

DIGITAL OUTLOOK
2023

OUTLOOK2023

STUDY OVERVIEW

- ▶ The 2023 Global Digital Outlook Study was fielded in Q4 2022 in partnership with Forrester Research.
- ▶ The online survey targeted client-side executives with responsibility for digital marketing and technology along with executive leaders at agencies worldwide. All data in this report is self-reported by the respondents.
- ▶ The study results include a final, validated sample of 419 responses from client-side leaders and 98 responses from agency leaders. The data from this study looks at spending/revenue forecasts for 2023, organizational priorities, and perspectives on the shifting digital landscape.
- ▶ While inflationary pressure and continued concerns over a potential recession will undoubtedly impact these perspectives, we believe the directional guidance is still strong. 45% of client-side respondents submitted data from final, approved budgets for 2023 and another 30% were working from formal budget plans that had been submitted but not yet approved.
- ▶ This data was collected in Q4 2022 but we label it as “2023” throughout the report because it reflects plans and perspectives for the year ahead. This is also true for previous studies cited in this report. Unless otherwise noted, the data from these earlier studies was collected in Q4 of the year prior to the label. The study was NOT conducted in Q4 2020 or Q4 2021.
- ▶ The numbers we present will not always add up to 100%. In most cases, it is because the numbers have been rounded. In other cases, we have omitted the selection for “other” or “not applicable” in order to save space in the data tables.
- ▶ This information is provided for educational purposes only. It is not intended to be nor should it be used as a recommended standard or requirement in your decision-making.

SUMMARY FINDINGS

Key takeaways and observations from the 2023 outlook data.

Summary Findings (1 of 4)

Spending plans for 2023 are cautious but marketers not yet planning significant cuts.

Despite economic uncertainty, 72% of client-side leaders plan to increase their digital marketing spend in 2023 with 30-50% planning to increase spending for any specific digital line item. This data was largely collected in December and, at that time, 45% of respondents were working from final, approved budgets and another 30% were working from formal, annual budget plans that had been submitted but not yet approved. Rising inflation was the top concern impacting marketing plans (more so than concerns of an impending recession), and planned spending increases appear to be largely inflationary in nature rather than growth in real terms. Of those planning to increase their digital spend in 2023, nearly three-quarters (73%) pointed to budget increases of less than 15%. Anecdotally, we know that many client-side marketers have been slow to release new funds in Q1 of this year. Many agencies report healthy pipelines but delayed and drawn-out close-times... in some cases, by months. We also see those in the tech sector and start-up community under greater duress. We expect 2023 to be a conservative year for digital spend but not one with widespread contraction.

Reallocation of marketing budgets continues to flow in the direction of digital initiatives.

Digital agencies continue to benefit from a reallocation of overall marketing spend. 72% of client-side leaders said they plan to increase spending on digital initiatives in 2023. Of those, 49% plan to increase both digital spending and their overall marketing budget and 52% are increasing digital spend while cutting or holding their overall marketing budget flat. This isn't a new story and we've seen a slow but steady reallocation of marketing budgets (largely in favor of digital) over the past 10 years. The pandemic further accelerated this trend. That said, there are signs that we getting nearer to a ceiling here. 50% of client-side leaders say they are already spending 50% or more of their marketing budget on digital initiatives and 15% spend more than 75% on digital. While the ranges under consideration are big, this breakdown is largely unchanged from 2020. While there is no doubt that investments will continue to flow in the direction of digital, there is less and less room for budget growth from re-allocation alone. In the coming years, digital agencies may not be as insulated from shrinking budgets in tougher economic times and they'll be more beholden to net increases in overall marketing spend and/or new revenue streams from outside of the marketing organization.

Summary Findings (2 of 4)

Marketers emphasize growth and brand innovation in 2023.

Even before the pandemic escalated in March 2020, many client-side marketing leaders were simultaneously focused on organizational change and growth. For example, “evolving our internal culture/org structure” and “adopting new processes/methods for working” were top priorities coming into the year in 2020. No doubt that some of this emphasis at the time was driven by escalating efforts to build digital capabilities in-house. Faced with economic headwinds and continued competitive pressure enabled by digital technology (further accelerated in the past three years), marketers are firmly focused on growth in 2023. “Launching new products and services” is the top ranked priority for strategic investment along with “better leveraging data” and “brand innovation.” Internally-focused initiatives driven by organizational change have fallen much further down the to-do list this year .

In-house marketing teams growing, becoming more capable.

76% of client-side leaders report that they have an in-house agency that handles some creative, marketing, advertising, content and development tasks, and 51% are planning to add headcount in 2023. Across 12 digital capability areas, about 40% of client-side leaders, on average, say that they primarily handle this work with in-house teams. Coming into the year, “Websites/Web-based Marketing Experiences” (48%), “Digital Design/UX” (44%) and “Digital Content Production” (44%) were the most prevalent areas for insourcing. And while there is no doubt that in-house teams are growing and becoming more capable, we note some cyclicalities in where the most attention is focused. Furthermore, many of these capability areas have hovered around the 40% range in 4 studies over a 5-year period with movement up/down but rarely eclipsing 50%. While 80% of client-side leaders agree that insourcing has impacted the extent to which they work with external agency partners, 67% also say they plan to increase spending with external agency partners in 2023. The wholesale outsourcing of digital marketing operations is under assault, but most agencies still benefit (and find growth) from the overall, expanding portfolio of digital opportunities and new ways to collaborate with and support their client-side partners.

