



2020 Digital Services Outlook

Owners reported a solid 2019 and are optimistic about 2020. This report connects the drivers and expectations for the coming year.

About This Report

This report is a joint project between the Bureau of Digital and Promethean Research.

The objective for this report is to provide a high-level understanding of the market in 2019 and gauge owner expectations for 2020.

This report is a compilation of responses from owners across North America. An online survey was conducted of digital service company owners during January 2020 to collect insights across many key performance indicators.

Eighty-eight executives completed the questionnaire.

This report was published February 2020

The Bureau of Digital

Founded in 2012, the Bureau of Digital brings together leaders from all corners of digital, to connect, share and learn together. With professionals from agencies, in-house teams, product shops and many of the world's largest brands, the Bureau of Digital is a diverse, peer-based community and support network. Providing insights, events and resources, the Bureau helps teams and organizations to evolve and grow, while collaborating within the Bureau community to help shape the future of digital.

Learn more at BureauOfDigital.com



Additional Research From Prometheus

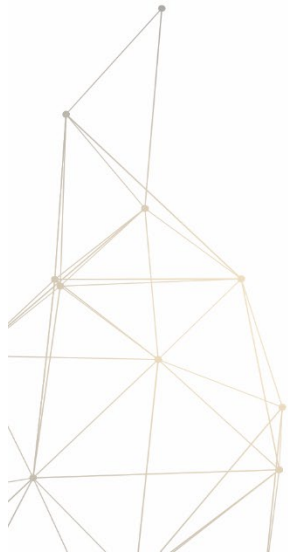
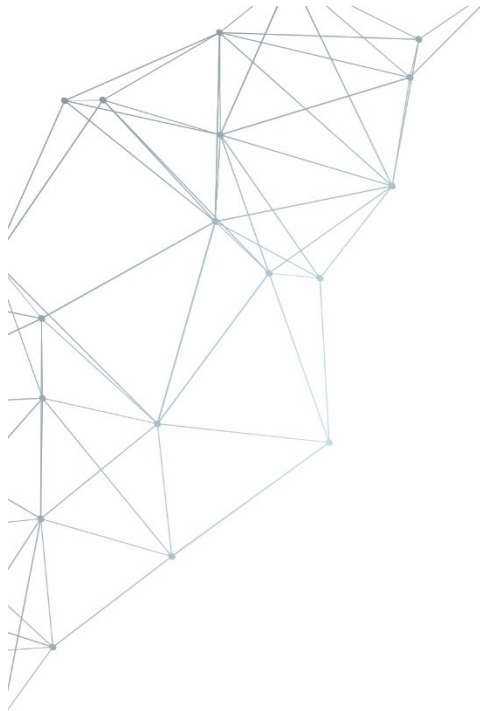
Download our new Repeatabe Revenue Generation Guide for digital shops:



- How a standard shop structures its marketing, sales, and business development teams.
- What works for successful firms versus standard shops.
- An overview of the main revenue generating functional areas.
- The top 5 revenue generating strategies used by digital shops.
- Comparing and contrasting the various strategies across key factors.

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Key Findings

- Most owners reported their companies did well in 2019 with average revenue growth of 15% Y/Y.
 - Revenue growth at firms with 20-29 employees was nearly 2x this average.
 - 10-19 employee firms grew the slowest at 9% Y/Y.
- Like last year, increasing project size was likely a large driver of revenue growth.
 - Larger project sizes correlated with higher growth and profit margins.
- Larger firms spent more effort pitching new work, but this did not correlate with higher growth rates.
- Revenue per employee rose to \$142k/employee, up from \$135k/employee last year.
- The average firm employed one full-time salesperson and 1.7 account managers for every 10 employees.
- Identity / brand design jumped 3 ranks to become the fourth most offered service.
- The average profit margin for companies in our survey was 16.5%, down slightly from 18% last year.
- Owners have optimistic outlooks for 2020.
 - Revenue growth up 27% Y/Y.
 - Client budget growth up 18% Y/Y.
 - Employee count up 17% Y/Y.

Respondent Details

This survey was open to the Bureau of Digital community during January and February 2020.

The survey focused specifically on the outlook of company owners and managers. Roughly half of the responses were from companies with less than nine employees, a third came from those with 10-19 employees, a fifth came from those with 20-29 employees, and 13% came from those with 30 or more employees.

The average company in the survey has been in business for 13.4 years.

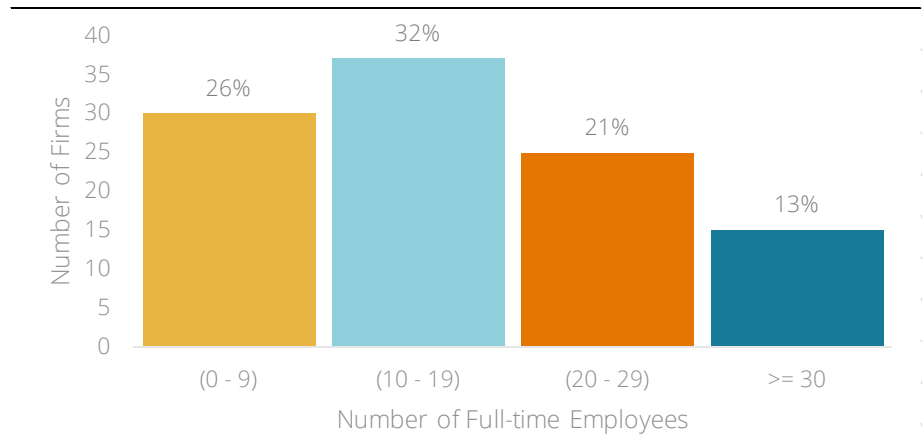
47% of the owners surveyed said they exclusively serve a specific vertical or industry. This is up substantially from 2019 when only 30% identified as specialists.

