Client Challenges Affect Project Completion

Building from the above, it's clear that challenges related to clients are the chief cause of projects failing to complete on time. Over 50% of our respondents say that clients create delays by failing to provide the information needed for the project quickly enough, while 15.11% say that changing scopes leads to delays and, potentially, contributes to the overworking challenges we just mentioned.



#1 barrier to completing projects on time

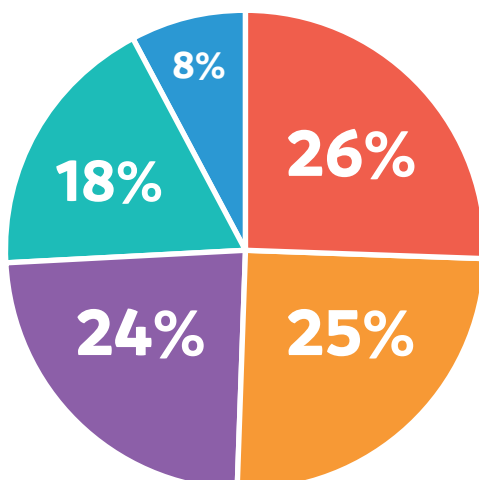


- Miscommunication between staff/departments
- Lack of resources
- Poor project planning and management
- Change in scope of work
- Client not providing information in a timely manner

Laurie recommends implementing a process to help clients provide information faster by giving the client a task list that highlights the deadlines you've attached to every project or program. You essentially make the client a more involved participant in the project by demonstrating their responsibilities and reinforcing that a missed deadline on the client's end means you can't guarantee your agency's deadline.

If that seems confrontational, Laurie also recommends tempering any conflict that may arise by ensuring the client knows that you can assist if they're unable to gather to necessary information and assets. However, that may require an additional estimate – perhaps one related to research and information gathering – and you need to be upfront if you intend to charge for this service. But ultimately, you're looking to **speed up project completion through communication with your client.**

#1 barrier to completing projects on budget



- Miscommunication between staff/departments
- Poor project planning and management
- Clients not providing information in a timely manner
- Change in scope of work
- Inaccurate project scope



Scope Issues Creates Budgetary Issues

Naturally, issues with project scope and client demands have as negative an impact on budgets as they do on time. Inaccurate project scope – which may be an issue both in how agencies quote projects and what clients claim to require – was named the number one barrier to on-budget project completion by 25.6% of our respondents.

Similar numbers highlighted changes in the scope of work and failure on the client's part to provide information in a timely manner as their number one obstacle.

These figures reiterate the importance of locking down the scope of a project and establishing responsibilities early to prevent projects from mushrooming out of control. As Laurie points out, **the client and agency need to agree to a scope, along with all associated costs, before work begins, with any work outside of that scope being billed accordingly.**

This is where your account team earns its keep.

“It’s the responsibility of the account team to ensure the scope is clear and approved before work begins. They’re also responsible for informing the client when work is out of scope and providing a new estimate.

Laurie Mikes, COO
Second Wind



Granted, it’s always difficult to have these types of conversations with clients.

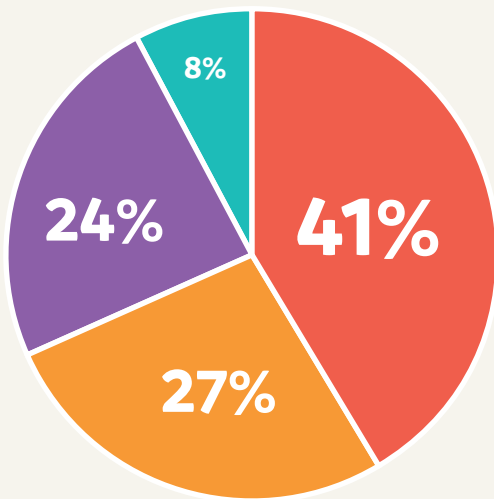
However, we believe that setting expectations for the project from the kick-off means that the conversations, though challenging, won’t come as a surprise to clients who ask for more.

Technology

Trends in Agency Tool Usage: The Typical Agency Tool Stack



What best describes your tool stack?



- We use more than 3 siloed tools that do not integrate with each other
- We have 1 or 2 single software solutions that satisfies the majority of our needs
- We use more than 3 siloed tools that are well integrated with each other
- We use manual systems (emails and Excel mostly)

Last year, we made the statement that *“a strong tech stack is the bedrock of any modern creative agency,”* and found that a little over a third of agencies were still a long way away from the efficiency required in 2023.