Summary Findings (3 of 4)

Agencies enter 2023 in a good financial position but uncertainty lies ahead.

After a strong rebound in 2021, some agencies began to experience a leveling off in 2022. While the majority of respondents reported net revenue growth (70%), margin improvement (57%) and increased billing rates (68%) in 2022, less reported performance at the top levels. Just 49% reported revenue growth of greater than 10% in 2022. That said, 81% say their agency is better off now than it was in Q4 2020 (during the pandemic) and 45% say that overall agency profitability is stronger now than it was before the pandemic.

Coming into the year, confidence among agency leaders was relatively high with 73% stating that they were “very” or “somewhat” confident that 2023 would be better than 2022 in terms of profitable growth. While that number already reflected a higher degree of uncertainty than previous years (typically around 80%), confidence has been shaken in Q1 as many client-side leaders are slow to initiate new projects. A straw poll within the SoDA community conducted in late-February showed confidence in the year ahead underwater at 47%.

The talent market remains a big challenge for many agencies.

Agency leaders continue to wrestle with an inflationary labor market and 71% say that rising costs for talent have negatively impacted their bottom line performance. In 2023, agency leaders are looking for more flexibility in staffing models and lower costs— 47% plan to use more freelance/contract talent, 42% plan to use more offshore resources, and 42% plan to “hire from anywhere” geographically. As of Q4, just 26% said they planned to increase overall headcount in 2023 even though a majority are planning for revenue growth. Recent layoffs in the tech sector and start-up community will help release more talent back into the market, but 51% of client-side respondents are planning to add headcount to their in-house teams in 2023 ensuring that competitive pressure for the best talent remains high. Inflation continues to be a factor too. The cost and availability of high-quality, digitally-oriented talent will remain a serious challenge for agencies in the year (and years) ahead with little relief in sight.

Summary Findings (4 of 4)

Agency culture and collaboration are under stress.

The best agencies have always been able to deliver a unique combination of creativity, collaboration and culture, making them an attractive place for creative people to build their careers. This has been, to some extent, a virtuous cycle: great culture attracts great people— great people create great work — great work attracts great clients and more great people enabling agencies to sustain a thriving culture. Over the past 3 years, much has been made of the benefits of the hybrid-remote work environment, but a strong minority of agencies report declines in company culture (49%), internal team communication/collaboration (43%) and, to a lesser extent, levels of creativity/innovation (34%). Ironically, 45% of agency leaders state that profitability has improved since before the pandemic. Much of that, we believe, has been driven by high utilization rates in the face of a tight labor market and understaffing. This is not a sustainable model and we believe many agencies face the risk of losing their distinction with unengaged, overworked employees who no longer experience the sense of creative magic, collaboration and close-knit community that helps creative cultures to thrive.

AI is finally here and we aren't ready for it.

Amid the explosion of OpenAI, Chat GPT, DALLÉ-2 and a host of other generative creative capabilities hitting the market, just 39% of agency leaders said they were currently using AI-technology in their operations and only 38% agreed that AI was a threat to creative/design jobs. Interestingly, 66% of client-side leaders believe that, “AI software will soon supplant the need for certain creative/design roles” and they will be looking for gains in efficiency/cost-savings sooner rather than later. In a related area, 73% of client-side leaders said that, “We expect our agency partners and/or internal teams to be expanding capabilities for creative intelligence and automation” and only 40% of agency leaders say they are growing their competency here. 52% of agency leaders believe that AI-technology can help them automate routine tasks and improve existing services/capabilities but just 30% believe it will enable them to develop new capabilities, and only 8% say that they see the potential for AI-technology to help them develop a “product-plus-services” business model.

Bottom Line: Agency leaders tend to imagine AI-technology as simply augmenting creativity and their current operating model while client-side leaders will be looking for much greater efficiency and reduced cost structures with fewer FTEs. The leaps we've seen in the last 6 months alone should be a wake-up call for agency leaders to dramatically accelerate their experimentation with and adoption of AI-technology to reimagine what their business can become.

CLIENT LEADERS

Data highlights from client-side executives with responsibility for digital marketing and technology investments.

Client-Side Marketing & Tech Leaders

This study was fielded as a global online survey in Q4 2022 in partnership with Forrester. There were 419 client-side respondents representing a wide range of sizes and industries. The global sample skews to North America (63%) with a healthy respondent pool from Europe (28%) and APAC (10%)

Client Side Respondents (n = 419)

ROLE OF RESPONDENT

C-level Executive	28%
Marketing Executive	32%
Technology Executive	16%
Other Executive	24%

MARKETING FOCUS

B2C Marketer	33%
B2B Marketer	21%
B2B2C Marketer	45%

MARKETING BUDGET (USD)

Less than \$50 MM	26%
\$50 – \$100 MM	27%
\$100 – \$500 MM	26%
Greater than \$500 MM	14%

ANNUAL REVENUE (USD)

\$100 – \$500 MM	27%
\$500 MM – \$1 BN	19%
\$1 – \$5 BN	22%
Greater than \$5 BN	24%

REGION

North America	63%
EMEA	28%
APAC	10%
LATAM	0%

INDUSTRIES

This research sample includes representation across 21 industries. Retail and financial services were the top two industries at 14% and 12%, respectively.

