2024 Agency Landscape

Digital Agency Industry Report

Promethean Research

Contents

SECTION 01

Executive Summary

The digital agency industry is one of the more attractive ones for several reasons. Since 2015, participants have grown at an average rate of 13% and earned an average net margin of 15%. This, along with near-zero barriers to entry, has attracted a steady stream of new participants.

Despite its attractiveness, the digital agency industry is not without its challenges. Many of the industry's best practices are underdeveloped or poorly disseminated. However, the average level of sophistication has been steadily increasing in recent years, challenging owners to pay closer attention to how and where their firms operate. This is evident in the increasing number of agency leaders who are tracking more advanced metrics like utilization rates, a sign of the industry's evolution.

This report offers an overview of this dynamic sector, identifying growth drivers, profitability drivers, and structures of digital agencies. Our research encompasses over 45,000 digital agencies across more than 20 countries since 2015, utilizing online surveys, interviews, and secondary research sources. The insights we present are based on proprietary data collected by Promethean Research and other secondary sources.

This research, combined with additional data we've gathered, enables us to guide our digital agency clients more effectively. We strive to uncover opportunities, refine strategies, and design new pathways to success in an ever-changing environment. Join us as we delve into the heart of this rapidly evolving industry.

- Nicholas Petroski

Founder, Promethean Research

SECTION 02

Introduction

About The Author

Nicholas Petroski is the founder of Promethean Research.

Since 2015, he has helped over 100 digital agency owners better understand their industry and chart more effective paths to success.

Before cofounding Promethean, Nick worked as an equity analyst at a Wall Street firm covering the enterprise software and semiconductor industries.

You can find him backpacking around the Midwest or making ~~elaborate firewood~~ fine furniture in his woodshop when he's not in the office.

If you have any questions about this guide, or if you'd like to chat about the digital agency industry, feel free to reach out:

Book an intro chat with Nick

Stay Informed

Subscribe to our newsletter to get the latest research, insights, tools, and resources that make managing a digital shop easier.

Read some absolute bangers like:

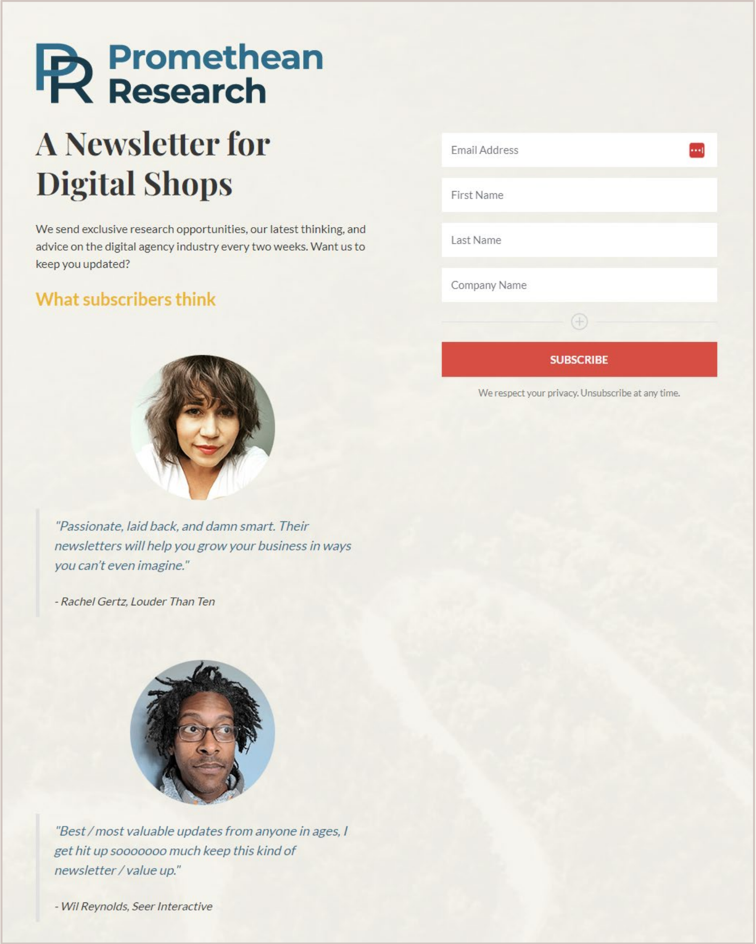
Digital Agencies Don't Scale – A clickbaity but substantive deep dive into the differences between growth and scaling and how it can be disastrous for shops to try to "scale."