Companies offered a diverse range of services with the average firm offering 5 distinct services. Down from an average of 6 last year. The most offered service was Web design / development with 88% of respondents offering it. This was closely followed by UX design / strategy at 64% and Digital strategy at 62%.



Surveyed Company Sizes

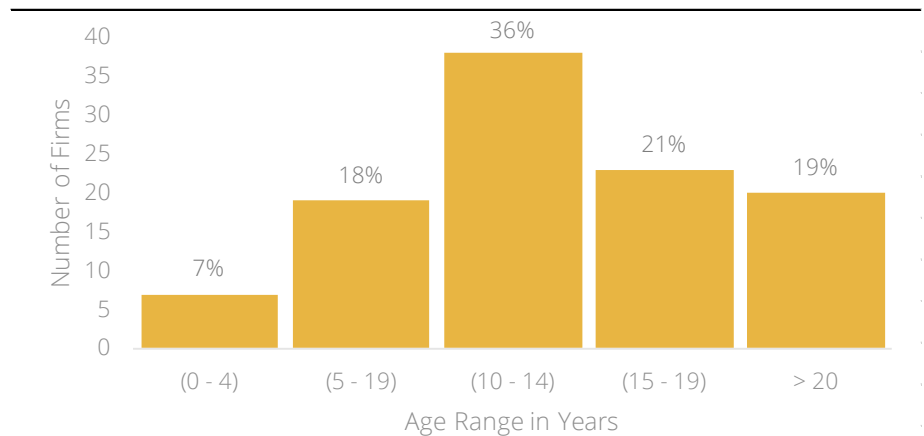
The number of firms in our survey that fell in to the respective size cohorts.



Source: Prometheus Research LLC

Age of Respondent Companies

The number of surveyed firms that were in each age cohort.



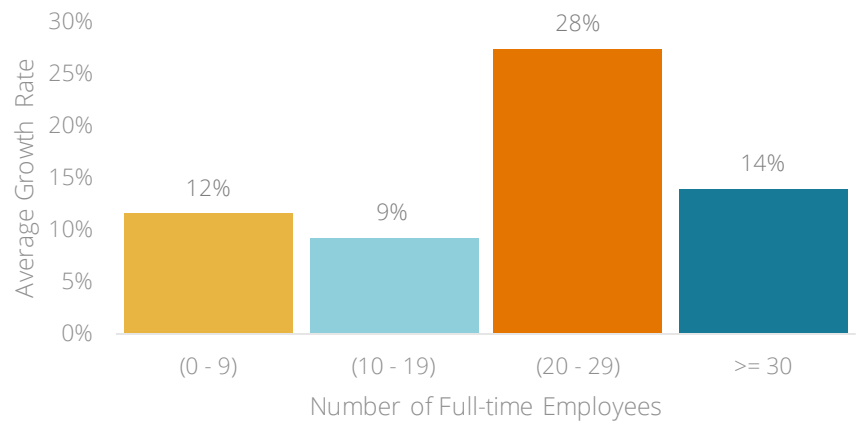
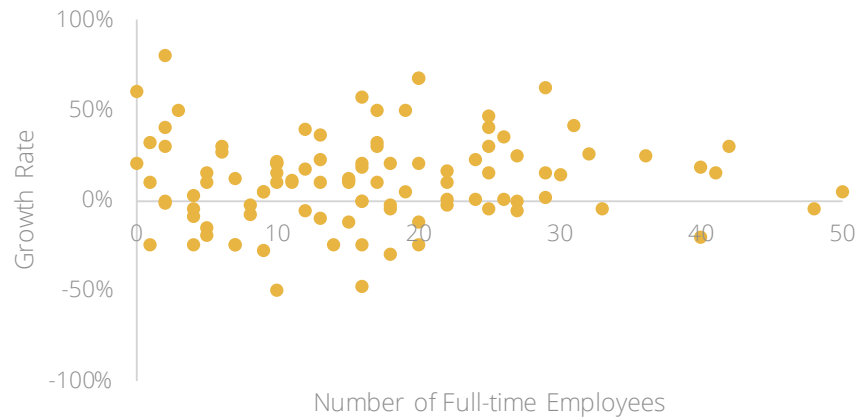
Source: Prometheus Research LLC

2019: In Review

Most of the owners surveyed reported their companies did well in 2019. They reported growing businesses with healthy revenue growth, revenue/employee numbers, and profit margins.

2019 Revenue Growth Rates

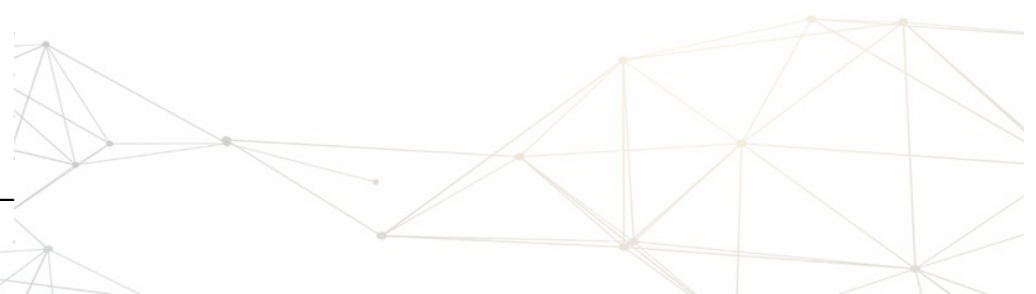
Year-over-year growth rates for surveyed companies sorted by size of firm. Chart 1 shows each surveyed firm's growth rate (excluding outliers) and the size of their firm. Chart 2 shows the average growth rates for each size cohort.



