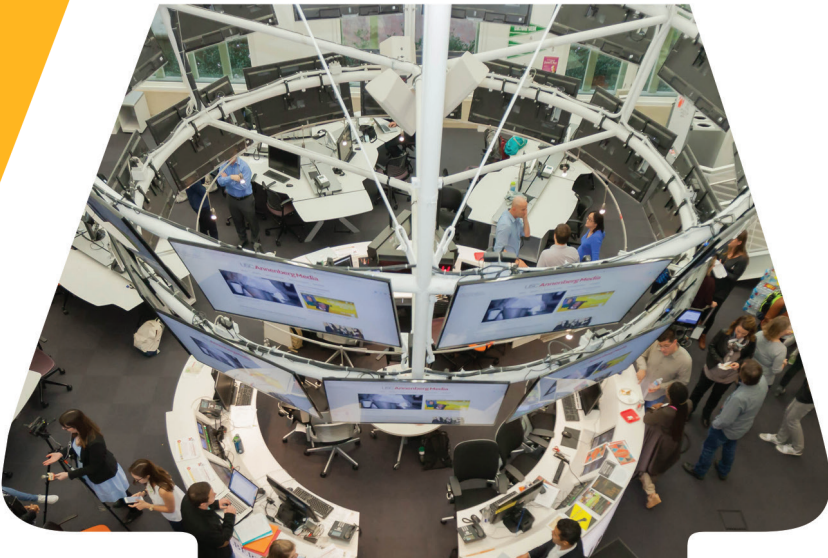




Global Communications Report

Executive Summary

USC
Annenberg
Center for
Public Relations

THE
HOLMES
REPORT

USC Annenberg Study Reveals the Scale of Change Disrupting the Public Relations Industry

**Long-Term Growth Will be Driven by Content and Digital but Will
Demand Different Talent, Bolder Ideas and Better Measurement**

Public relations executives around the world are optimistic about the industry's future and believe that, over the next five years, they will be expected to deliver more—more strategy, more content, more channels, more creativity and more measurement. But questions remain about the industry's ability to attract the right talent, adapt to new technologies and increase the level of investment required to capitalize on these opportunities.

Industry is Growing

Five-year growth forecast

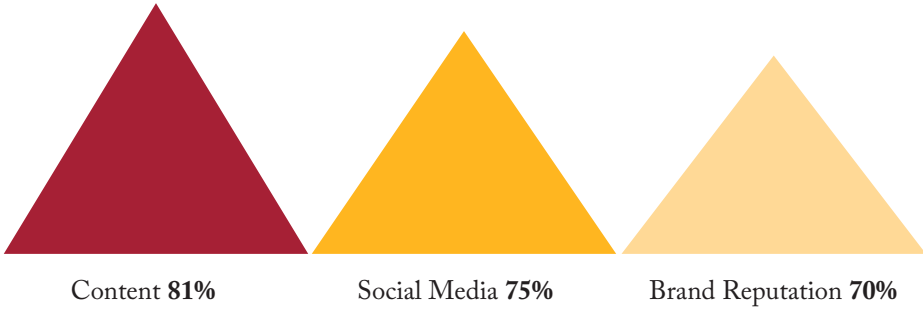
Projected overall industry growth
from **\$14 billion** to **\$19.3 billion**



PR agency leaders predict the overall agency business will grow from its current size (estimated at \$14 billion by *The Holmes Report*) to around \$19.3 billion over the next five years. To accommodate that growth, agency leaders anticipate their headcount will increase over the same period by about 26%.

By comparison, corporate leaders report that in their last fiscal year, client-side budgets increased by an average of just 2.67%—and they expect budgets to increase even more slowly over the next five years, by just 13.1% by 2020, which represents about 2.5% annual compounded growth. Client-side respondents expect an even smaller increase in headcount—11%—over the next five years. 79% cite tightening corporate budgets as a moderately to extremely important growth challenge.

Content + Tech are Driving Growth



When asked about specific services that will drive future growth, agency and client-side respondents were focused on increased demand for content creation (81%) and social media (75%), as well as more traditional activities such as brand reputation (70%), followed by measurement and evaluation (60%).

Traditional media relations still ranks relatively high for both corporate and agency leaders (55%). However, advertising/paid media (18%) ranked last of 18 possible growth drivers.

“Overall, we are sensing a continued optimism about the direction the industry is headed, which is good news for people entering the field,” said Fred Cook, Director of the USC Center for Public Relations. “If content creation is the engine for growth, the industry will need to invest in people who can develop world-class creative.”