2023 Digital Budget Outlook

Despite concerns around the global economy, 72% of client-side leaders plan to increase their digital budgets in 2023. That said, planned increases are moderate and appear to be inflationary adjustments rather than increases in real terms. Given the general uncertainty in the economy, we've already seen clients take a cautious, "wait-and-see" approach this year. We expect 2023 to be a conservative year for digital spend but not one with widespread contraction.

Digital Budget Outlook	2019	2020	2023
<u>Increasing</u> digital budget	53%	77%	72%
Digital budget will be <u>flat</u>	24%	16%	15%
<u>Decreasing</u> digital budget	5%	6%	9%
Don't know yet / not tracked separately	16%	2%	3%

Digital Budget Outlook	2023
Significant Increase (15% or more)	19%
Moderate Increase (up to 15%)	53%
Flat / About the same as 2022	15%
Moderate Decrease (up to 15%)	6%
Significant Decrease (15% or more)	3%
Don't know yet / don't track separately	3%

Digital Spend vs. Overall Marketing Spend

For most respondents, digital spending is a strategic priority relative to general marketing spend. For those planning to increase their digital budget in 2023, 52% are increasing digital spend while cutting their overall marketing budget or holding it flat. 49% are planning to increase both digital AND overall marketing spend. 72% plan to increase digital spend in 2023.

Digital Spend vs. Overall Marketing	2018	2019	2020	2023
Increasing <u>both</u> digital budget and overall marketing budget	16%	36%	23%	49%
Increasing digital budget, overall marketing budget is <u>flat</u>	27%	17%	21%	27%
Increasing digital budget, overall marketing budget <u>decrease</u>	–	–	33%	25%
Increasing digital budget (total)	43%	54%	77%	72%

Digital Budget Allocation

The allocation of funds to “digital” line items relative to overall marketing spend is favorable, but we didn’t see a significant shift from the last few years. In 2023, there was little change in the top two brackets with half of client-side leaders spending 50% or more of their marketing budget on digital initiatives. Albeit, these are broad ranges with plenty of room for growth within them.

Digital Allocation	2018	2019	2020	2023
Less than 25% of overall marketing budget	11%	17%	18%	12%
Between 25-50% of overall marketing budget	44%	40%	30%	33%
Between 50-75% of overall marketing budget	29%	27%	32%	35%
Greater than 75% of overall marketing budget	16%	10%	18%	15%
Don't know / Don't track separately	-	7%	2%	6%

Factors Impacting Marketing Plans

It's no surprise that the economy is top of mind for client-side leaders. That said, coming into the year, "rising inflation" was a more pressing factor than "indication of economic recession." While this will vary across industry (we know the high-tech and start-up sectors are under duress), it suggests that rising costs are weighing more heavily in decision-making than widespread concerns over economic contraction. That, of course, may change as the year unfolds but does not appear to be the majority mindset in Q1.

Top Factors Impacting Marketing Plans		2023	2023
Rising inflation	49%	Political and geopolitical risks	21%
Rise of values-based consumers	35%	Climate change	20%
Changes in the supply chain	34%	Third party cookie deprecation	15%
Indication of economic recession	33%	State privacy regulations	15%
Concerns around consumer privacy	30%	Unionization	10%

Areas Slated For Spending Increases

Coming into 2023, websites and web-based marketing experiences, digital products/services and B2B marketing campaigns/programs were the most common areas where client-side leaders projected budget growth. This compares favorably with recent years. Those planning to invest more in non-marketing digital products/platforms/experiences continues to rise YoY and is likely related to the increased focus on “customer experience” outside of pure awareness, acquisition and retention investments.

Areas for Planned Budget Increase	2023		2023
Websites and website-based marketing experiences	53%	Media planning/buying (including paid search)	42%
Digital products/services (non-marketing)	50%	Native mobile application design/development	42%
B2B marketing programs/campaigns	49%	Metaverse-related projects/experiences	40%
Data analytics/research	48%	AR/VR/Mixed Reality experiences	39%
Marketing campaign development/execution	47%	Physical-Digital experiences/installations	39%
Platform implementations (CMS, Ecommerce, etc.)	45%	Standalone strategy without execution	36%
Retail media campaigns (inside retail media networks)	45%	Standalone UX/design without implementation	36%
Custom application design/development	44%	Standalone content production without implementation	35%
Web3-related projects (blockchain, NFTs, crypto, etc.)	43%	Voice/“No UI” applications/experiences	34%

Plans For Paid Media Budgets

Between 40-50% of respondents reported that they plan to increase paid media budgets in 2023. There was not a significant difference in channels with 48% planning to increase spending in online display advertising and 41% planning to increase spending for traditional advertising. These numbers land closely within the 4-study average indicating a relative maturity for these channels.

Increasing Advertising Budgets	2018	2019	2020	2023
Online Display <u>excluding</u> social	38%	36%	45%	48%
Paid Social	47%	40%	45%	46%
Video Advertising <u>excluding</u> social	49%	36%	43%	46%
Paid Search	34%	38%	38%	41%
Traditional Advertising	33%	26%	38%	41%

Metaverse And Web3 Initiatives

More than 60% of client-side leaders reported that Metaverse and Web3 initiatives are a strategic priority or growing area of importance in 2023. In a separate question, 40% and 43% respectively, said that they planned to increase spending in these areas this year. While the budget amounts are likely to be smaller than established digital channels/tactics, it appears that there is a growing interest and receptivity here. For the sake of clarification, we view Web3 and Metaverse as two separate and distinct areas. We are grouping them together on this slide as emerging areas of interest.