Source: Promethean Research LLC

Revenue & Growth

The average respondent generated \$2.7M in revenue and grew 15% Y/Y in 2019. This was led by the mid-sized 20-29 employee cohort that grew at almost 2x this average rate. Firms in the 10-19 employee range struggled the most with only 9% Y/Y growth.

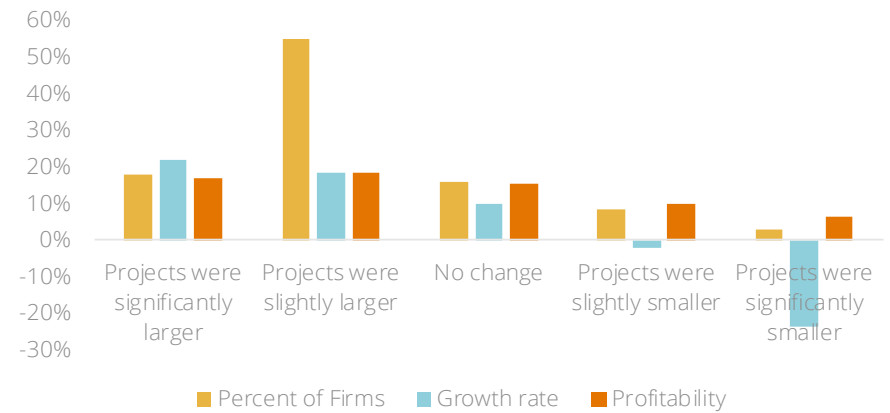


Firms that saw slight or significant increases in project size during 2019 grew significantly faster than those who saw project sizes shrink. The larger project sizes also had a positive impact on the profit levels the firms were able to generate.

The larger a firm was, the more revenue they derived from requests for proposals. The smallest firms, those with less than 10 employees, generated 11% of their revenue from RFPs, while the largest firms, those with 30 or more employees, generated 21% of their revenue from RFPs. There was no clear correlation between RFP reliance and growth rates.

Shifts in Project Size in 2019

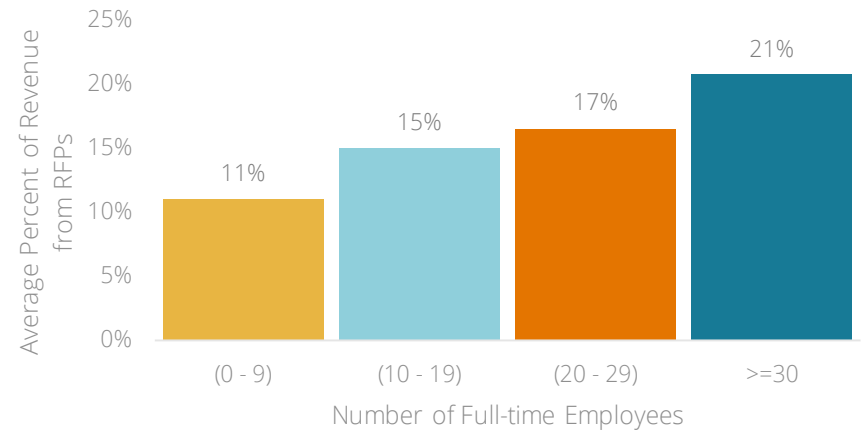
Percent of firms who noted changes in their project size throughout 2019 compared with revenue growth and profitability.



Source: Promethean Research LLC

Reliance on RFPs

The percent of revenue derived from requests for proposals by company size.



Source: Promethean Research LLC

The larger the firm, the more likely they were to spend more effort pitching new work. However, this did not correlate with an increase in growth rates.

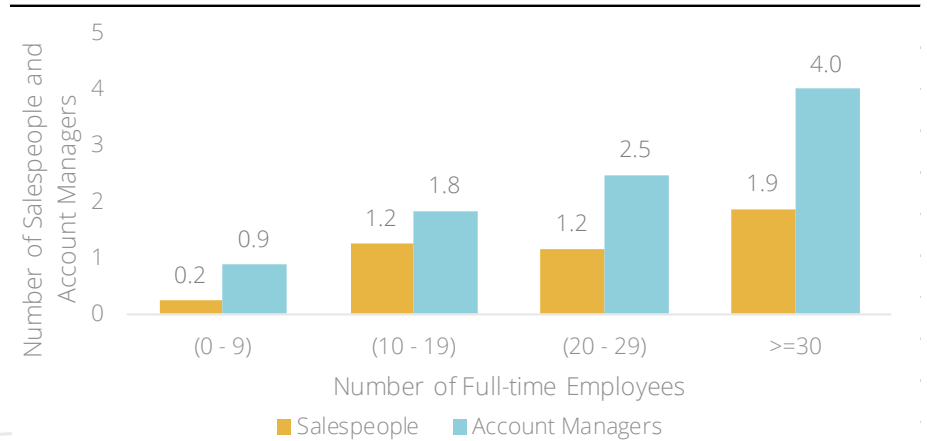
Revenue per employee, a common metric used to measure the financial efficiency of the firm, averaged \$142k/employee, up from \$135k/employee last year. This indicates an increase in efficiency at firms during 2019.