Unfortunately, the picture hasn’t changed much. We see that 41.43% of agencies have over three siloed tools that aren’t integrated with one another, which is an increase over the 30.8% who said the same last year.

That’s a problem as it indicates a trend toward buying individual software packages ahead of all-in-one solutions, which Laurie says is a major disadvantage to an agency.

It not only takes hours to manage multiple systems, but the chance of mistakes increases and there is a lack of usable integrated data.

Laurie Mikes, COO
Second Wind



Your aim in 2024 should be to operate as few systems as possible and, crucially, to ensure that the systems you do have are capable of “talking” with one another.



Implementing a solution like Function Point helps you to control the chaos caused by siloing by essentially eliminating the siloes while providing the means for all of your departments to communicate with one another.



Project and Task Management Tools

With good systems being vital to the success of small and medium-sized agencies, teams should utilize as much tech as possible to enhance productivity among all departments. Our respondents produced an unsurprising result by ranking project and task management tools ahead of everything else as these tools help them to keep an eye on workflow.

What tools are the most useful in increasing productivity for your team?

Project & Task Management

#1

Time Tracking

#2

Digital Asset Management System

#3

Project Budgeting

#4

Resource Management

#5

Expense & Invoicing

#6

Proofing

#7

Job/Client Request Portal

#8

“

The volume of work that agencies produce continues to increase year over year. Processes and systems designed to help agencies effectively manage deliverables and deadlines are imperative.

Laurie Mikes, COO
Second Wind

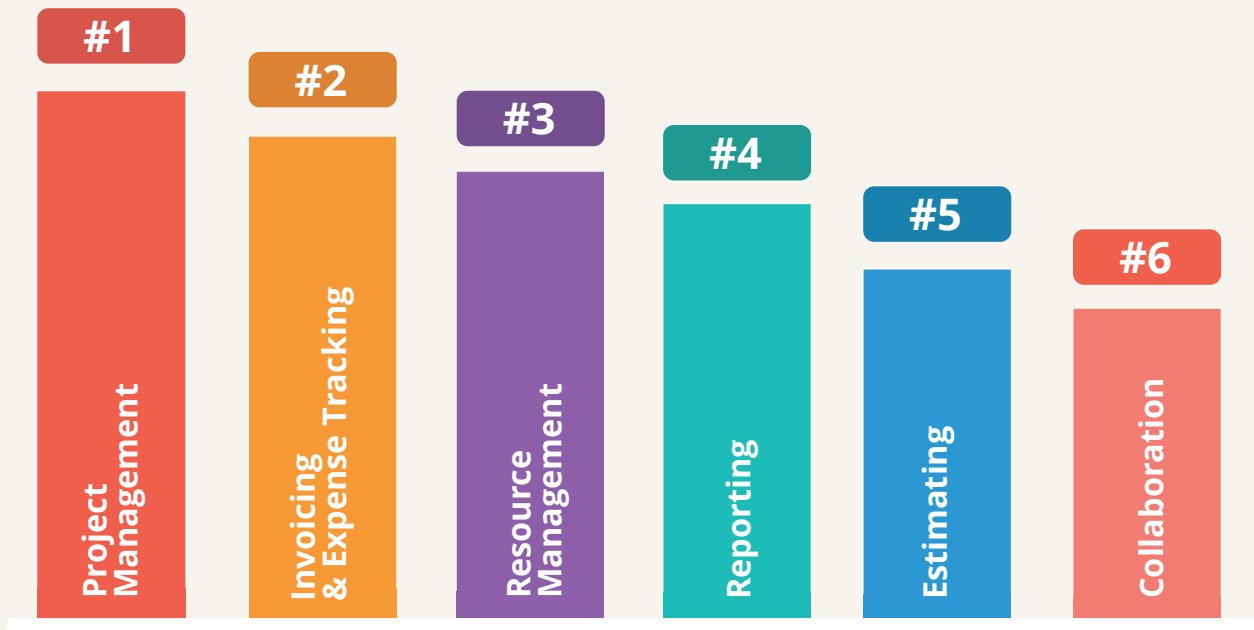


There are plenty of reasons why. Losing track of your projects while they're in progress leads to lost eyes and compromises the level of service you offer to clients, with both combining to ultimately slice a chunk out of your profits.

It's also good to see time tracking rank so highly in agency priorities, and we believe the improvements we say to time tracking earlier in the report are a direct result of increased implantation of time tracking automation software. The same goes for project budgeting, though it would be nice to see that coming into deeper focus for agencies in 2024 to confront the scope issues mentioned in the Productivity section of the report.

When it comes to automation, project management led the way again.

#1 functions agencies want to automate the most



We see that there's a clear link between the tools that agencies find most useful and the tasks they wish to automate, with project management topping the list.