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*-Fred Cook
Director,
USC Center for Public Relations*



CHANGING TALENT

Both agency and corporate executives agree that the ability to attract and retain the right talent is the greatest challenge preventing them from achieving their future goals.

Client-side respondents cited the ability to retain the right talent (3.99 on a scale of 1 to 5) and the ability to recruit the right talent (3.81) as their most important challenges. While on the agency side of the business, the numbers are even higher. Agency leaders say the ability to retain the right talent (4.18) and the ability to recruit the right talent (4.15) are their most important obstacles to growth.

Growth Challenges In-House & Agency Combined

There is a plentiful supply of intelligent, well-educated talent in my market.
Agency **35% agree** | In-House **51% agree**



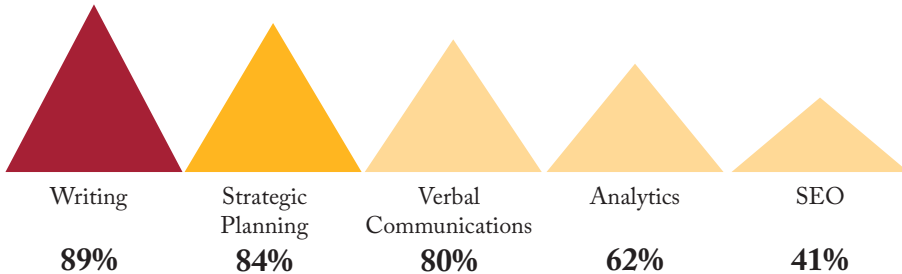
But both are recruiting from the same ponds. Despite changes in the communications landscape, PR agencies are most likely to recruit new talent from competitive agencies (3.69 on a scale of 1 to 5). Corporate communications departments continue to focus on other in-house departments as their primary source (3.53), followed by PR agencies (3.21) and news media (3.02).

There is some indication that agencies and internal departments are looking elsewhere for talent. Research and analytics are an increasingly important source, along with advertising and marketing. But the majority of both groups agree the PR industry is not good at sourcing talent from outside its ranks, citing expected salary levels as the major obstacle.

Both are also recruiting for the same skills. Traditional expertise still tops the list of skills communications departments and PR firms view as key to success over the next five years. Written communications is the skill ranked most important by client and agency respondents (89%). Media relations is further behind (63%).

New Skills are Needed

Writing and verbal communications are more valued than analytics, research and SEO
In-House & Agency Combined

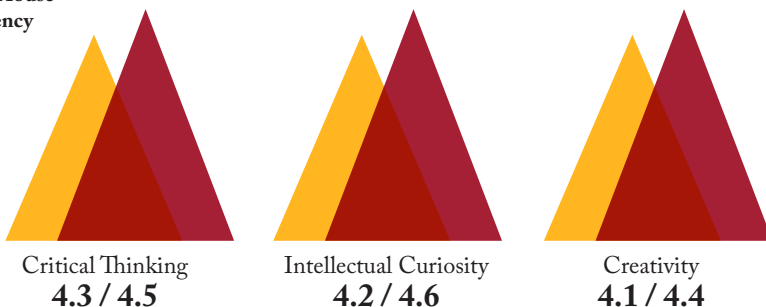


Writing, which might be considered a “price of admission” skill for communicators, ranked as more critical than strategic planning (84%), social media expertise (76%) and multimedia content development (76%) and a long way ahead of things such as business literacy (62%), analytics (62%), research (48%), search engine optimization (41%) and behavioral science (32%).

When asked what personal traits they felt were critical for the future, industry leaders ranked traditional values of teamwork (92%) and hard work (82%) near the top of the list but they believe their teams are already strong in these areas. They say more horsepower is needed in curiosity, creativity, and critical thinking.

Need for Diverse Talent is Growing

■ In-House
■ Agency





On the topic of cultural diversity, only 45% agree that the agencies they manage are representative of the diversity of their clients' customers. While 44% of in-house respondents believe their diversity reflects the diversity of the stakeholders they serve. Both groups cite lack of access to diverse talent at senior and entry levels as the primary challenge.

"It's clear that finding the right talent is by far the most critical factor in the PR industry's future growth," said Cook. "The more complicated question is what skills should this talent possess. Industry leaders still value traditional communications skills but are searching for more strategy, creativity and diversity."

CHANGING MODELS

The vast majority of client-side respondents (97%) anticipate some change in the structure of their departments to better address changes in the communications landscape over the next five years, but 68% expect only slight or moderate change. Only 30% anticipate an extreme or a complete amount of change.

Almost all agency respondents expect change in their business models (98%) in the future and 47% are anticipating an extreme or complete amount of change.