The Most Common Agency Revgen Issue – An argument for the importance of a single, clear strategic source of truth for digital agencies and the benefits having one provides.

And

The Wide Agency Divide – Here, I explore the massive gap between the top agencies and everyone else with a detailed breakdown of the differences and how you can close the gap.

Don't miss new articles and reports



Disclaimer

This report is provided by Promethean Research LLC. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as business advice or recommendations, does not constitute a solicitation to buy or sell securities, and should not be considered specific business, legal, investment, or tax advice. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report may contain market and/or economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. Promethean Research LLC and its affiliates are not liable for any errors or omissions in the information, analysis, or views contained in this report, or for any loss or damage suffered.

SECTION 03

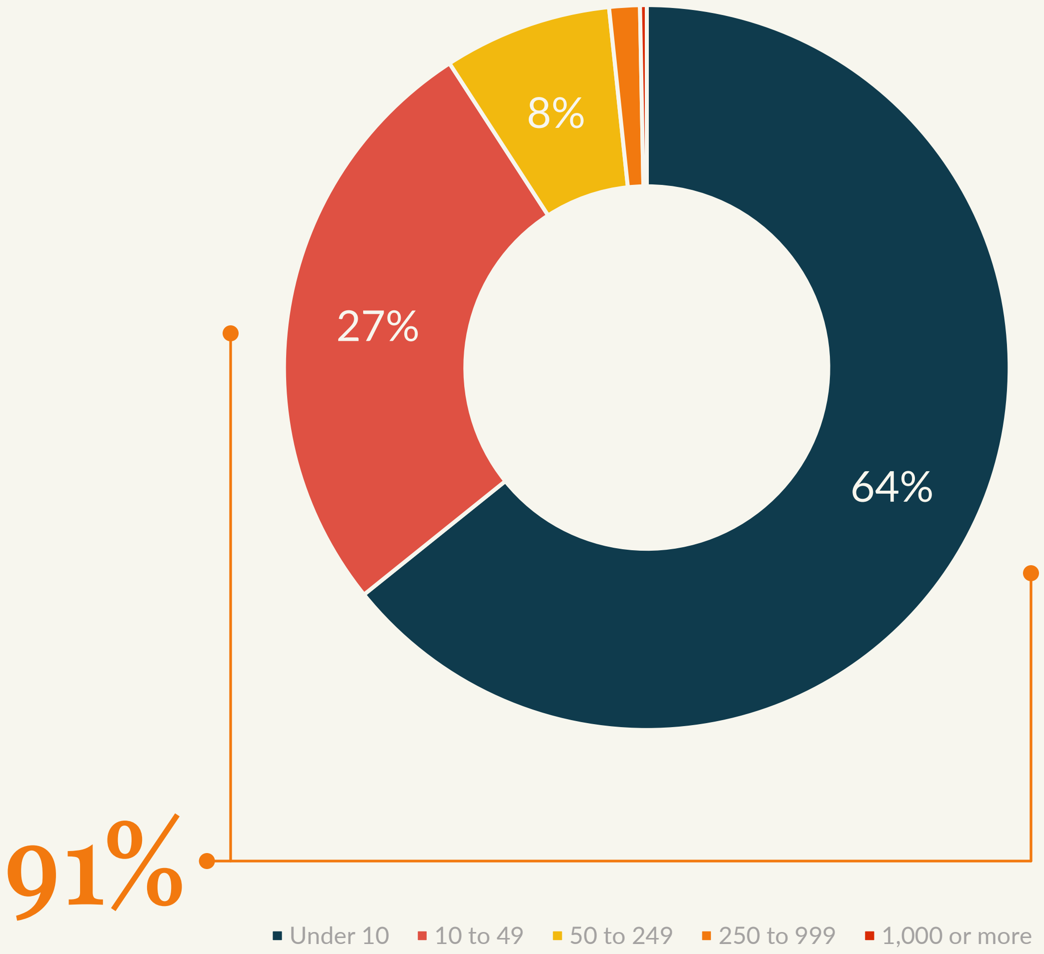
Digital Agency Composition

Sizes & Types

From our last check in 2023, we estimate that there are just over 45,000 digital agencies in the United States and Canada. The general distribution of digital shops in the United States skews heavily towards the smaller side. Companies in the 1-10 employee range make up 64% of digital agencies. Those in the 11-50 employee range make up 27%, with the remainder being shops with >50 employees. Digital marketing agencies tend to skew the smallest, followed by web dev shops and mobile devs.

Most of the Enterprise firms (>250 employees) in this industry are comprised of agency-holding companies. These firms own multiple smaller independent agencies that specialize across different focus areas. By distributing clients who could be competitors across their network of agencies, the holding companies can work with many clients who could be competitors. This lets the holding company avoid any conflicts of interest while still providing a diverse set of creative solutions.