The fastest growing firms were those that offered Public relations, App design / development, and Staff augmentation services. There was no clear correlation between the number of services offered and growth rates.

The average firm employed one full-time salesperson for every 10 employees they had at the start of 2020. They also employed 1.7 account managers for every 10 employees. Salespeople-per-employee and account managers-per-employee ratios were the lowest for smaller firms, and the ratio grew as firm size grew.

Average Number of Sales & Account Manager Positions

The average number of dedicated salespeople or account managers employed by firms in the various size cohorts.



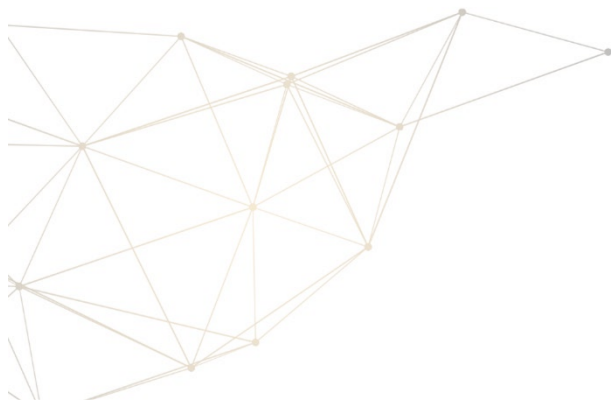
Source: Promethean Research LLC

Services

The average firm offered 5 distinct services in 2019. The more employees a firm had, the more likely they were to offer more services. Shops with fewer than 10 employees averaged 4.4 services per firm while shops with 30 or more employees averaged 6.5 services per firm.

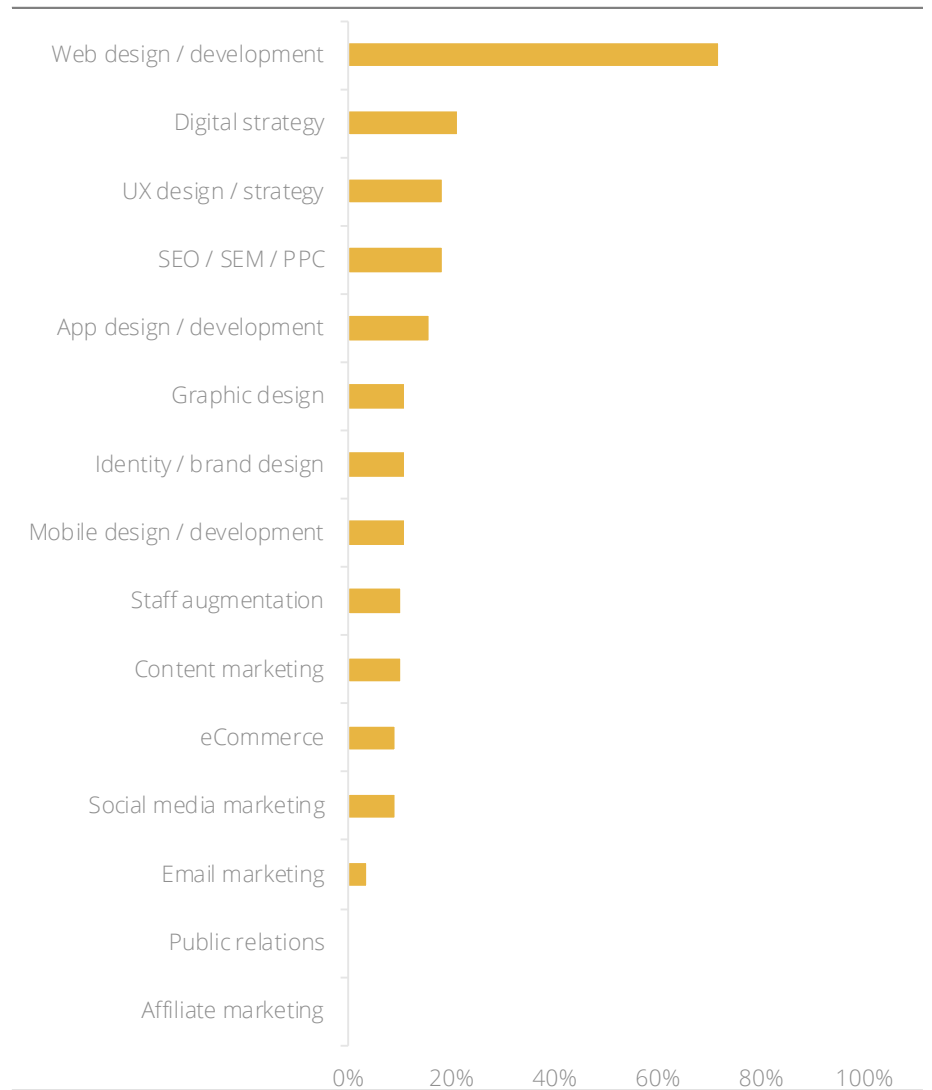
The top three services offered remained the same in 2019 as in 2018, but Identity / brand design jumped 3 ranks to become the fourth most offered service behind Digital strategy.

The three highest profit generating services mirrored the revenue generating ones of Web design / development, Digital strategy, and UX design / strategy.