It's also good to see that invoicing and expense tracking are the second-highest in the automation desired results, as that showcases that agencies are at least aware of budgetary issues, even if they don't necessarily find project budgeting tools to be the most useful in their arsenals.

However, Laurie indicates that implementation of these automation tools is the key challenge holding many back from adopting them, despite their desires.

Though the days of paper job jackets may be long gone, agencies still struggle to unlock the full functionality of the tools available to them to automate tasks that take up large chunks of time to complete manually.

The functionality is available, but many agencies don't fully embrace their systems, causing gaps in their processes.

Laurie Mikes, COO
Second Wind

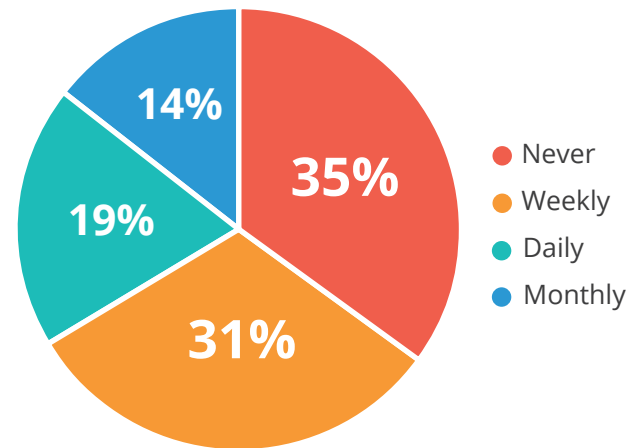


Going forward, agencies first need to determine whether the systems they have in place are actually right for their teams. Replacements may be needed, as an incompatible system is one of the chief causes of a team failing to get the most out of the tech that's available to it. From there, Laurie says that fleshing out processes and spearheading full implementation of the system across all departments become the priorities.

Change is difficult and agency leaders may have to guide their employees as they try to shelve old habits in favor of new processes. That's where the designation of the team itself to oversee the refinement of processes and implementation of systems comes in – teams get ownership and agencies have a better chance of achieving improved automation within their workflows.

Rise of AI: Trends in AI Usage

How often do you use AI tools in your day-to-day?



Given that the initial impression of generative AI was that it would be a threat to creative industries, it's interesting to see just how many have incorporated the technology into their workflows. Almost two-thirds of agencies utilize AI in one way or another, with 31.5% using it weekly.

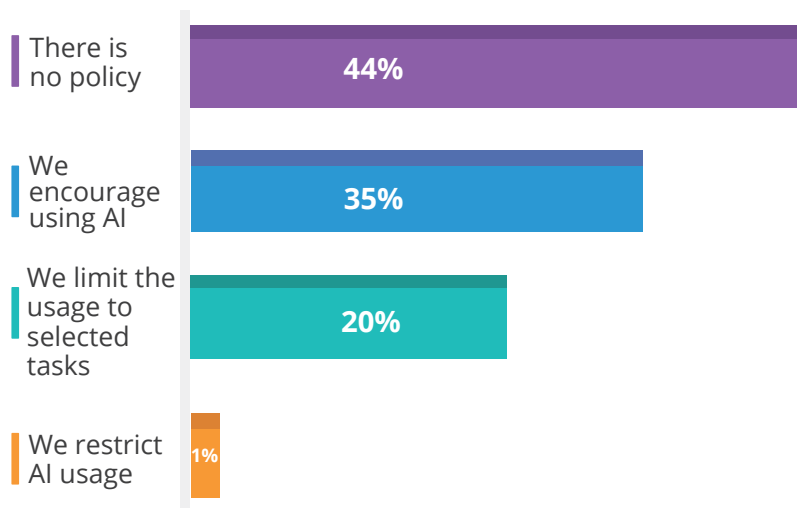
That shows us that agencies are adapting to the continued evolutions of this tech, perhaps positioning themselves as experts in getting the most out of it to counter the possibility that clients might use AI to take more work in-house.



The message is clear – your competitors are embracing AI, and your agency must do the same to avoid getting left behind.

Still, there’s work to be done on the AI front, as many agencies don’t have defined policies on how to use the technology:

What is the policy for using AI at your agency?



Despite about two-thirds of agencies using AI, 44.2% admit to having no official policy on it, suggesting they’re taking a “use it when it’s relevant” approach.

Laurie also mentions that agencies may be having trouble finalizing official policies because AI is evolving constantly, so a policy written today may be outdated tomorrow. She says that facilitating open dialogue with employees about the use of AI in their work is the key.