Business Models are Adapting

■ In-House
■ Agency



As for the drivers of change, agency leaders see the adoption of new technologies (4.1 on a scale of 1 to 5) as the primary factor, followed by increased demand for content (4.0), the expansion of communications channels (3.8), increasing use of data and more demand for specialization (3.5). Corporate leaders also ranked these areas as key drivers.

CHANGING CHANNELS

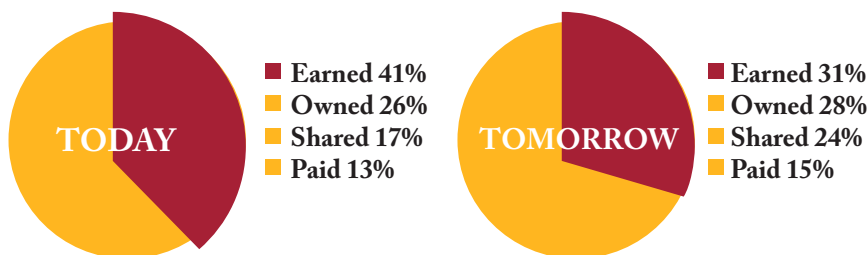
The media landscape is clearly changing. Communicators are now working across more channels. In fact, today less than a third of the average corporate department's media budget (31.9%) is being spent on earned media—the traditional focus for corporate communications. Slightly more (32.1%) is being spent on owned media, such as websites and blogs, while 17% is being spent on paid media and 16.4% is being spent on shared media.

And in-house respondents expect the shift away from earned media to continue over the next five years. They project that by 2020, slightly more than a quarter of their media budget (26.6%) will be focused on earned channels, with 31.3% to owned media, 22.8% - the biggest increase - going to shared, and 17.3% being spent on paid media.

In contrast, agencies report that more than 50% of their revenue is currently derived from earned media activities, followed by 20.5% from owned media, 17.2% from shared media and 9.3% from paid media.

Future Media Mix

In-House & Agency Combined



However, looking to 2020, agency leaders also expect to see their revenue streams shift away from earned, but it will still be the dominant revenue driver at 36%. While all of the other categories will grow - owned to 24.6%, shared to 24.2% and paid to 12.9%.

In total, PR executives predict that by 2020, 63% of all media outlets will offer paid placement opportunities, which may be a low estimate. Ironically, only 8% rank media buying skills as an important staff skill for the future.

“We are seeing a significant across-the-board directional shift away from traditional media relations to owned, social and paid media,” said Cook. “Given the changing revenue model for the majority of media outlets, it’s surprising that the projected investment in paid media isn’t higher. Paid may be a missed opportunity.”

CHANGING RELATIONSHIPS

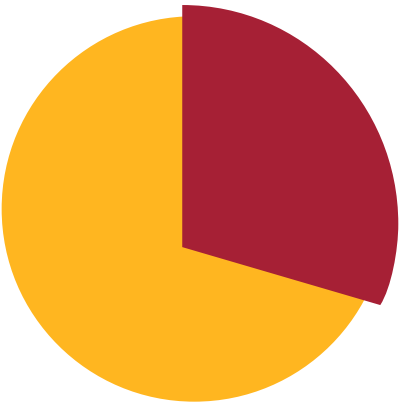
The overall relationship between clients and agencies is expanding, but the nature of that relationship is changing.

The majority (55%) of client respondents expect their reliance on outside agencies to remain about the same over the next five years, while 31% expect to become more reliant, and just 14% expect to be less reliant. Meanwhile, PR agency leaders predict their share of their clients’ overall marketing budgets will increase by more than 20% over the next five years at the expense of other disciplines.

Only about one-in-five corporate respondents (21%) works with a single agency of record, while 33% maintain ongoing relationships with multiple agencies, and 23% assign projects on an ad hoc basis. Somewhat surprisingly, 23% of respondents say they do not work with agencies at all.

Reporting Relationships are Shifting

- **Corp. Communications 33.7%**
- **CEO/President 27.3%**
- **Marketing 21.8%**
- **Brand Management 9.6%**
- **Human Resources 1.6%**
- **Other 1.6%**
- **Finance 1%**
- **Legal 1%**
- **Sales 0.9%**