Metaverse	2023
Strategic Priority (investing heavily)	24%
Growing Area of Importance (healthy investment)	43%
Area of Experimentation (minimal investment)	18%
Monitoring/Watching Competitors (no investment)	7%
Not a priority / minimal interest	8%

Web3	2023
Strategic Priority (investing heavily)	25%
Growing Area of Importance (healthy investment)	37%
Area of Experimentation (minimal investment)	20%
Monitoring/Watching Competitors (no investment)	8%
Not a priority / minimal interest	10%

AI And Machine Learning

A majority of client-side leaders report that they are currently using AI in their marketing and creative operations. The top uses have changed little since 2020— automating routine tasks and predictive analysis/scenario planning. This data was collected in Q4 2022 (at the beginning of the DALLE-2 and Chat GPT explosion) and we imagine the situation will be quite different in 12 months.

59% of client-side leaders say they are using some form of AI/ML in their digital initiatives.

66% agree that, “AI software will soon supplant the need for certain creative/design roles.”

Top Uses for AI/ML	2023		2020		
	2023	2020	2023	2020	
Automate routine administrative tasks	47%	56%	Augment existing products/services	32%	30%
Predictive analysis/scenario planning	46%	55%	Streamline creative/content production	28%	—
Quicker responsiveness to customer actions	44%	40%	Inspire/inform creative outputs	26%	—
Generate customer insights	43%	56%	Streamline development/testing	24%	—
Handle tasks previously managed by staff	34%	27%	Generate creative copy/images	11%	—

In-House Creative/Marketing Teams

76% of client-side leaders say that have an in-house agency that handles some creative, marketing, advertising, content and development tasks. More than half are planning to add headcount in 2023.

76%

of client-side leaders say that have an in-house digital creative/tech/marketing team.

Size of In-House Agency Team	2023
Less than 25	16%
Between 25-50	16%
Between 50-100	22%
Between 100-200	24%
Greater than 200	22%

Plans for Headcount	2023
Adding headcount to in-house team	51%
About the same as 2022	43%
Reducing headcount for in-house team	4%

In-sourcing By Capability Area

Primarily Handled By In-House Teams	2018	2019	2020	2023	Average	Trend
Websites and Website-based Marketing Experiences	51%	39%	23%	45%	40%	more in-house
Digital Design and UX	-	36%	36%	44%	39%	more in-house
Digital Content Production	33%	39%	29%	44%	36%	more in-house
Customer Insights/Analytics/Research	53%	41%	32%	43%	42%	mixed
Digital Campaign Creative/Execution	35%	40%	43%	42%	40%	stable
Digital Products (e.g. non-marketing platforms, apps, services)	34%	40%	35%	42%	38%	stable
Native Mobile App Development	29%	35%	32%	41%	34%	more in-house
Programmatic Advertising	-	39%	40%	41%	40%	stable
Emerging Technology Projects (e.g. AR/VR, AI, Voice, IoT, etc.)	38%	37%	36%	41%	38%	Stable
Digital Strategy	32%	42%	53%	39%	42%	mixed
Social Media Marketing	48%	42%	28%	38%	39%	more in-house
Digital Media Planning/Buying (including paid search)	34%	35%	32%	38%	35%	Stable

Benefits Of Insourcing

While cost-savings is certainly an important factor in the rationale behind insourcing, client leaders point to a range of benefits related to agility, control/visibility, brand knowledge and even caliber of work. Interestingly, “cost-savings” fell from #2 in the rankings to #7 between Q4 2020 and Q4 2023. “Results/ROI” comes in last at #10. It’s worth noting, however, that the range from top-to-bottom is within 11-points, suggesting the real impact of insourcing varies widely across in-house teams.

Top Benefits of In-Sourcing	2023	2020 (Rank)		2023	2020 (Rank)
Flexibility / Agility (we are able to change direction more easily)	32%	1		Higher Caliber of Work (we produce higher quality work)	30% 4
Control / Visibility / Transparency (we have more control and visibility into costs and outcomes)	32%	8		Cost Savings (less expensive than working with external partners)	29% 2
Strategic Focus (our work is more strategically aligned internally)	32%	5		Time to Market (we can execute projects more quickly)	23% 3
Brand Knowledge (we retain deeper brand knowledge internally)	31%	7		Integration (our work is better integrated with related company initiatives)	23% 9
Innovation (we produce higher degrees of innovation)	30%	-		Results / ROI (we deliver a stronger ROI than we can with external partners)	21% 6

Spending With External Partners

The impact of insourcing digital marketing, design and technology is mixed. While 80% of client-side leaders agree that in-sourcing has impacted the extent to which they work with external agency partners, 67% say they plan to increase spending with external agency partners in 2023. While the wholesale outsourcing of marketing operations is under assault, most agencies can still benefit from increased digital spending overall and an expanding portfolio of digital opportunities.

Spending w/ External Agency Partners	2023
Significant Increase (15% or more)	18%
Moderate Increase (up to 15%)	49%
Flat / About the same as 2022	20%
Moderate Decrease (up to 15%)	7%
Significant Decrease (15% or more)	1%
Not sure / don't know	5%

80%

“The in-sourcing of digital marketing, design and technology work has impacted the extent to which we engage with external agency partners.”

An Emphasis On Growth In 2023

Even before the pandemic escalated in March 2020, client-side leaders were focused more heavily on organizational change. Faced with economic headwinds and continued competitive pressure enabled by digital technology (accelerated in the past three years), marketers are firmly focused on growth in 2023. “Launching new products and services” is the top ranked priority for strategic investment along with “better leveraging data” and “brand innovation.”