Each agency must discuss what AI tools they might use, how they plan to use them, the risks associated with using them, and whether clients will be informed of their use.

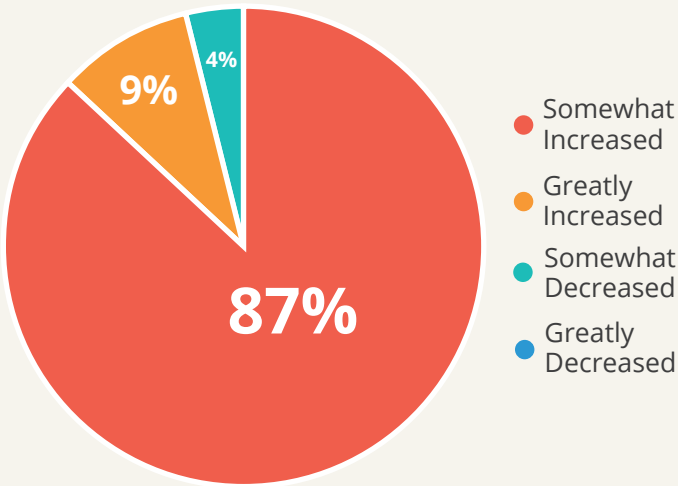
Laurie Mikes, COO
Second Wind



The last point is especially vital, as clients may feel “fooled” if you’re using AI to create work without their knowledge, meaning they might start asking why they couldn’t just do it themselves. The specific answers may be different for every agency, but holding off on the discussion could have unintended future consequences.

The Impact AI Has on Agencies

How has the use of AI impacted your agency’s efficiency?



The overwhelming majority of our respondents say that using AI has increased efficiency – 96.3% in total – which seems crazy at first. But, as Laurie suggests,

AI was created to mimic the problem-solving and decision-making abilities of humans, meaning it shouldn't be a surprise that it helps them to become more productive.

Efficiency increases are seen in copywriting, planning and placing media, reporting, and executing secondary research, though it's important to remember that the tech is still in its infancy.

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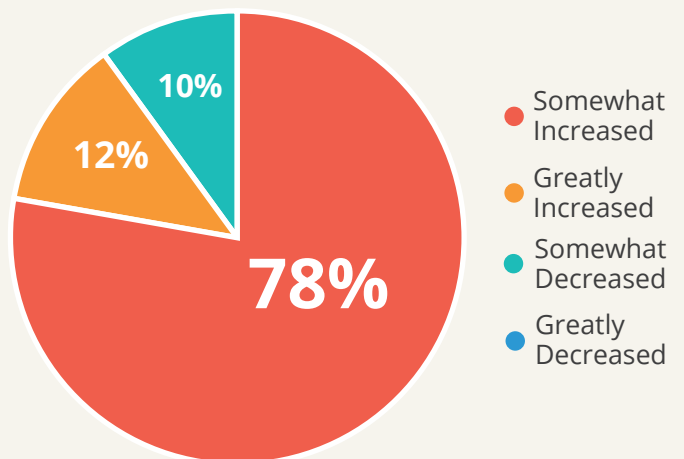
It's wise for agencies to experiment with the technology but keep in mind that AI is a long way from being perfect.

Laurie Mikes, COO
Second Wind



Potential issues going forward could include copyright and trademark infringement on materials that the AI may use to create its work, meaning cautious steps forward are the way. **Still, by embracing AI, your agency may not just see an increase in efficiency, but an associated rise in quality:**

How has the use of AI impacted your agency's quality of work?





Nearly the same number of respondents who said that AI improved efficiency also stated an increase in quality, with 90.3% seemingly happy with their results.

However, the 9.7% who say they saw a decrease showcase the need for caution, as improper implementation – or choosing the wrong tools for the job – could result in agencies investing in AI tech that doesn't serve the needs of themselves or their clients.

When we asked our respondents which services benefit the most from AI, the answer was clear – **44% said they use it for copywriting.**