Highest Revenue Generating Services - Owner's View

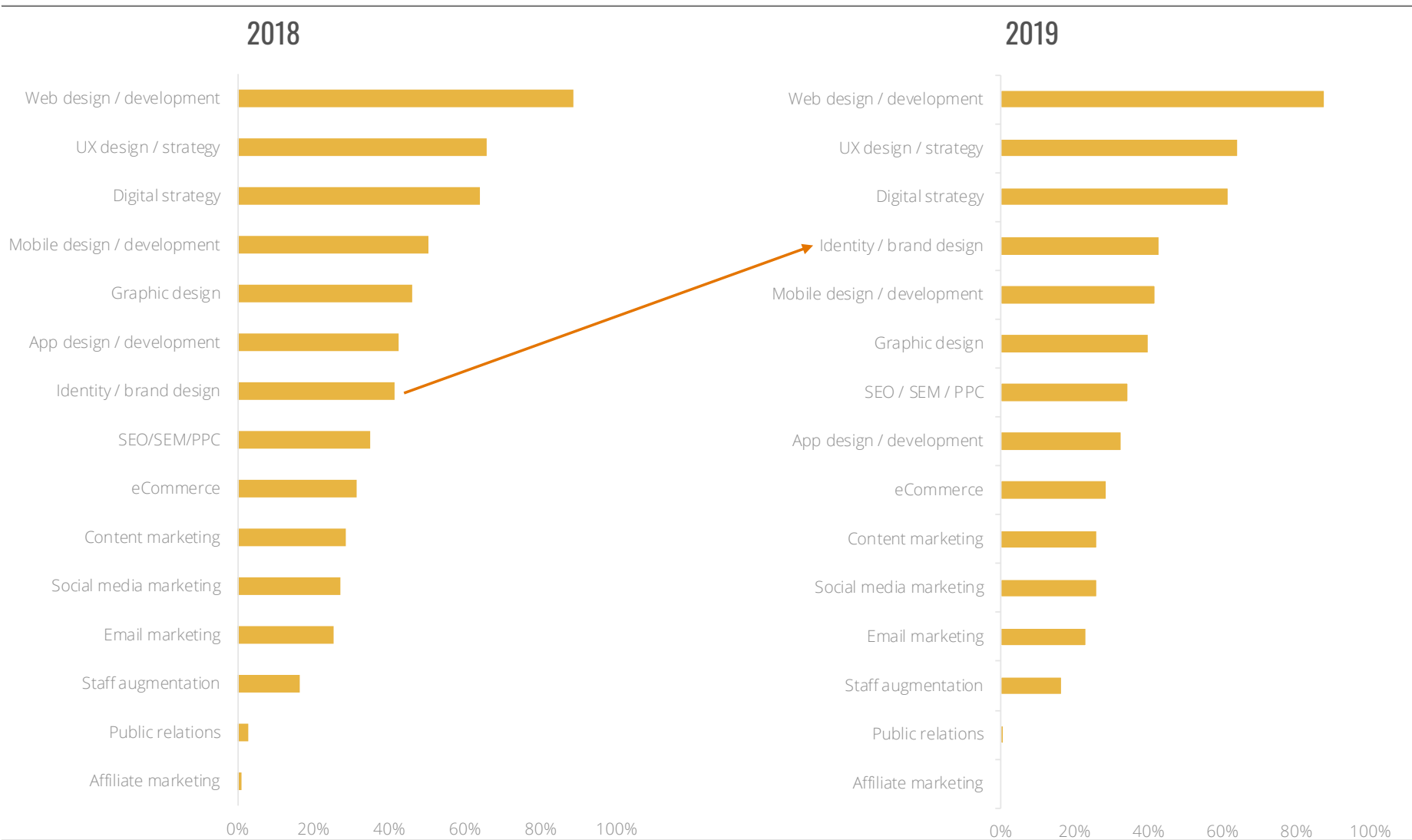
The services owners stated that generated the most revenue for firms in 2019.



Source: Promethean Research LLC

Services Offered

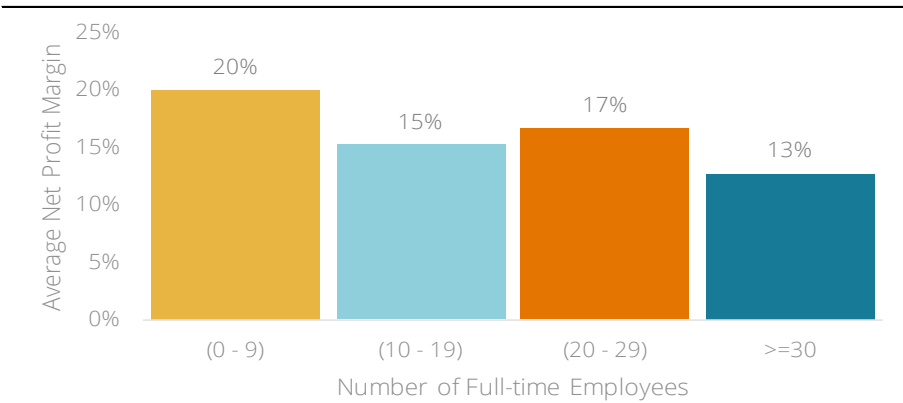
The percent of firms in our survey who offered the following services.



