

The Second Wind Network

2005 Annual Agency Survey Report

*Results based on 203 respondents to the 2005
Network-wide member poll*



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Dear Second Wind Member,

October 27, 2005

Following are the results of The Second Wind Network's 2005 Annual Agency Survey.

This survey allows you to compare your data with the average data of the rest of The Network. This, as far as I know, is the most complete survey of the "smaller to midsize" agency business that exists today. It is one of the reasons your membership in Second Wind is so valuable. The survey is a wonderful agency management tool. It immediately points to areas where your operation may need improvement, and areas where you are strong. In the past, some of our members have put this data into a spreadsheet, aligned these results with their own numbers, and developed a useful analytical tool.

Remember, different isn't necessarily bad. If your data is not in line with the average member's, you are not necessarily doing things all wrong. If you have concerns that you would like to "bounce around," feel free to call us.

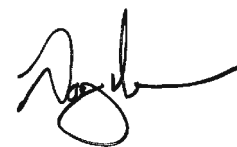
Figures, financials and all other data are drawn from the year 2004. Not all respondents answered all questions.

We received 203 responses to this year's survey questionnaire—approximately 25% of the total Second Wind Network. We thank all who responded for providing their data. To those of you who did not respond—but who clamor for the results (you know who you are)—we look forward to your participation in the 2006 Annual Agency Survey.

If you have any questions regarding this information, please call us, or email: info@secondwindnetwork.com. We will do our best to clarify any issue.

Good luck with the survey. I hope it contributes to greater profitability in 2006.

Very truly yours,



Tony Mikes
Managing Director

Summary of Financial Information

With the economy finally improving, 2004 brought much-needed stability and new opportunities for smaller and midsize agencies and design firms. Growth was still restrained, however. **Total billings** (in mean/average dollars) increased a mere 4.5% over last year's numbers. Billings also reflected the changing nature of the agency business, as agencies that once focused on traditional, full-service offerings now focus efforts on satisfying changing client demands. Media, public relations and outside purchase billings increased; the media category was particularly strong.

On the flip side, **direct costs** for media, printing and outside purchases were up. In addition, we saw **margin** increases for account service and photography, and a sizable increase in margins for public relations (71.5% this year). Creative costs were down as margins for this category rose to 82.5% from 76.7% in 2003. **Total direct costs** as a percentage of total billings increased to 60.8%.

Total agency gross income (AGI) was down slightly from 2003 numbers (calculated by subtracting total direct costs from total billings). **Capitalized billings** also showed a slight decline over 2003 data.

Total salaries as a percentage of AGI increased 4.5% from 2003. Our data indicates a slight re-apportioning of salary expenses from owner/partners to employees. We saw incremental increases in salaries for most positions, but also some reductions. (See national average salaries on page 8; and Appendix I, page 24.)

Under **agency expenses**, employee insurance costs (health, life & disability) continued to rise, although at a slightly slower pace than in recent years. Billable travel and entertainment expenses (T&E) increased, possibly due to rising fuel prices, and non-billable T&E rose as well—please be careful about incurring expenses you cannot bill. We saw a drop in the average expense for copies/fax/FedEx; perhaps we are finally embracing the paperless office and enjoying the reduced costs of paper, ink and delivery services. We saw an interesting increase in professional liability insurance, too. Second Wind would love to know what influenced this expense increase.

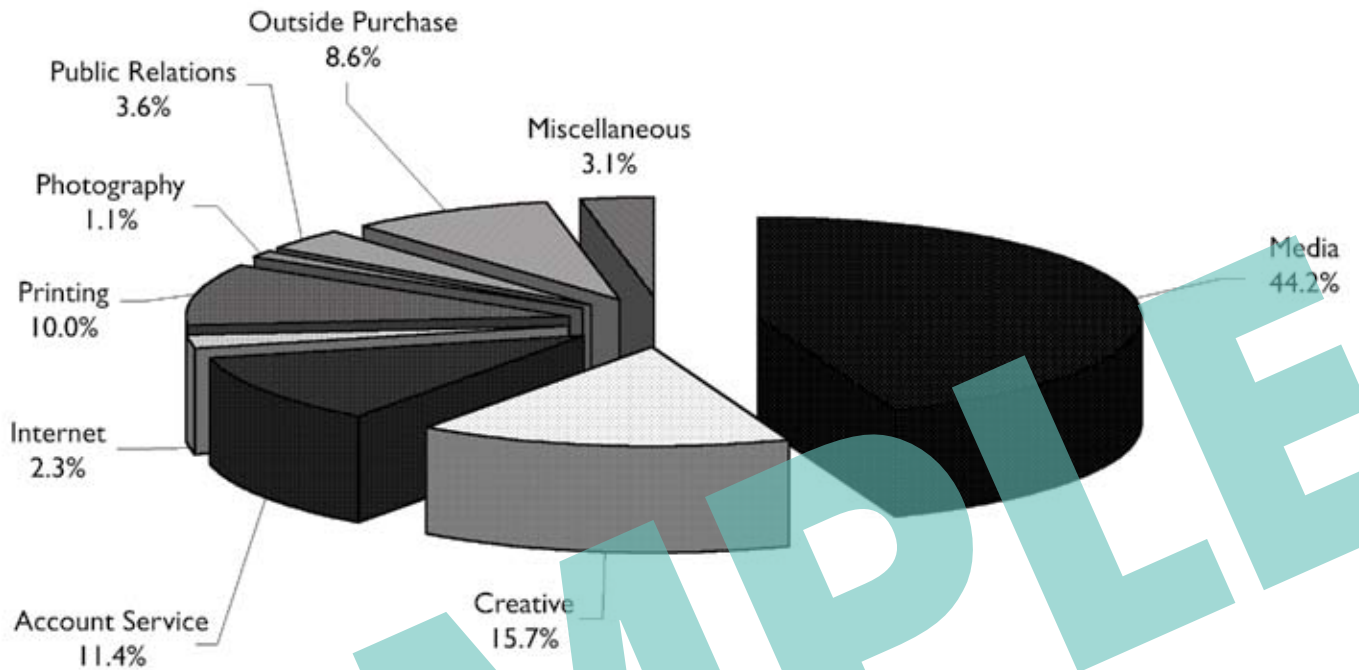
Overall, 2004 **total agency business expenses** increased to 35.7% of AGI, up from 30.8% in 2003. And total operating expenses rose to 82.9% of AGI, up from 73.5%. **Net operating income** decreased in 2004, while other income rose from 2003 levels. Total other expenses also increased slightly.