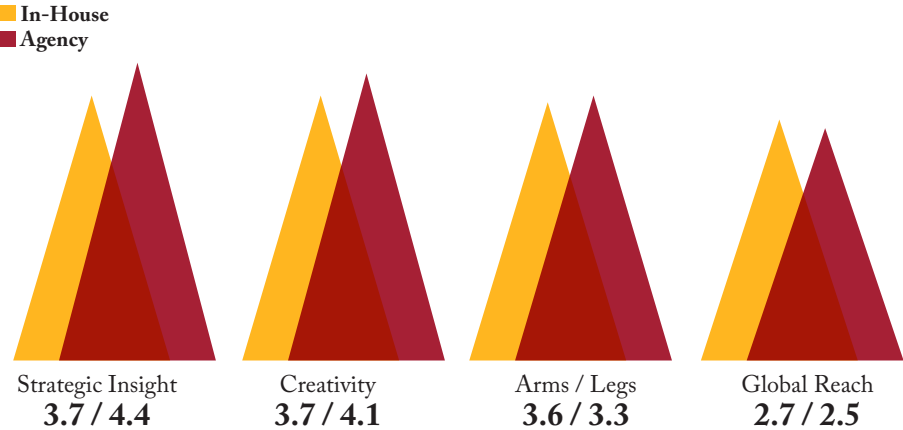
In what may be a major shift, PR agency leaders report that today more than 30% of the time they are reporting into marketing (21.8%) or brand management (9.6%) versus corporate communications (33.7%).

Encouragingly, strategic and creative input is now more important than additional “arms and legs” when it comes to selecting agency partners.

Client-side respondents cited strategic insight as the single most important reason to bring in outside agencies (3.73 on a scale of 1 to 5), followed by creative thinking (3.67). By comparison, more prosaic concerns—the need for additional arms and legs (3.60) and expertise in media relations (3.28)—were less prominent. However, clients found less value in hiring outside agencies for their expertise in research and analysis (2.95) or measurement and evaluation (2.95).

Value Equation is Evolving

Reasons to hire an agency



When asked how satisfied they were with the way agencies are compensated, corporate respondents gave the current billing model a score of 59 out of 100, suggesting they are slightly satisfied. Agency leaders seem a little more satisfied at 62.

Clients ranked strength of strategic counsel (4.05 on a scale of 1 to 5) and quality of creative work (3.85) in their top criteria for determining agency compensation, well above hours required to execute a program (3.00), which is the billing model employed by most agencies. Agency leaders agree that a more strategic approach is better than counting hours or measuring media placements.

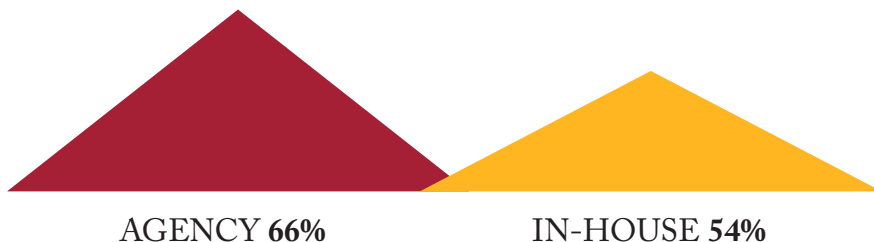
“It is encouraging to see the client/agency relationship shifting to one based more on strategy and creative,” said Cook. “It appears that it’s time to explore new compensation models based more on value delivered than hours spent.”

CHANGING ANALYTICS

An encouraging finding is that PR executives see improved measurement and evaluation as a growth opportunity. It ranked third on a list of 18 potential growth drivers among agency respondents—compared to seventh when clients were asked where they expected to see growth.

Measurement is Advancing

Very or extremely important as a growth driver



However, current measurement models are still alarmingly focused on measures of output—such as total reach or total impressions—rather than on business outcomes.

Agency and client-side respondents rated total reach as the most common form of measurement (68%), followed by impressions (65%) and content analysis (64%) with less emphasis on brand perception (47%) or attempts to measure return on investment (41%).

Surprisingly, 30% said they used advertising value equivalency—considered a discredited metric within the industry—most or all of the time.

Social media measurement is equally unsophisticated. The most common metric reported by agency and client-side respondents is a simple count of followers (78%), followed by reach (77%) and interactions such as likes or comments (76%). By comparison, relatively few are tracking sentiment (62%); social listening, such as real-time monitoring on conversations (47%); or changes in opinion or action (36%).

Corporate and agency leaders ranked “using a unified index based on business interests” the lowest on the list at 25%.

“Measurement remains the holy grail in the PR industry,” said Cook. “Everyone agrees that it’s a huge growth opportunity but few seem to have figured out an integrated approach to determining the real return on investment for communications.”