Strategic Priorities for Investment in 2023	2023		2020 (Rank)		
	2023	2020 (Rank)	2023	2020 (Rank)	
Launching new products and services	30%	10	Evolving our internal culture and org structure	25%	3
Leveraging data to make smarter/faster decisions	29%	2	Adopting new methods/processes for working	25%	1
Differentiating our brand through innovation	27%	6	Competing more aggressively on price	24%	8
Creating a more effective/nimble partner ecosystem	26%	7	Expanding into new geographic regions	24%	9
Embracing emerging tech before our competitors	25%	5	Cultivating a better understanding of customer needs	24%	4

Note: For the 2023 outlook, respondents were asked to select the Top 3 factors. For the 2020 outlook, respondents were asked to force-rank the Top 3.

Perspectives On A Few Industry Topics

When it comes to an assortment of broader industry topics, client-side leaders are prone to agree on the impact of in-sourcing and a need for their agency partners and teams to embrace creative intelligence and automation. Just over half say that rising costs for talent has negatively impacted their ability to hire internal employees.

Industry Issues	Agree
“The insourcing of digital marketing, design and technology work has impacted the extent to which we engage with external agency partners.”	80%
“We expect our agency partners and/or internal teams to be expanding capabilities for creative intelligence and creative automation.”	73%
“AI software will soon supplant the need for certain creative/design roles.”	66%
“Rising costs for talent has forced us to pay higher hourly rates to our partners.”	63%
“Proliferation of content formats/types is a major challenge for us to manage and produce.”	59%
“Rising costs for talent has negatively impacted our ability to hire internal employees on our team.”	56%

73%

“We expect our agency partners and/or internal teams to be expanding capabilities for creative intelligence and creative automation.”

Top Areas For Agency Improvement

When asked to select the Top 3 areas where their agency partners could improve, there was little consensus with just 10 points separating the top and bottom of the list. Practically speaking, we don't think there are any major conclusions to draw from this data as each client-agency relationship has its own set of circumstances. That said, it's interesting to note that "different pricing models" and "more flexible/nimble working models" were not nearly as high on the radar this year.

Top Areas of Improvement for Partners	2023		2020 (Rank)		2023	2020 (Rank)
	2023	2020 (Rank)	2023	2020 (Rank)		
Stronger strategic leadership	24%	5	Stronger technology capabilities	19%	4	
More collaborative	24%	8	Stronger data capabilities	18%	6	
Broader/more integrated capabilities	22%	12	More flexible/nimble working models	18%	1	
Faster production/turn-around	21%	7	More options for training/staff aug	15%	9	
Stronger design/UX/creative	21%	3	Integrate creative with media	15%	—	
Deeper specialization	21%	10	Better connect upper-lower funnel mktg	14%	—	
Different pricing models	20%	2	More streamlined agency org/leadership	14%	—	

Note: In 2023, respondents were asked to select the Top 3. In 2020, they were asked to force-rank the Top 3.

People, Culture & Broader Social Issues

Client-side leaders appear to be taking on a range of broader social and industry issues— employee well-being, design ethics, climate change, diversity, accessibility, pay equity and social justice are all areas where nearly two-thirds or more of respondents said they were making financial investments in 2023. It’s tough to tell how much of this is posturing versus reality... everything can’t be a priority. It’s clear, however, that these issues are recognized with high-degree awareness and, at the very least, a sense that more needs to be done.

Broader Social/Industry Issues	A Priority		A Priority
Investing in employee skills development to fill talent shortages	72%	Building a diverse team	67%
Fostering employee health and well-being	71%	Designing for accessibility and inclusiveness	67%
Adopting a strong set of design ethics to help combat some of the growing issues with digital media consumption <small>(screen addiction, disinformation, depression, etc)</small>	70%	Ensuring equitable pay and opportunity regardless of gender or ethnicity	67%
Making a direct impact on climate change and the sustainability of our planet	68%	Taking a stand on issues related to social justice	64%
Creating a culture of inclusion and belonging	67%		

AGENCY LEADERS

Data highlights from agency founders, partners and executive leaders on priorities and outlook for the year ahead.

Agency Leaders

This study was fielded as a global online survey in Q4 2022 in partnership with Forrester. There were 98 agency-side respondents representing a range of sizes, agency types and regions. The sample skews to smaller agencies under \$10MM (USD) in annual net revenue (51%) with primary operations in North America (65%).

Agency Respondents (n = 98)

ROLE OF RESPONDENT

Founder/Partner/C-suite	70%
SVP/EVP/VP	12%
Director/Practice Lead	11%
Other Leadership	6%

NET REVENUE (USD)

Less than \$5 MM	43%
\$5 – \$10 MM	18%
\$10 – \$25 MM	20%
Greater than \$25 MM	20%

AGENCY TYPE

Digital Agency	41%
Digital Product Studio	15%
Integrated Agency	11%
Advertising/Comms Agency	8%
Brand Creative Agency	7%
Consultancy	6%
Production Company	6%
Other agency type	5%

REGION

North America	65%
EMEA	19%
APAC	12%
LATAM	2%

OWNERSHIP

Independent	80%
Some External Investment	9%
Owned / Holding Co	6%
Owned/Consultancy/PE	5%

Financial Performance In 2022

After a strong rebound year in 2021, some agencies began to experience a leveling off in 2022. While the majority of respondents reported net revenue growth (70%), margin improvement (57%) and increased billing rates (68%), less reported performance at the top levels. Just 49% reported revenue growth of greater than 10% in 2022. Coming into 2023, the majority of agencies are in a healthy financial position and prepared to weather what may be a more challenging year ahead.