Source: Promethean Research LLC

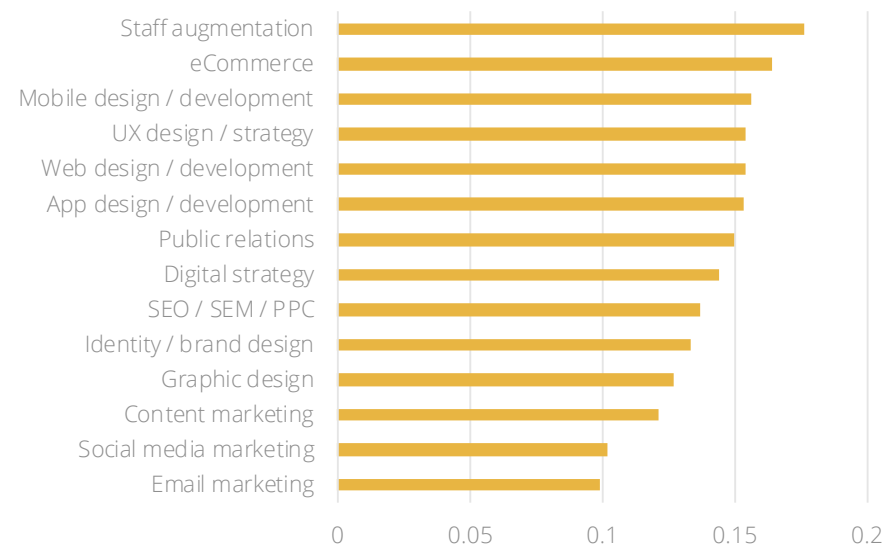
Net Profit Margin

Net profit margin as a percent of total revenue.



Average Profit by Service Offered

Average profit margins of firms that offered these services.

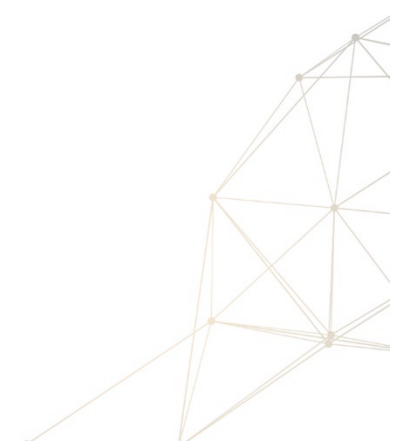


Source: Promethean Research LLC

Profitability

The average profit margin for companies in our survey was 16.5%, down slightly from 18% last year. Companies still experience a downward trend in profitability as they grow. Profitability tended to increase as project size grew.

The firms with the highest net profit margins tended to offer Staff augmentation, eCommerce, and Mobile design / development, among other services.



Pricing

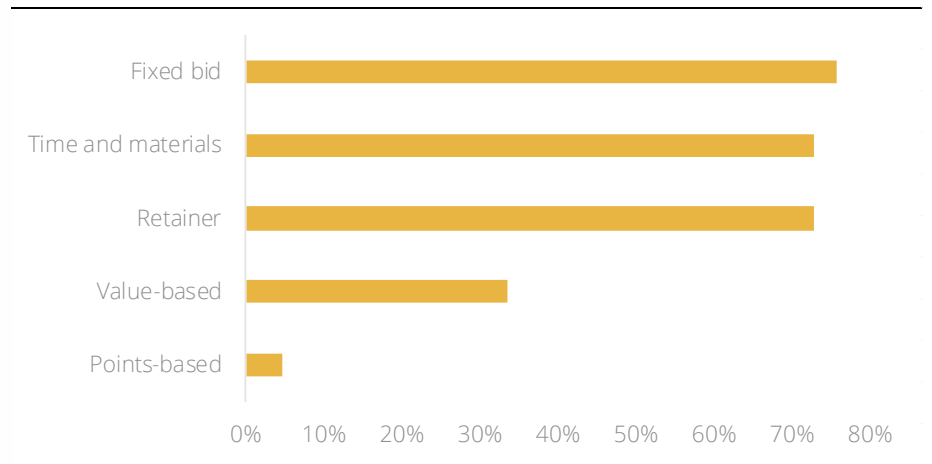
Most firms offered more than one type of pricing option, with the average firm pricing their services three different ways.

In a reversal from last year, firms that offered Value-based pricing (alone or in conjunction with other models) grew more slowly than other firms. Shops that priced on Time and materials, and Points-based systems grew more quickly than average.

Points-based pricing is still only employed by a small fraction of firms.

Popular Pricing Models

The percent of respondents who indicated they use the following pricing models.



Source: Promethean Research LLC



Key Trends & Challenges

Increased Competition

Small shops dominate the marketplace. Over 90% have fewer than 50 employees. This high fragmentation is due to incredibly low barriers to entry, along with limitations on how high shops are able to compensate top employees. There is a continued influx of large management consultancies entering the digital space. Everything from app development, to digital strategy guidance, to design is being attacked from the high end. Those management firms have a leg up as they often seek out clients who their firms already have c-suite relationships with. Additionally, at the low end of the market, do-it-yourself services eat away at the smaller web projects. The entire market is at risk from clients bringing work in-house, which has been happening for years now.

These forces are pointing to stiffer competition in the digital space which could lead to downward pressure on margins going forward. This is one reason why we believe there has been a shift towards offering more strategy services among Bureau shops over the last few years. Clients aren't just demanding the technical knowledge, but the strategic guidance as well. Shops that are able to provide both stand a better chance of protecting their margin profile than those who can't.

