MOORE Kingston Smith

MEDIA BUSINESS OUTLOOK SURVEY 2021

INTRODUCTION

Each year we survey the media and marketing services industry to gather views on what the forthcoming year holds for them. Last year we carried out a couple of additional surveys looking at the effects of the pandemic on the media sector and this survey also builds on some of the themes coming out of those.

The pandemic had a wide reaching impact on the media industry. For most, revenue levels were hit dramatically and quick measures were taken to cut costs and preserve cash. People is one of the key areas where media businesses took swift action and some 85% took advantage of the government furlough scheme and many implemented pay cuts and short working weeks. For some it was an opportunity to right size and right skill their business.

Nearly half of respondents are expecting revenues this year not only to exceed 2020 but also to exceed those achieved in 2019. There are also some bullish predictions around profit margins as the effects of cost savings implemented during the pandemic continue to be felt: recruitment, pay rises and spend on property in particular being kept in check. However, it won't be a walk in the park, with few expecting to be able to raise charge out rates and citing continued fee pressure from clients as a cause of worry.

Respondents were generally independent with a good mix between some of the different media sectors such as advertising, design, digital, PR, media buying and TV and film etc. In terms of size, respondents were roughly just over a third 0-25 employees, a quarter 26-50 employees, nearly a fifth 51-100 employees and around a fifth over 100 employees.

Respondents were UK based companies or holding companies and around three quarters of respondents derived at least half their business from the UK.

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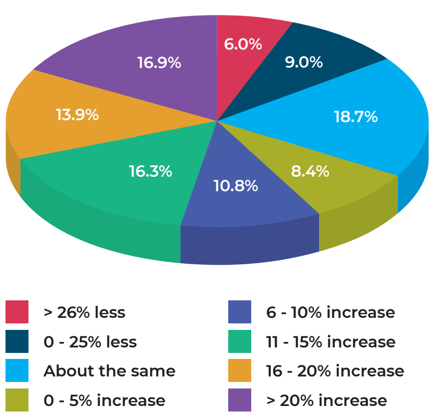
PRE AND POST COVID-19 BUSINESS SENTIMENT

REVENUE LEVELS

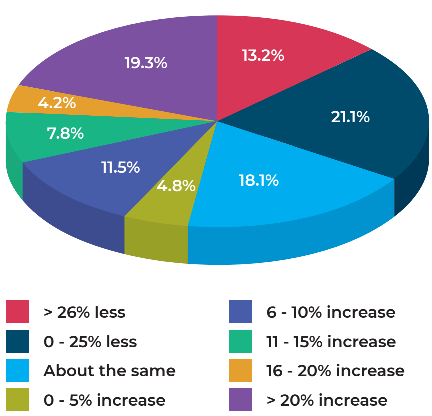
It's no surprise that revenue levels have generally fallen across most of the creative industries as a result of Coronavirus; whether due to brands cutting back on advertising, theatres closing, live events being cancelled or production of film and TV content unable to go ahead. Of course, there have been a few winners as well – the gaming ecosystem, those already digitally agile or working with digital ready clients. In the couple of surveys we carried out last year during the height of the pandemic, we saw some pretty miserable predictions on the extent of the damage to 2020 revenues; many of which were not wrong.

However, to what extent can we expect this year to show recovery and will we get back to, or even exceed, 2019 activity levels?

How do you think revenue levels for 2021 will compare to 2020?



How do you think revenue levels for 2021 will compare to 2019 (i.e.pre-Coronavirus levels)?



As expected, the majority (around two thirds) were looking forward to improved revenues in 2021 compared to 2020. However, respondents were also more bullish than one may have anticipated about 2021 revenues exceeding 2019 levels. Across all of the respondents nearly one half were forecasting that 2021 would be a more fruitful year than 2019.

Of course, not all were so optimistic. Some 15% were forecasting even lower revenues for 2021 than those achieved in 2020, and just over a third were forecasting lower revenues for 2021 than those achieved in 2019.