2022 Financial Performance	Net Revenue	Net Margin %	Billing Rates
Increased more than 20%	27%	13%	10%
Increased between 10-20%	22%	14%	24%
Increased up to 10%	21%	20%	34%
About the same as 2021	17%	33%	25%
Declined	13%	21%	8%

Net Revenue Growth > 10%

CY 2017	59%
CY 2019	54%
CY 2020	33%
CY 2021	73%
CY 2022	49%

Uncertainty In Q1 2023

Coming into the year, confidence among agency leaders was relatively high with 73% stating that they were “Somewhat” or “Very” Confident that 2023 would be better than 2022 in terms of profitable growth. While that number already reflected a higher degree of uncertainty than previous years, confidence has been shaken in Q1 as many client-side leaders are slow to initiate new projects. A straw poll within the SoDA community conducted in late-February showed confidence underwater at 47%.

Confidence in 2023	Q4 '22	Q1 '23*	
Very confident	21%	16%	Very confident
Somewhat confident	52%	31%	Somewhat confident
Neither confident/unconfident	15%	20%	Neither confident/unconfident
Somewhat unconfident	11%	25%	Somewhat unconfident
Very unconfident	1%	8%	Very unconfident

Confidence Dropped in Q1

Q4 '18	82%
Q4 '19	82%
Q1 '20	36%
Q4 '21	82%
Q2 '22	86%
Q4 '22	73%
Q1 '23*	47%

* Data for Q1 2023 is SoDA members only with a sample size of 51 and shared for informational purposes only.

Areas For Revenue Growth

A majority of agency leaders expect revenue growth in non-marketing-related digital products and services. As digital technology continues to spread across the enterprise, more agencies are finding that their capabilities translate beyond the marketing discipline into areas such as digital transformation, product innovation, customer experience, sales enablement and more. Only 20% of agency leaders expect to see revenue growth in emerging areas such as Web3 and Metaverse-related projects.

% of Agencies Projecting Revenue Growth	2023		2023
Digital products / services (non-marketing)	54%	Native mobile application design/development	27%
Websites and website-based marketing experiences	47%	Media planning/buying (including paid search)	22%
Projects related to digital transformation initiatives	46%	Metaverse-related projects/experiences	20%
Marketing campaign development/execution	41%	Web3 projects/initiatives (blockchain, NFTs, crypto, etc.)	20%
Data analytics/research	41%	Physical/digital installations and experiences	20%
Platform implementations (CMS, e-commerce, etc.)	38%	AR/VR/Mixed Reality experiences	18%
Commerce-related services (e-commerce, marketing, social)	37%	Voice/“No UI” applications/experiences	8%
Standalone content production without implementation	31%		

AI – Where’s The Love?

Amid the explosion of Chat GPT, Midjourney and a host of other generative creative capabilities, just 39% of agency leaders said they were currently using AI-technology in their operations and only 38% agreed that AI was a threat to creative/design jobs. AI technology is advancing rapidly and the leaps we’ve seen in the last 6 months alone mean these numbers are likely to change dramatically in the year ahead. Agency leaders will need to accelerate their experimentation with and adoption of AI these emerging tools.

39% of agencies are using some form of AI in their operations, creative or development processes.

38% agree that, “AI software will soon supplant the need for certain creative/design roles.”

AI Usage in the Agency	Using AI		All		
	Using AI	All	Using AI	All	
Inspire and inform creative outputs	50%	20%	Augment/enhance the services we offer to clients	32%	12%
Automate routine administrative tasks	47%	19%	Streamline creative/content production	29%	11%
Generate creative copy/images	45%	18%	Analyze the performance of our business	29%	11%
Generate predictive analysis and scenario planning	32%	12%	Assess resource / capacity planning	3%	1%
Streamline development/testing	32%	12%	Other	8%	3%

Impact Areas For AI In Next 3 Years

Looking ahead, agency leaders see the potential for AI technology to automate routine tasks, augment or improve existing services and enable remote teams to collaborate more effectively. Just 16% believe that the technology will reduce their dependence on FTEs in the next 2-3 years and less than a third see the technology enabling them to develop entirely new capabilities.

Impact of AI on Agency Model in Next 2-3 Years		Agency	Agency
Automating routine tasks	52%	Delivering more accurate, predictive forecasting of future needs	23%
Augmenting and/or improving our core services and capabilities	40%	Enabling us to do the same amount of work with less people	22%
Enabling distributed teams to work more effectively	38%	Improving client collaboration	18%
Enabling us to develop entirely new capabilities	30%	Reducing dependence upon FTEs	16%
Providing deeper insight into company performance	24%	Helping to create product-plus-service models/offerings	8%

Competitive Landscape

The rise of in-house digital creative/marketing/technology teams has been a steady trend over the past 5 years. Coming into 2023, 45% of agency leaders said this is one of their primary sources of competition... up from 34% in 2020. Competition from off-shore delivery providers is on the rise too. We saw a slight decline in those citing consultancies as a primary source of competition.