The small and medium-sized firms (<50 and 51-150 employee firms) are typically single agencies that can offer more services as they become larger with respect to revenue. The smaller agencies tend to be specialty shops, while the medium-sized firms tend to be more full-service. Then the larger firms return to specializing, primarily based on the industries served.



Source: Promethean Research – Digital Agency Industry Report 2023.

PrometheanResearch.com

Four Functional Areas of an Agency

Revgen

Revgen's role is to... generate revenue. This consists of marketing, sales, business development, and account management. It's often the most underinvested in and thus underdeveloped of the four functional areas.

Production

Production's job is to do the thing your revgen team told the client you will do. This functional area houses your developers, designers, marketers, copywriters, project managers, etc., who work on or manage client projects.

Support

Support roles act as the business's facilitation layer. They include accounting, human resources, legal, and managers.

Leadership

Finally, Leadership's job is to set the firm's mission, vision, and goals. They are also responsible for closing major accounts, crafting the agency's culture, and setting the firm's strategic direction.

Functional Areas & Growth

When shops are small (<10 FTE), they usually rely on the owners to fill most of the functional roles. Owners will handle all of the revgen duties, a significant portion of the production duties, along with their leadership duties. They'll outsource most of the support roles until they get bigger.

As they grow, shops bring in dedicated talent to fill functional roles that were previously done by the owners, outsourced, or neglected.

What follows is a look at the relationship between a firm's size and when it will hire a dedicated employee or vendor to handle various roles.