In the area of **additional compensation**, agencies increased the total outlay for employee and owner/partner bonuses, and increased profit sharing to 2.2% of AGI.

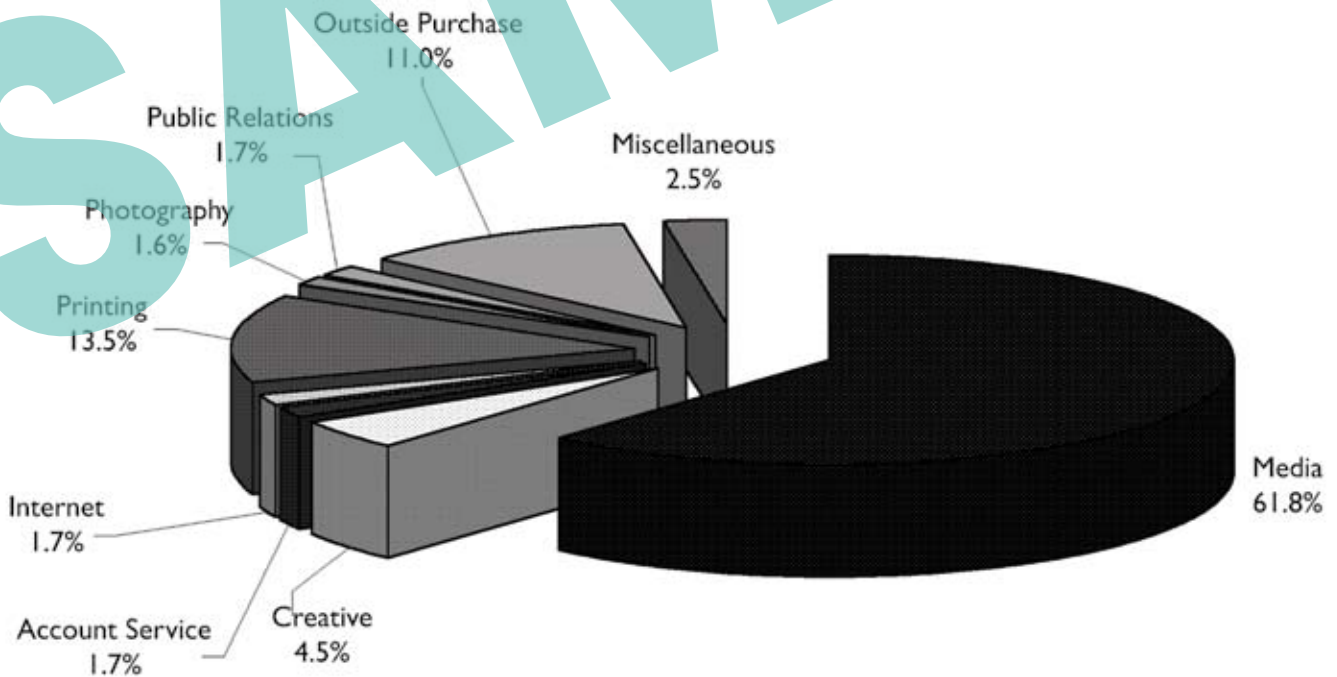
The end result: **net profit before taxes** was lower than in 2003. While agency CFOs appear to be doing many things right, they should keep a vigilant watch over the balance sheets every month and make adjustments to keep their businesses on track and profitable.