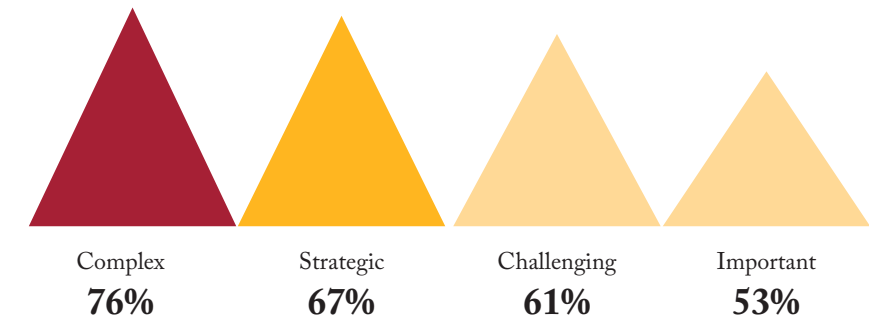
THE FUTURE

PR is definitely evolving. In fact, only 27% of agency leaders believe by the year 2020 the term “public relations” will clearly and adequately describe the work they do.

But all survey respondents agree that in five years their jobs will become more complex, challenging, and strategic.

The Future is Challenging

By 2020 my job will be more...



In contrast, only 27% thought their job would be more fun. Hopefully, that percentage will turn out to be much higher.



CONCLUSIONS

1. Embrace change.

The PR industry is growing in size and scope. The work is becoming more complex and challenging. The future holds lots of opportunities for those who are able to adapt to changes in technology, media and analytics.

2. Invest in ideas.

Future growth will be powered by content creation, built on multimedia platforms and driven by compelling concepts. PR will need more creative firepower and technological know-how to win the battle with advertising and digital.

3. Hire different.

Agencies and corporations are recruiting the same people from the same places. The PR profession needs to expand diversity and encourage experimentation.

4. Get paid.

Changing media channels present a dynamic business opportunity. The emphasis on earned media is shifting to owned, shared and paid. PR needs to learn and leverage paid media because that's where the business is headed and the competition is already there.

5. Instill courage.

The next generation of industry leaders must be experts at communications. But they also need to think critically and creatively, while cultivating softer skills like adaptability, curiosity and risk-taking.

ABOUT THE REPORT

The annual Global Communications Report is conducted by the University of Southern California's Center for Public Relations — in conjunction with the Holmes Report, the Institute for Public Relations, the Global Alliance for Public Relations & Communications, the International Association for Measurement and Evaluation of Communication, the PR Council, the Worldcom PR Group and PRSA. It is designed to provide unprecedented insight into the evolution of the global communications industry by analyzing emerging trends in talent, structure, compensation and diversity on both the client and agency sides of the business. A critical tool for the global public relations industry, the Report will help PR executives plan for the future and enable those entering the PR industry to better understand the skills and traits they will need to be successful.

The data for this study was collected online via the Qualtrics research platform from February 8 to March 7, 2016. The questionnaire was distributed in English. The initial analysis was conducted on two major groups:

- Those self-reporting “Public Relations or Communications Agency” best describes their organization
- Those self-reporting “Non-profit Organization,” “Private Company,” “Publicly Traded Company,” or “Other” best describes their organization.

These two groups were further constrained to those who self-reported:

1. At agencies

- a. I head the organization
- b. I report directly to the head of my organization and I have significant management responsibility
- c. I am a senior communications director responsible for a large client or a number of clients and have a number of professionals who report to me

2. At non-agencies

- a. I am the most senior communication professional in my organization
- b. I report directly to the most senior communication professional in my organization and I have significant management responsibility
- c. I am a senior communication professional responsible for managing communications for a unit or division of my organization

The total number of respondents who began the survey was 1,222 and the number who finished was 460. The sample for this survey is a “convenience” sample rather than a random sample of all senior public relations and communications practitioners. Consequently, we cannot say the results of this survey are representative of the senior public relations and communications practitioner universe. Nevertheless, we believe this data offers numerous directional insights into the attitudes, beliefs and activities of these practitioners.

ABOUT THE UNIVERSITY OF SOUTHERN CALIFORNIA CENTER FOR PUBLIC RELATIONS

Based at the Annenberg School in the heart of Los Angeles, the USC Center for Public Relations (CPR) is truly at the center of one of the world’s most dynamic professions. Our mission is to connect corporations, agencies, academics and students to define the future of our industry and to develop those who will shape it.

At CPR, we identify emerging issues and analyze new technologies. We examine current strategies and forecast future trends. We conduct communications training for business leaders and leadership training for communications professionals. We create meaningful partnerships between the corporate and academic worlds that engage Annenberg students in the real-world practice of Public Relations.

For more information, please visit annenberg.usc.edu/cpr