If we look at the various subsectors then the confidence varies. Most marketing services sectors were a little more confident than the average, with over half in each subsector looking forward to higher revenues in 2021 than in 2019. There certainly has not been a one size fits all effect on agencies and some have just been luckier than others depending on which sectors their clients operate in. However, those in the film and TV sector were less confident, with over half forecasting that revenues for 2021 would continue to be less than 2019 and less than a third predicting that they would recover – this is no great surprise given the continuing challenges that the industry faces with producing content under social distancing rules.

So it does feel, for most, that the worst of it is behind us. However, visibility on timing of income and accurate forecasting still remains a challenge.

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PROFIT MARGINS

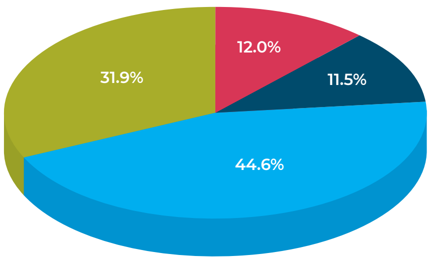
In the surveys we carried out last year, nearly 15% of businesses were forecasting a loss for 2020 in light of the economic effects of Coronavirus, a fairly accurate prediction as you can see from the charts. As expected, if we look at the margins achieved for 2020 they were generally lower than those achieved in 2019.

But to what extent will profit margins across the media sector recover this year? If forecasts are to be believed (although in our experience they are generally a little bullish), 2021 margins will not only be better than 2020 but will also show a general improvement on 2019, helped by the smaller number forecasting losses. Those forecasting losses were fairly evenly spread around the media sectors.

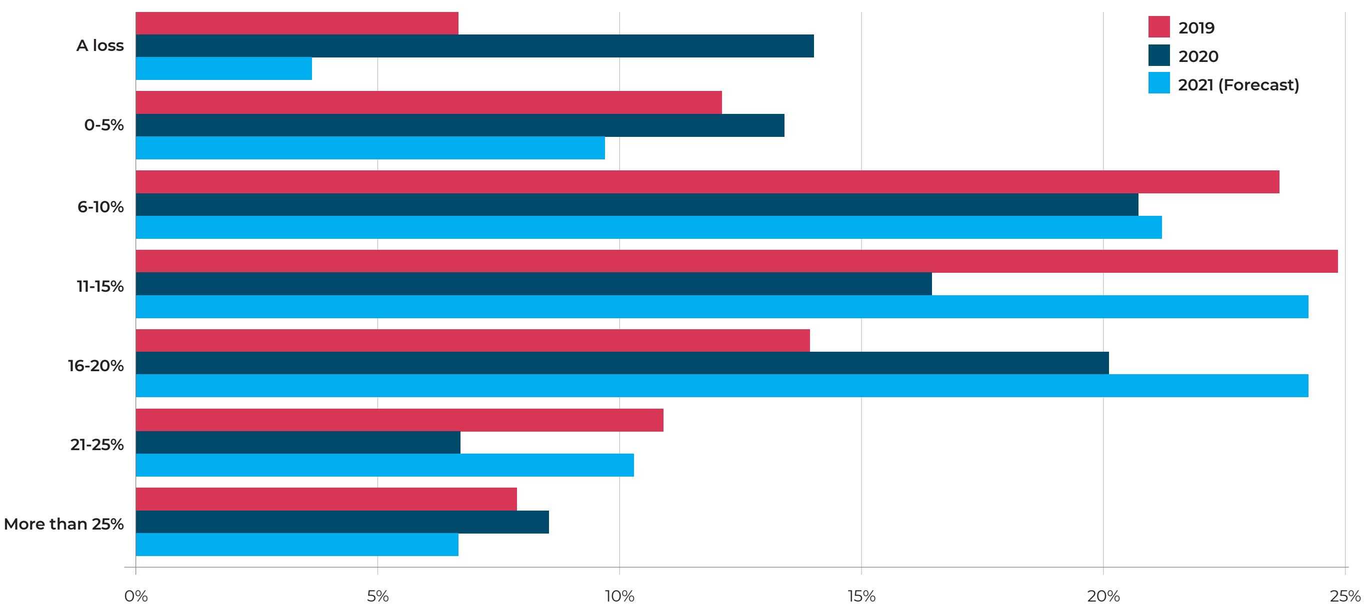
One would not necessarily expect this – particularly given that less than half the respondents were forecasting better revenues in 2021 compared to 2019. Nonetheless, Coronavirus has brought with it a raft of cost savings – some of which are here to stay. These cost savings are not just related to trimming back on staff numbers and freelancers. The enforced working from home has resulted in a longer term shift towards more home working, resulting in many agencies downsizing or planning on downsizing their space requirements and enjoying the resulting cost savings. The attitude towards the necessity of international travel has certainly changed with many shocked at how much they managed to save during lockdown, and many planning to restrict it to essential travel only going forwards. There has also been a general review of other overhead costs with agencies trimming back on the non-essentials.