Financial Information

Percent of Total Billings



Percent of Total Costs



Financial Information

Income, Compensation, & Net Profit

	2004 Mean/Average US Dollars (\$)	2004 Percent of AGI	2003 Mean/Average US Dollars (\$)	2003 Percent of AGI
INCOME				
NET OPERATING INCOME	328,297	17.1%	533,037	26.5%
<i>AGI minus TOTAL OPERATING EXPENSES</i>				
OTHER INCOME				
Interest Earned	6,999	0.4%	4,725	0.2%
Discounts Earned	6,940	0.3%	4,447	0.2%
TOTAL OTHER INCOME	13,939	0.7%	9,172	0.4%
OTHER EXPENSES				
Interest Paid	14,956	0.8%	15,620	0.8%
Finance Charges	2,629	0.1%	3,270	0.2%
Penalties	12,316	0.6%	10,872	0.5%
TOTAL OTHER EXPENSES	29,901	1.5%	29,762	1.5%
ADDITIONAL COMPENSATION				
Total Employee Bonuses Paid	57,886	3.0%	57,887	2.9%
Total Owner / Partner Bonuses Paid	108,205	5.7%	108,019	5.4%
Total Profit-Sharing Contribution	42,562	2.2%	37,529	1.8%
TOTAL ADDITIONAL COMPENSATION	208,653	10.9%	203,435	10.1%
NET PROFIT (OR LOSS) BEFORE TAXES	103,682	5.4%	309,012	15.3%
<i>NET OPERATING INCOME plus OTHER INCOME minus OTHER EXPENSES minus ADDITIONAL COMPENSATION</i>				

Accounting / Operations

1. Your agency is located in a: **27%** - Major city/Metro area (over 1,000,000 area population; i.e., Philadelphia, Miami, Chicago, etc.)
23% - Large city/Metro area (500,000 to 999,999 area population)
38% - Small city/Metro area (100,000 to 499,999 area population)
12% - Small town/Rural area (Less than 100,000 county population)

2. Your agency is a(n): **57%** - S-corporation
32% - C-corporation
8% - LLC
3% - Sole proprietorship

3. Your agency's top industry areas of expertise: **53%** - Business-to-Business **13%** - Real Estate
39% - Health Care **12%** - High-Tech
32% - Banking/Financial **10%** - Automotive
27% - Industrial/Manufacturing **8%** - Food Services
23% - Tourism/Hospitality **5%** - Agriculture
18% - Education/Non-Profi **24%** - Other
17% - Retail

4. Average 2004 hourly billing rates for the following functions:

NATIONAL AVERAGE HOURLY BILLING RATES

Function	Average	Function	Average
Principal	\$ 152	Multimedia/Interactive	\$ 111
Account Service	108	Website Design	110
Account Planning	117	Website Maintenance	99
Creative/Design	119	DHTML/HTML Coding	109
Copywriting	110	Web Content Development	111
Computer Design	106	Estimating	91
Computer Production	97	Media Planning/Buying	104
Keyline/Mechanical	92	Public Relations	110
Research	103	Administrative/Clerical	67

For average hourly rates by region and national high/low ranges, see Appendix II, pages 26 and 27.

5. Use a "blended rate" (one rate for all services): **61% yes**

6. Have blended rates for different service categories: **34% yes**

Categories for which you have blended rates: **79%** - Account service
76% - Creative
44% - Public relations
20% - Other

7. Are Agency of Record for any clients: **80% yes**
Average percentage of clients per agency under Agency of Record contract: **50%**

8. Have a signed contract with those client(s): **79% yes**

9. Include an "Ownership of Artwork/Materials" clause in contracts with vendors and/or clients: **65% yes**

Technology

1. Functions for which you use computers in the agency:

94% - Time and Billing
94% - New Business Presentations
92% - Interactive/Multimedia/Internet
88% - Estimating
83% - Media Billing
80% - Media Planning and Analysis
78% - Traffic
31% - Other

Financial and Bookkeeping
99% - Accounts Payable
99% - Accounts Receivable
97% - Balance Sheet
97% - General Ledger
96% - Income Statement
92% - Profit Reporting
77% - Purchase Orders

2. Use the following computer platform as workstations:

94% - Macintosh
79% - PC

Number of workstations: **11**
 Number of workstations: **13**

3. Operating systems you run on your workstations:

83% - Mac OSX
25% - Mac OS 9.0+
1% - Mac OS 8.5
1% - Mac OS 8.0

65% - WinXP
22% - Win2K
15% - Win98

4. Have a dedicated workstation for every agency employee:

99% **yes**

5. Number of computers currently linked through a network:

95% - All
4% - Some
1% - None

6. Of those computers linked through a network, you use

86% - Client/server network
14% - A peer-to-peer network (no dedicated server)

Network is cross-platformed:

78% **yes**

7. Operating system running on your network:

44% - Apple Talk
40% - Windows Server
6% - Novell
6% - Unix
4% - Linux

8. Use your network(s) for:

99% - File sharing
93% - Internet access
87% - Print sharing
74% - Internet email server

56% - Remote access server
53% - Application sharing
36% - LAN email server

9. Have a full-time IT manager:

23% **yes**

For those with no IT manager, you address internal IT issues by:

71% - Contracting with an outside support provider
15% - Relying on each employee's knowledge
14% - Relying on Webmaster

10. Type of connection to the Internet:

47% - DSL connection
35% - T-1 connection
17% - Cable modem
1% - Dial-up