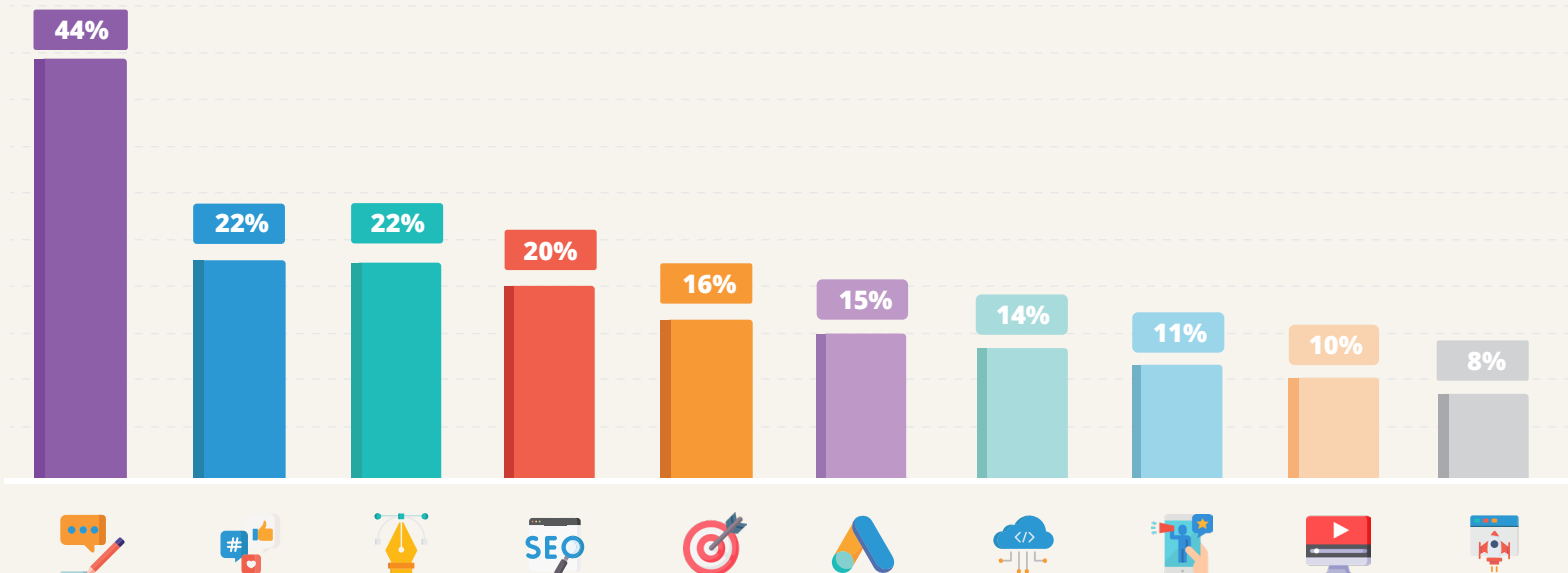
It leads the pack, with double or triple the number of users than any other service.

While you may immediately assume that agencies are relying on AI to generate the copy they deliver to clients, there's also a subsection that may be using it to detect when AI is being used by their internal writers, thus ensuring they (and their clients) receive full value when they call their content human-written.

Beyond that, we see a fairly even spread across other services, though SEO, social media management, and design and branding eke out ahead. Neither is especially surprising, with AI being useful in the latter service to help come up with templates and ideas that designers can build upon.

Which of the following areas of your business utilizes AI?

Copywriting SM Management Design & Branding SEO Strategy & Consulting Advertising
Web Development PR & Communications Video Production Marketing Automation



Final Thoughts

Economic Hardship Colored the Creative Industry, But Tech May Be a Light at the End of the Tunnel

The economic uncertainty and inflation issues we discussed in last year's report came to bear in 2023. **Agencies found themselves struggling to adapt their prices, with many either not raising prices at all or only doing so at a rate that didn't keep up with inflation.**

There have been some negative consequences of this economic uncertainty that we can't overlook. **Employees are generally feeling more overworked than they were last year, with pay stagnation perhaps playing a part in declining motivation levels.**

However, you'll also see evidence of how the more forward-thinking agencies that we surveyed are confronting these problems.



Those who accepted inflation as a reality and communicated that fact to their clients were able to increase prices and ride the turbulent economic waves of 2023 to the point where they were more likely than those who avoided price increases to generate more revenue.

Tech is also a shining light for agencies, both in terms of how it can enhance procedural efficiency and become a tool for creating high-quality deliverables for clients.

We've seen many agencies embrace generative AI – particularly in the copywriting sphere – rather than treating it as the bogeyman that could bring them down in 2023. That bodes well for 2024.

Agencies have the opportunity to position themselves as AI experts.

Perhaps that is the route your agency will take in 2024.

Regardless, the findings of our survey can be your agency's health barometer, with each result serving as a benchmark that helps you to see what others in your industry are doing. Use them to **see how you can adapt your own approach to overcome economic turbulence while embracing a technological revolution that looks set to change how we all do business.**

Of course, Function Point is here to support you every step of the way. If you can see a course of action that you need to take due to this report, but need somebody to help you steer the ship, **we're here to deliver an all-in-one solution that helps with everything from project management to tracking your agency financials.**

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