Continued price pressure from clients will not make 2021 an easy ride though – for some years now many clients have been demanding more for less and 85% of respondents cited fee pressure from clients as cause for concern. This crisis will only amplify that pressure, particularly amongst those sectors hit hardest. This will not be helped by the very low number of agencies – just 12% – saying they will be raising rate cards within the next six months. It will therefore be more important than ever to ensure that scopes of work are very tightly drafted and any services provided outside of scope are separately billed.

Generally speaking, do you think you will be able to increase your rate card within the next six months?



What was your profit margin for the years 2019, 2020 and 2021



STAFF REQUIREMENTS

People are the largest cost for most media businesses, and at Moore Kingston Smith we recommend that people costs comprise no more than 60% of your fee income; our annual survey shows that agencies that contain people costs to within this level generally deliver healthy profit margins.

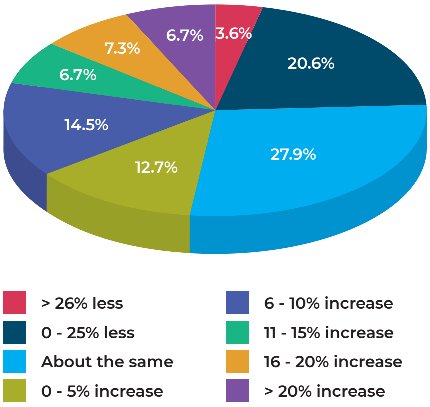
It therefore came as no surprise that this was the area where agencies were making most changes to generate the majority of cost savings, making use of furlough, pay cuts, short working weeks, implementing redundancies and reducing use of freelancers.

Less than half the respondents thought staff levels would be higher in 2021 compared to 2020. As expected, even fewer (40%) are expecting them to be higher compared to 2019. The forecasts for revenues were, however, more bullish; this bodes well for margins and demonstrates agencies are focused on keeping their staff costs in check.

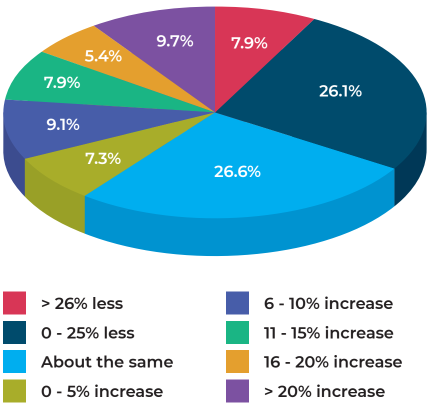
Just under a quarter thought staff levels in 2021 would be less than 2020, so perhaps more redundancies to come – particularly as furlough comes to an end.

However, for some, the necessity to tighten their belts and therefore review resource requirements has proved positive for the longer term health of the business. It has perhaps forced them to trim back where they had got a little flabby, or remove personnel with legacy skill sets no longer fit for purpose. Many are now in a better position to build their workforce with more digitally agile skill sets. We often hear phrases along the lines of "the restructuring has allowed us to act like a start-up agency – we can now build resource back up with the right skill sets".

How do you think your average staffing levels for 2021 will compare to 2020 (Coronavirus adjusted) levels?