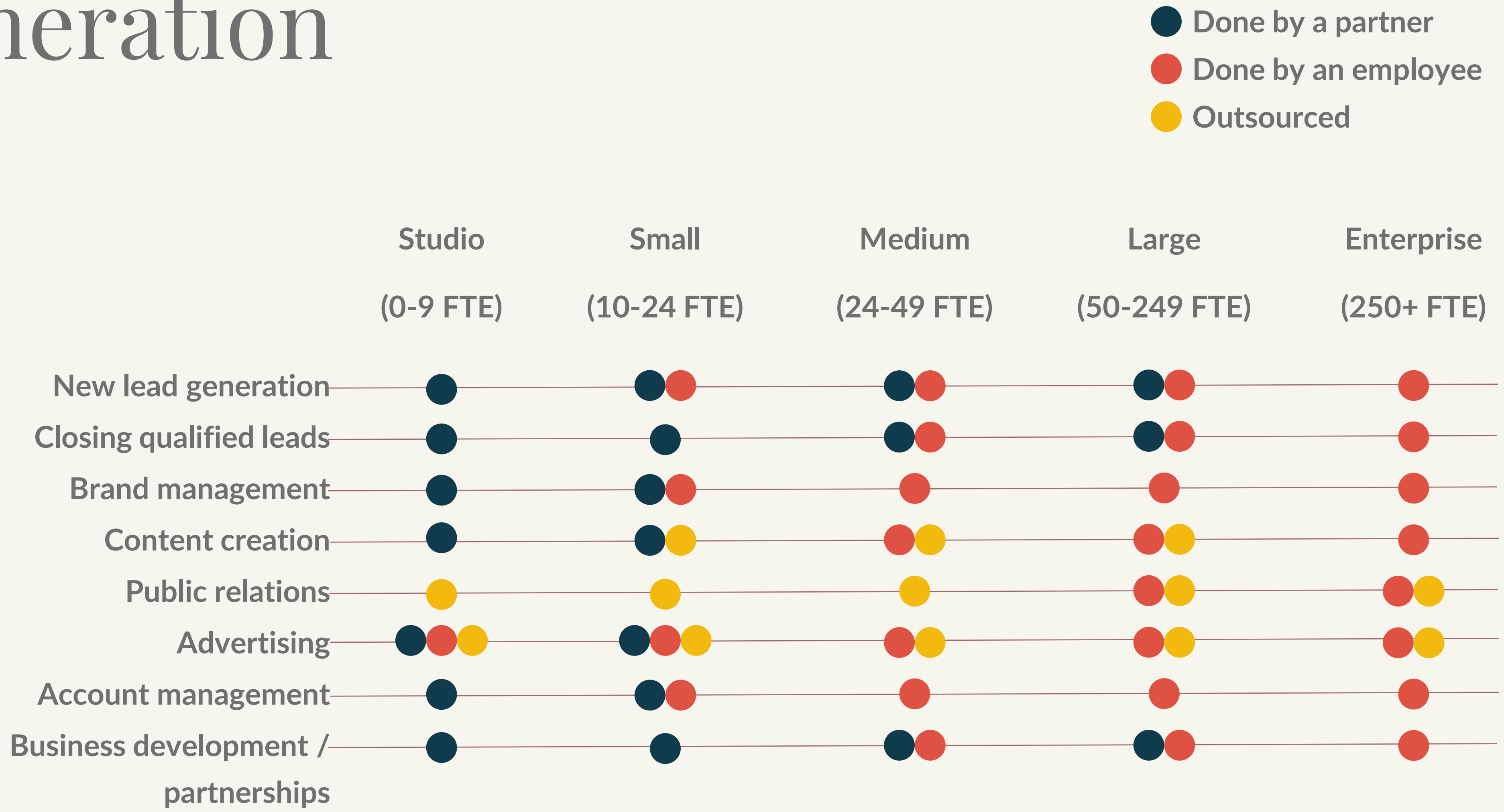
We break this down into what agency owners/partners do, what employees typically do, or what's outsourced. We then indicate how this changes based on the size of the agency. When there are multiple dots, it's common for that activity to be handled by any of the options at that specific agency size.

- Done by a partner
- Done by an employee
- Outsourced

Studio (0-9 FTE)	Small (10-24 FTE)	Medium (24-49 FTE)	Large (50-249 FTE)	Enterprise (250+ FTE)