Revenue Generation

Most shops are still overly reliant on referral-based revenue generation and we're seeing that trend continue. Even with the trend towards building out sales teams, shops still derive a significant portion of new

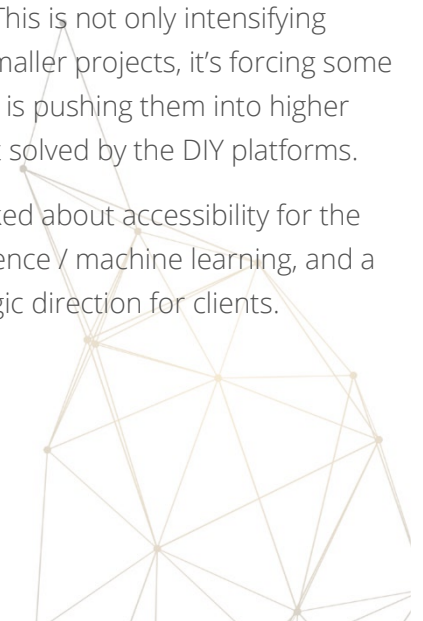
leads from personal networks and referrals. This can be a growth limiter as referrals and personal networks are primarily comprised of individuals with similarly sized businesses. Therefore, new referrals are likely to be similar to a shop's current client base. This makes it difficult to attract larger clients than they currently work with.

Challenges in 2019

Most of the key challenges faced last year revolved around employee management, finding talent, and turnover. Many owners expressed trouble with cash flow and a lumpy year sales-wise. Others indicated issues with matching internal skill sets with the work they were booking, clients continuing to bring more work in house, and client turnover.

The most talked about trend that shaped last year was the continued erosion of the lower end of the marketplace by DIY platforms like Squarespace, Wix, Shopify, and others. This is not only intensifying competition among firms who rely on smaller projects, it's forcing some to reevaluate their market position. This is pushing them into higher more technically skilled areas that aren't solved by the DIY platforms.

Additionally, a number of responses talked about accessibility for the web, augmented reality, artificial intelligence / machine learning, and a stronger push towards providing strategic direction for clients.



2020 Outlook

Overall, owners are optimistic about 2020. Respondent's expectations for the year (4: "significantly better" | 0: "significantly worse") averaged a 3.0. All companies, regardless of employee size, were about equally as positive. They are also just as optimistic about 2020 as they were last year about 2019.

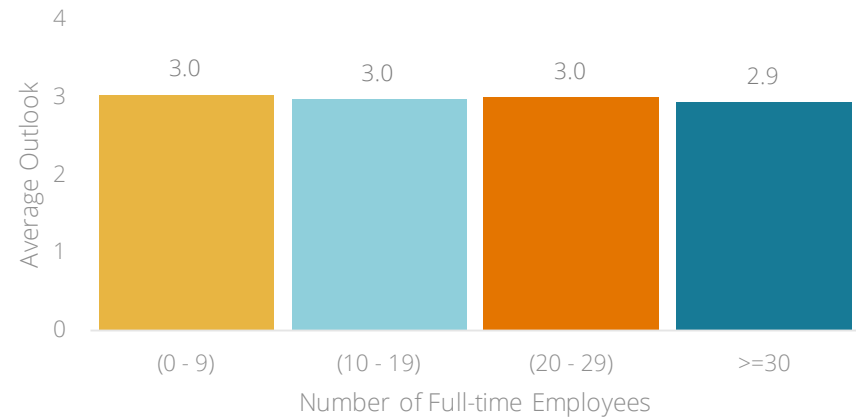
Growth Expectations

According to our survey, owners expect their revenue to grow at an average rate of 27% Y/Y in 2020, vs. expectations of 19% Y/Y growth in 2019. At the same time, they expect their client's budgets to grow at a rate of 18% (up from 6% Y/Y last year), and they expect to grow their employee base by 17% Y/Y. These growth expectations indicate significantly more optimism than the reported general outlooks show.

These expectations are driven by the optimism of firms in the 10-19 employee range, as they lead growth expectations in almost all categories.

General Outlook for 2020

4 = Significantly better, 0 = Significantly worse, 2 = Same as 2019



Source: Promethean Research LLC

Pessimistic Outlooks

Executives with the most pessimistic outlooks for 2020 mainly attributed them to internal issues at their companies. Things like the loss of a major partner, internal operational challenges, or positioning challenges. However, we did notice some broader negative trends. DIY web systems (Squarespace, Wix, Shopify, etc.) appear to be putting even more pressure on the lower end of the market which is forcing shops to reevaluate their position in the marketplace. Respondents also noted concerns about the overall economy and the negative effects election years have on clients.

Optimistic Outlooks

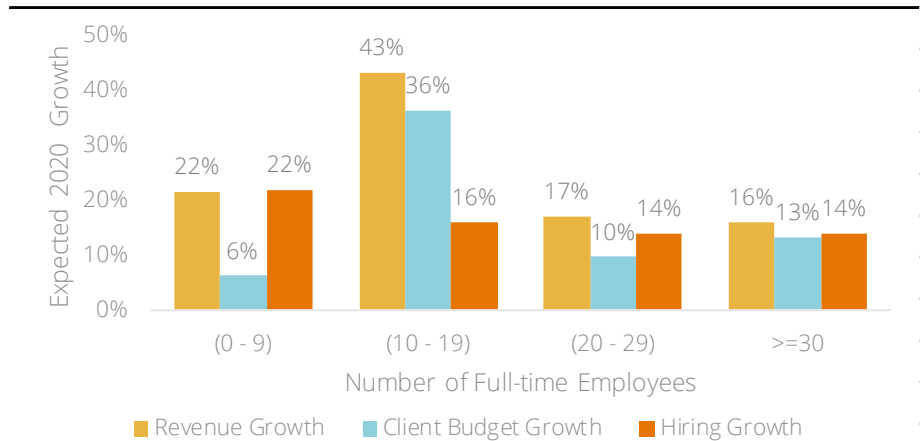
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Focuses for 2020

Sales and marketing. Revenue drivers are the most talked about focuses for 2020 for roughly half of the respondents. Internal operations and human resources were also mentioned a significant amount.