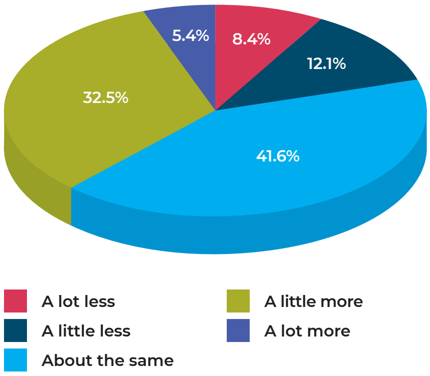


How do you think your average staffing levels for 2021 will compare to 2019 (pre-Coronavirus) levels?



"We recommend that people costs comprise no more than 60% of your fee income."

Using pre-Coronavirus levels as a benchmark, do you expect to be using more or less freelancers in the future, as a percentage of total resource?



Media businesses continue to view freelancers as an important part of their resource mix with around 80% saying they will be using either the same or more freelance resource this year compared to 2019. This is no surprise, as freelancers are a great flexible resource and help to manage the peaks and troughs of workflows. The key is to ensure that tight control is kept over their use - we have seen many agencies' profits decimated where they have not effectively controlled and monitored their usage.

PAY RISES

Media business were understandably cautious about the pay rises they were going to be awarding over the next six months with only 23% considering a general pay rise across the board. Just over half were considering it only for specific scenarios such as merit increases or promotions. However, just over a fifth were saying a complete pay freeze was on the cards for the next six months.

Reduced travel expenses and general outgoings are some of the justifications used by businesses to help position lack of pay rises. However, as restrictions lift and people start to make their way back into London, there will no doubt be a lot of pent up demand for salary increases; businesses will need to handle these carefully. The key is to ensure that any pay rises are able to be passed on to clients. However, with only 12% citing they would be able to increase client charge out rates over the next six months, businesses are right to be cautious about general pay increases.

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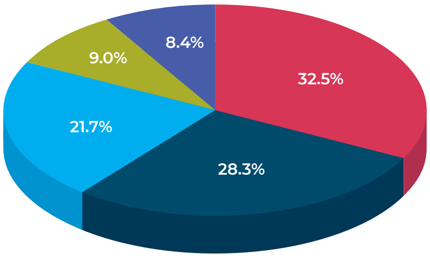
PROPERTY

Property costs are usually the second largest overhead for media businesses after people costs and over recent years have become expensive.

It has been widely documented that working life will likely never return to how it was pre-coronavirus. More flexibility, agile working and days spent working from home is the anticipated "new normal". Many agencies look forward to the savings this will ultimately bring in property costs, especially those in central London – where they have spiralled.

When asked whether they would be reducing space requirements as a result of more home working, around 60% said they were either definitely or possibly looking at a reduction. A further 10% thought growth would outstrip the need to reduce space.

Are you likely to consider reducing your property space a result of a longer term shift to more home working?



"When asked whether they would be reducing space requirements as a result of more home working, around 60% said they were either definitely or possibly looking at a reduction"

The remaining 30% of respondents did not feel they were likely to reduce their requirements.

There are some good deals on property out there at the moment – and many businesses are likely to be looking to upgrade the quality of their space. Hopefully, a general cooling off on property prices will help margins in the long run.

WHAT LIES AHEAD?

Finally, we asked respondents about the various challenges that 2021 will present.

While the vast majority were concerned to some degree about the impact Coronavirus would have on client spend, there was more concern about the impact of Coronavirus on the economy more generally, which of course does have a knock on effect on client spend. However, as we have seen during the last year, the degree to which this affects agencies depends a lot on what sectors their clients operate in.

There were not many who weren't concerned about the impact of Coronavirus on the wellbeing of staff, and, from conversations with clients, much thought is going into how they can alleviate this, including virtual social events, bespoke mental health support, and consultations around transitioning back to the office.

The practical challenges associated with the effects of homeworking were not keeping too many awake at night – presumably because we have all been doing it for much of the last year anyway. However, there are some longer term challenges around maintaining culture – particularly as new employees join. One of the concerns often cited is the valuable "learning by osmosis" that will reduce with less time in the office.