Primary Sources of Competition	2023		2020		
	2023	2020	2023	2020	
In-house client teams	45%	34%	Digital product studios	14%	-
Specialized digital agencies	44%	43%	Other agency/provider types	14%	-
Full-service digital agencies	41%	38%	Production companies	12%	20%
Off-shore delivery providers	21%	12%	Software co's w/ professional services	9%	12%
Consultancies	20%	29%	Performance marketing agencies	9%	-
Design/innovation studios	20%	-	Digital media co's (Facebook, Google, etc)	3%	-
Traditional/integrated agencies	15%	24%			

Insourcing Pressure By Capability Areas

45% of agency leaders cite in-house marketing/creative/technology teams as a primary source of competition and 40% agree that the insourcing of this work has “negatively impacted our business.” Across 18 capability areas, the greatest number of agency leaders point to pressure on services related to strategy, content production, visual design and front-end development. Fewer see a direct impact in specialities such as video/motion/3D, digital media planning/buying or user research/testing. Although, these numbers also reflect the fact that fewer agencies in our survey offer those services.

Insourcing Pressure for Agencies		2023	2023
Strategy/strategic planning	31%	Technology (custom app dev)	14%
Content creation/production	24%	Data analytics/reporting	13%
Visual design	23%	Online advertising/media planning/paid search	12%
Technology (front-end dev)	21%	Video/motion/3D	9%
Creative/ideation	19%	Email marketing	9%
UX design	19%	B2B marketing services	9%
Social media/marketing	19%	Digital media planning/buying	8%
Creation of brand identity	14%	User research/testing	6%
Technology (back-end dev)	14%	Creation of design systems	5%

Tackling The Labor Market

Agency leaders continue to wrestle with an inflationary labor market. In fact, 71% say that rising costs for talent have negatively impacted their bottom line performance. In 2023, agency leaders are looking for more flexibility in staffing models and lower costs. As of Q4, just 26% said they planned to increase overall headcount in 2023 even through a majority are planning for revenue growth.

Agency Plans for Staffing in 2023		Agency	Agency	
Using more freelancers/contractors	47%	Increasing overall headcount	26%	
Hiring from anywhere (geographically)	42%	Using technology to replace FTEs associated with routine tasks	19%	
Using offshore resources to flex team / bring down costs	42%	Hiring in closer proximity to office	10%	
Hiring more senior, full-time employees	35%	Reducing overall headcount	9%	
Investing more in employee skills development to fill talent gaps	33%	Hiring/training resources from outside of the industry	8%	
Hiring more junior, full-time employees	29%			

Culture & Collaboration Under Stress

While much has been made about the move to a hybrid-remote work environment, a strong minority of agencies report declines in company culture (49%), internal team communication/collaboration (43%) and, to a lesser extent, levels of creativity/innovation (34%). Ironically, 45% of agency leaders state that profitability has improved since before the pandemic. Much of that, we believe, has been driven by post-pandemic spikes in demand, a tight labor market, understaffing, and higher utilization rates as a result of these factors. Longer term, this is not a sustainable model and agencies risk losing the very things that make them an attractive place for creative people to build their careers.

Q1 2020 vs. Q4 2023	Q1 2020 vs. Q4 2023			Q1 2020 vs. Q4 2023			
	Improved	No Change	Declined	Improved	No Change	Declined	
Creativity/Innovation	14%	52%	34%	Communication/Collaboration (external agency/partners)	26%	53%	22%
Work Quality	18%	68%	15%	Company Culture	24%	27%	49%
Productivity/Efficiency	34%	45%	22%	Pitching New Business	25%	55%	20%
Workflow/Process	33%	45%	21%	Agency Profitability	45%	40%	15%
Communication/Collaboration (internal team)	24%	33%	43%				

Perspectives On A Few Industry Topics

We asked agency leaders for their perspective on a range of industry topics. 81% agree that their agency is now better off than it was 2 years ago (Q4 2020) suggesting that most have fully recovered from the pandemic downturn. 82% say they are becoming more specialized. Less than one-third felt that Metaverse or Web3-related initiatives would present big opportunities for them in 2023.

% Of Agency Leaders Who Agree With The Statement	Agree		Agree
<p>“We are becoming more specialized and focused in the capabilities we offer.”</p>	<p>82%</p>	<p>“We are expanding/ adding creative intelligence and creative automation to enhance our services.”</p>	<p>40%</p>
<p>“Our agency is better off than it was 2 years ago.”</p>	<p>81%</p>	<p>“The insourcing of digital marketing, design or tech work by clients has negatively impacted our business.”</p>	<p>40%</p>
<p>“Rising costs for talent have negatively impacted our bottom-line performance.”</p>	<p>71%</p>	<p>“AI software will soon supplant the need for certain creative/design roles.”</p>	<p>38%</p>
<p>“We are expanding our capabilities to deliver a more integrated/full-service offering.”</p>	<p>60%</p>	<p>“We anticipate significant new project opportunities in 2023 related to Web3 technologies.”</p>	<p>28%</p>
<p>“Proliferation of content formats/types is a major challenge for our clients.”</p>	<p>56%</p>	<p>“We are very optimistic about Metaverse opportunities in 2023.”</p>	<p>16%</p>
<p>“We are adding B2B marketing services to our offering.”</p>	<p>43%</p>	<p>“Our agency accepts or has accepted payment for services in cryptocurrency.”</p>	<p>5%</p>

Key Challenges Facing The Agency Business

It's not surprising that economic uncertainty and rising costs for talent are top of mind for agency leaders. Despite competitive factors covered on the previous slides, just 4% cite the insourcing of digital capabilities by client teams as a top challenge.