2020 Growth Outlook

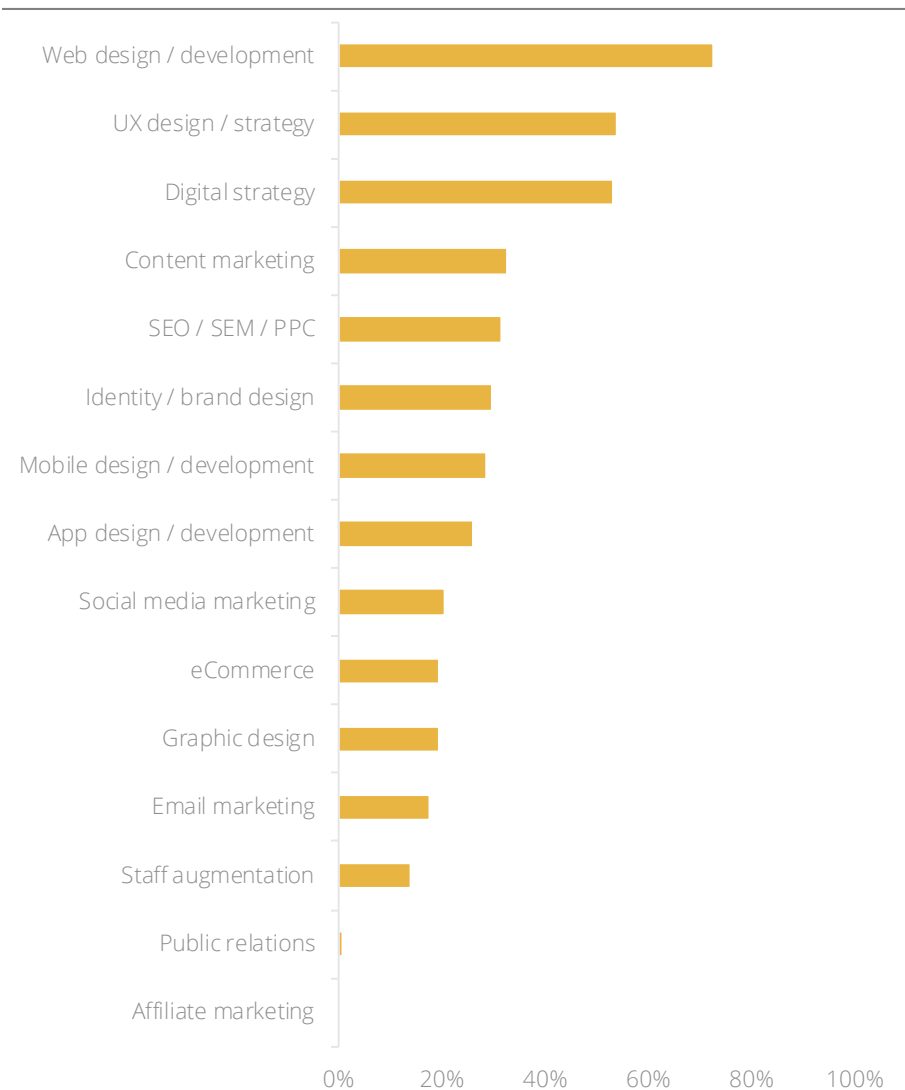
The average growth expectations for companies in various size cohorts.



Source: Promethean Research LLC

Services Firms Will Focus on in 2020

The services owners noted they will focus on in 2020.



Source: Promethean Research LLC

Offered Services Expectations

Most firms expect to expand their services in 2019 with 59% of respondents planning to moderately expand their services and 5% planning significant service expansions. Smaller firms were more likely to keep their service offerings stable, while the larger a firm was, the more likely they were to expand their offerings.

In 2020, the majority of firms plan to continue to focus on Web design / development, UX design / strategy, and Digital strategy. In the coming years, owners expect to see declines in Web design / development services, Social media marketing, and Graphic design.

Hiring Expectations

This year, owners expect hiring to be a bit more difficult. The average rating for “How challenging will it be to hire qualified employees in 2020 vs. 2019?” was a 1.6 out of 4, with 0 being “Significantly harder” and 2 being “Same.” Like last year, the larger the company, the more difficult owners expect it to be to hire.

38% of the owners in our survey expect to hire at least one additional dedicated sales professional in 2020. The rates are highest among companies in the 10-29 employee range. They are the lowest at smaller shops, below 10 employees.

Half of the owners plan to hire an account manager with larger firms more likely to hire than smaller ones.

The Support Network You Always Wanted

We all do better when we have a solid network to turn to for support, guidance and inspiration. The Bureau of Digital is a peer-based community for people who lead digital teams. Together, we dig into challenges, share our expertise and open up new solutions and opportunities.

Insights. Gain fresh perspective and uncover new solutions with insights from peers, industry leaders and subject matter experts focused on the digital industry.

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