As we have seen over the course of the last year there has been a great deal of resilience in the face of this crisis. As the shoots of recovery become thicker, albeit at different rates for different sectors within the media industry, it will be interesting to see which businesses have seized this opportunity to accelerate positive change to enable them adapt to the new normal. Perhaps the earlier comment made around "bullish margin predictions" will turn out to be unfair, and the media sector will bounce back even healthier than when it entered this crisis a year ago – we sincerely hope so!

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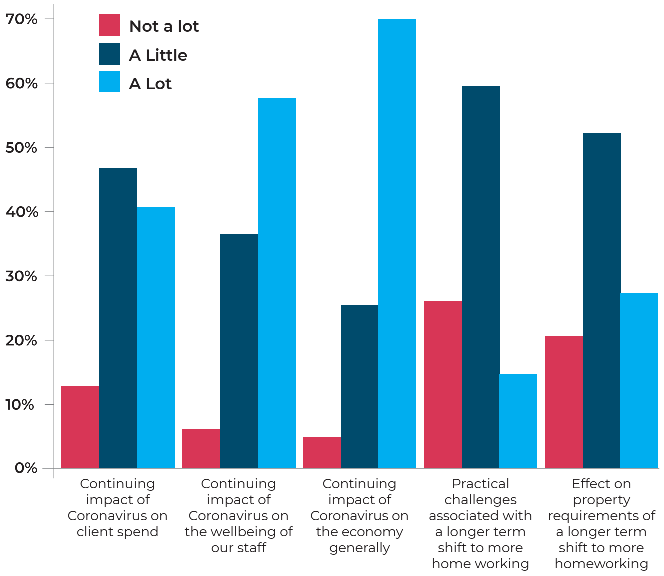
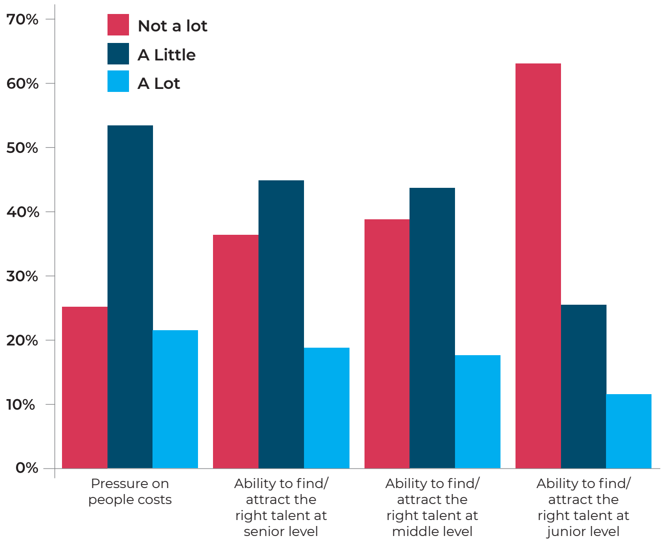
If there is any help we can be in the meantime, please do not hesitate to get in touch. Please also visit our Coronavirus Hub on our website www.mooreks.co.uk/coronavirus.

Which of the following do you think are likely to present challenges during 2021?