Biggest Challenges Facing Agency		2023	2023
Economic volatility/uncertainty	51%	Quality of work/creative	10%
Rising costs for talent	46%	Emergence of software that supplants/automates services we offer	8%
Lead generation	37%	Siloes in the client organization	5%
Pricing pressure	27%	In-housing of digital capabilities by clients	4%
Achieving scale	25%	Strategy / determining where to focus	4%
Access to the talent/skills we need	24%	Building a diverse team and inclusive company culture	3%
Operational efficiency	19%	Responding effectively to important social issues	3%
Navigating the rapid pace of change	12%	The complexity and pressure placed on CMOs	3%

Areas Of Investment In 2023

2023 appears to be a year for agencies to re-trench. In looking at priorities for strategic investment, operational improvements and expansion of sales and marketing resources top the list. Developing new services/capabilities dropped from 49% in 2020 to 32% this year. Nearly a quarter of agency leaders pointed to M&A activity as a top area for strategic investment in 2023. We assume this is more reflective of agencies hoping to sell/merge their business rather agencies attempting to buy/acquire new businesses.

Top Priorities for Strategic Investment					2023	2020
	2023	2020	2023	2020	2023	2020
Improving the efficiency of our operations	42%	24%	Building and selling our own products / intellectual property	18%	18%	20%
Improving / expanding our sales and marketing resources	35%	26%	Working on lower cost delivery models	18%	18%	26%
Developing new services/capabilities	32%	49%	Rebranding/repositioning our agency	18%	18%	-
Narrowing our focus to become more specialized	29%	18%	Partnering with other service providers to expand our service offerings	11%	11%	20%
Investing in employee skills development (up-skilling)	24%	-	Increasing compensation, incentives and benefits for our employees	11%	11%	-
M&A activity	23%	-	Adopting automation and technology into operations	10%	10%	-
Expanding to new geographic markets	19%	32%				

People, Culture & Broader Social Issues

When it comes to broader social issues, agency leaders remain most focused on the health of their company culture and the well-being of their employees. For example, 70% state that “creating a culture of inclusion and belonging” is an important priority and only 58% say that “building a diverse team” is a priority. Less than a quarter of respondents believe that broader social issues related to climate change, social justice and design ethics are a priority for their business.

Broader Social/Industry Issues		Priority	Priority
Fostering employee health and well-being	78%	Building a diverse team	58%
Creating a culture of inclusion and belonging	70%	Making a direct impact on climate change and the sustainability of our planet	24%
Ensuring equitable pay and opportunity regardless of gender or ethnicity	61%	Adopting a strong set of design ethics to help combat some of the growing issues with digital media consumption <small>(screen addiction, disinformation, depression, etc)</small>	23%
Investing in employee skills development to fill talent shortages	61%	Taking a stand on issues related to social justice	18%

Are DEI Commitments Flagging?

Agency commitments to diversity, equity and inclusion seem to be stuck and, if anything, declining from a peak in late-2020. Agencies stating that they have a formal DEI policy or track gender pay equity is essentially flat compared to Q4 of 2019. Comparing this current outlook data with an internal SoDA study from Q1 2021 (arguably a height for widespread and “public” agency commitments) those stating that DEI is a priority for their agency dropped from 79% to 48%.

Have A Formal DEI Policy	
Q4 '19	56%
Q4 '23	50%

Track Gender Pay Equity	
Q4 '19	41%
Q4 '22	42%

Priority of DEI in our Agency	Outlook '23	SoDA Internal Study
	Q4 2022	Q1 2021*
An urgent / mission critical priority	10%	22%
An important priority	38%	57%
An area of emphasis	18%	10%
An area of discussion	8%	12%
Not a priority	8%	8%

* Data for Q1 2021 is from a SoDA members-only survey with a sample size of 51 and is shared for comparative purposes only.

Mind The Gaps

Agency leaders and client-side marketing and technology leaders hold differing perspectives on a number of issues. Some of this can be chalked up to semantics, degrees of magnitude and a natural tension between buyers and sellers. In other cases, we believe agency leaders may be discounting areas of growing sentiment and expectation among potential clients. A disconnect around the importance of creative intelligence/automation and the potential impact of AI are, perhaps, the most relevant and pressing.

% Who Agree With The Statement	Agency	Client	
“We are expanding/ adding creative intelligence and creative automation to enhance our services.”	40%	73%	“We expect our agency partners and/or internal teams to be expanding capabilities for creative intelligence and automation.”
“AI software will soon supplant the need for certain creative/design roles.”	38%	66%	“AI software will soon supplant the need for certain creative/design roles.”
“We are very optimistic about Metaverse opportunities in 2023.”	16%	67%	“What is your approach to the Metaverse in 2023?” (% making a healthy or significant investment)
EDI is a critical/important priority for the agency.	48%	75%	Team diversity is a critical/important priority when selecting an agency partner.
“The insourcing of digital marketing, design or tech work by clients has negatively impacted our business.”	40%	80%	“The insourcing of digital marketing, design and tech work has impacted the extent to which we engage with external agency partners.”
“Rising costs for talent have negatively impacted our bottom-line performance.”	71%	56%	“Rising costs for talent has negatively impacted our ability to hire internal employees on our team.”



About SoDA

SoDA is a global network of digital agency founders, creative innovators and technology disruptors. With 95 agencies in more than 20 countries, our members help the world's most progressive brands imagine and create the future of digital experiences. Find us online at www.sodaspeaks.com.

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