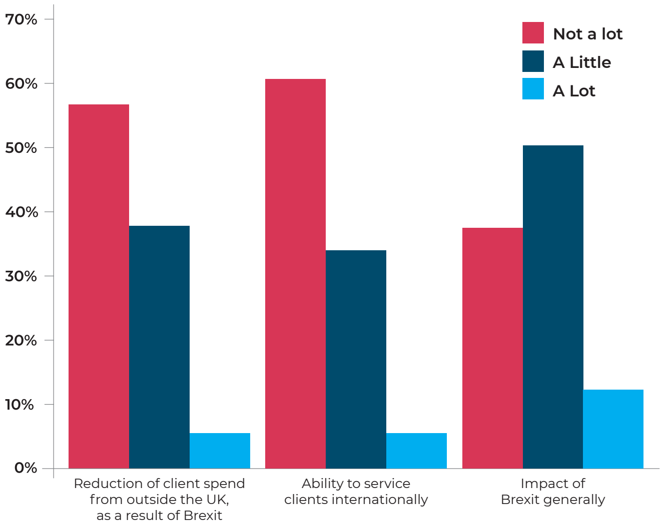
Coronavirus challenges



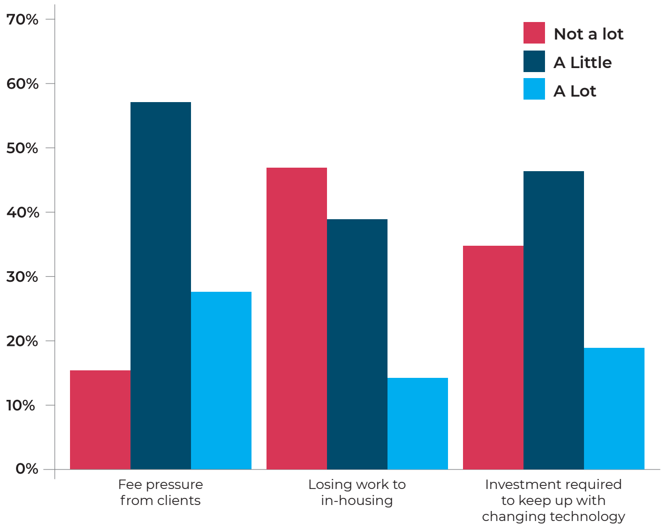
People challenges



Brexit/international challenges



Other challenges



ABOUT MOORE KINGSTON SMITH

We are the only firm of accountants and advisers with a dedicated office of over 100 media specialists that proactively support the extensive range of needs of independent media businesses – covering marketing services, film & TV and entertainment, theatre and creaTech.

We know it's not just about the numbers. As well as providing accountancy, tax and corporate finance services, over the years, by working with some of the industry's most successful companies, we have developed a deep understanding of what drives media businesses. As your trusted advisers we use this experience to work in partnership with you to help maximise your growth and profit potential. We conduct extensive research into industry performance every year with a view to understanding not just the benchmarking data, but also identifying what the best performers do to achieve exceptional results. Our well-developed structured approach to our strategic advisory services helps you effectively manage risks, build revenues, attract and engage people and identify key opportunities to improve performance and enterprise value.

All this means we are well placed to support you throughout the whole of your business lifecycle:

- **Start up and small businesses** – let our one stop shop approach take care of all your needs, including set up, company secretarial, legal, outsourcing, payroll, accounts and tax
- **Growing and mature businesses** – we can support you as your business grows with our award winning technology enabled audit approach, accounts preparation, tax compliance and advisory services such as HR and employee incentives
- **International** – we can leverage off of our membership of Moore Global – a network of accountancy and advisory firms in over 100 countries – to take the pain out of expanding into unfamiliar territories. We can co-ordinate your international audit requirements, and advise on international tax
- **Exit planning** – our media specialist award winning M&A team, with hundreds of transactions under their belt, will ensure you are well prepared for any transaction and maximise the proceeds from the value you have created within your business

We have hundreds of clients across the media sector who all benefit from our very personal partner led approach, providing the very best guidance, expertise and specialist sector insights.

In short, we're more than just accountants who count your numbers – we're business partners whose ambition is to help you grow your numbers so that you realise your fullest potential.

MOORE KINGSTON SMITH'S 2020 M&A HIGHLIGHTS

Our corporate finance team is proud to have advised on 17 media transactions in 2020 including:

Technology	Marketing Services	Marketing Services	Marketing services	Media	Media
Sale of majority stake in Redbox Digital to SQLI Group	Sale of Synergy Creative to McCann Worldgroup	Acquisition of Woolley Pau from Gyro	Sale of Coast Digital to Elixirr International	Sale of Blippi to Moonbug Entertainment Ltd	Advising Simon Cowell on the buy-out of Sony Music Entertainment's stake in Syco Holdings
redbox	Synergy	woolley pau	coast DIGITAL	BLiPPi	
Lead Adviser	Lead Adviser	Lead Adviser	Transaction Support	Lead adviser	Lead adviser

CONTACT US

If you would like to discuss any of the matters arising in this edition or how we can help you, please contact one of the Moore Kingston Smith team by email or phone.

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