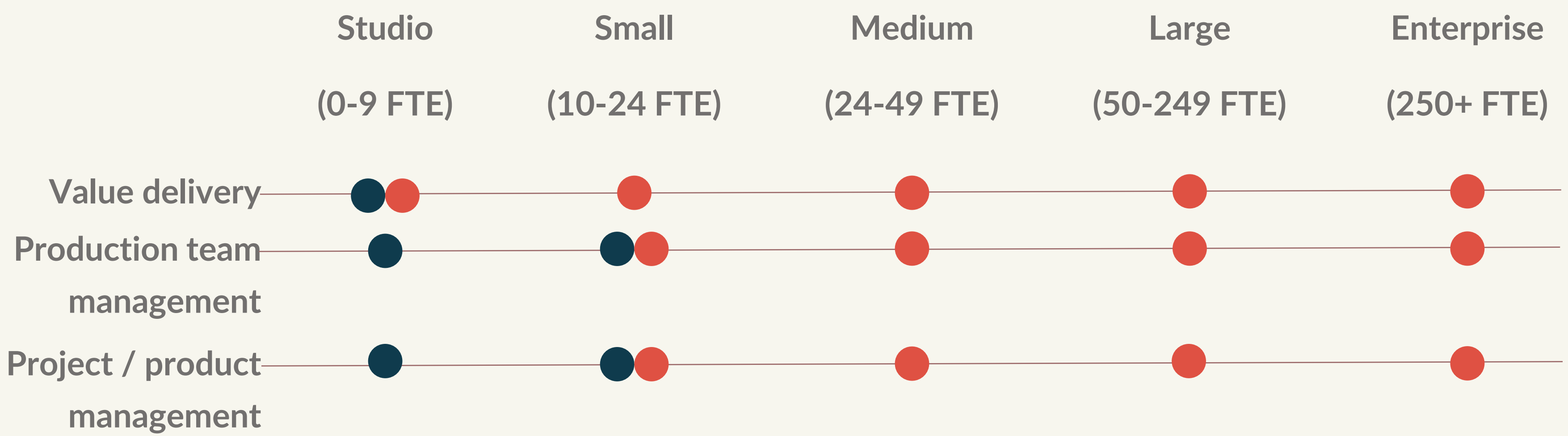
Functional Area Activity

Revenue Generation

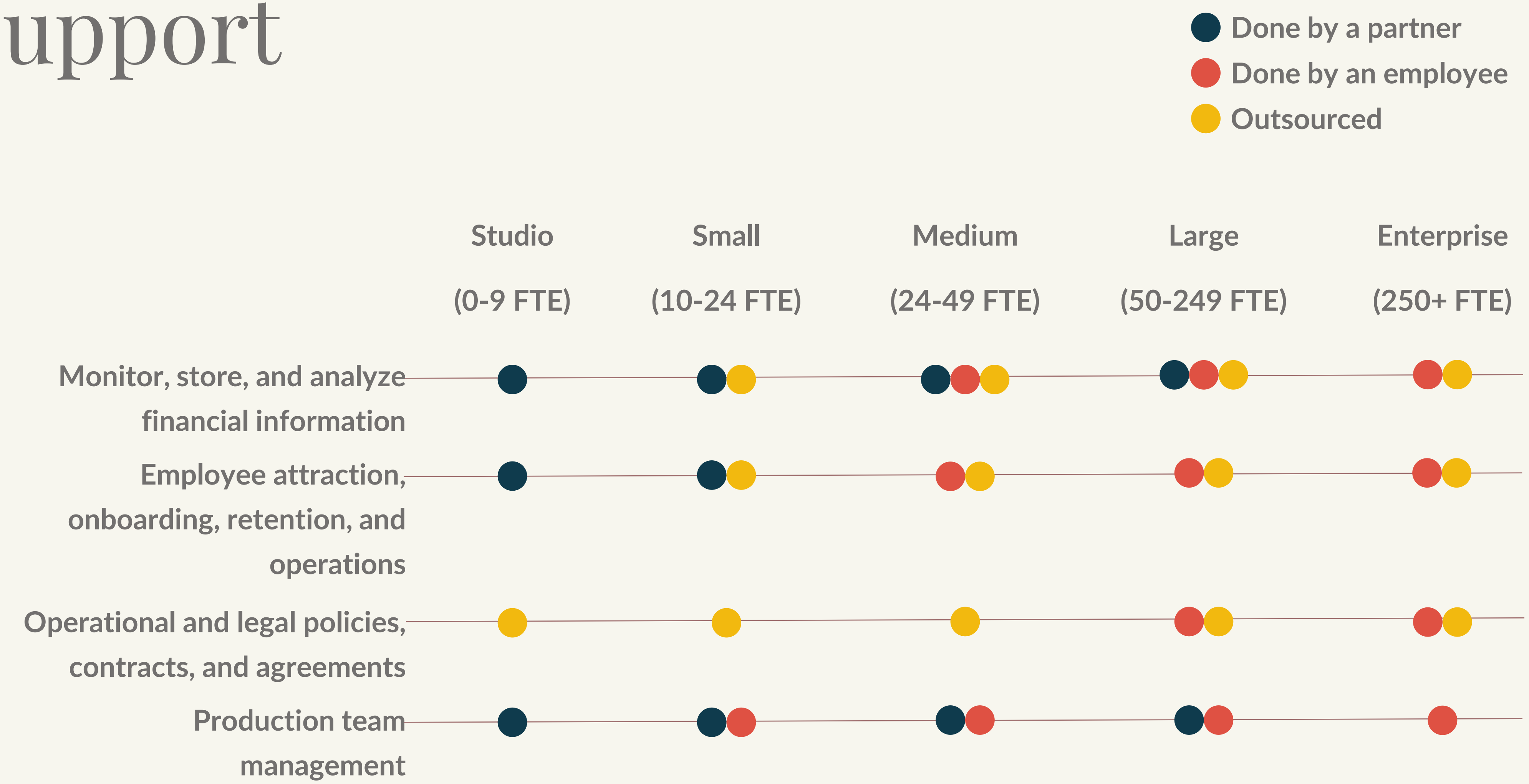


Production

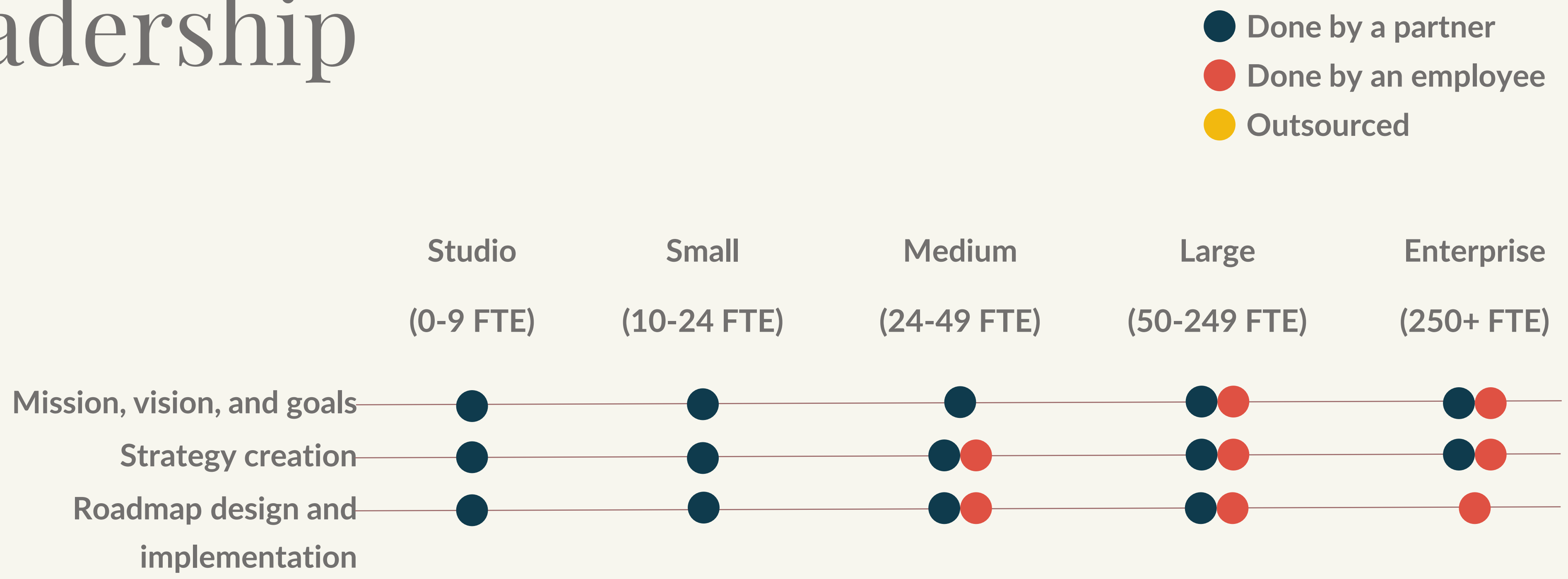
Done by a partner
Done by an employee
Outsourced



Support


Done by a partner
Done by an employee
Outsourced
Studio (0-9 FTE)
Small (10-24 FTE)
Medium (24-49 FTE)
Large (50-249 FTE)
Enterprise (250+ FTE)
Monitor, store, and analyze financial information
Employee attraction, onboarding, retention, and operations
Operational and legal policies, contracts, and agreements
Production team management

Leadership


Done by a partner
Done by an employee
Outsourced
Studio
(0-9 FTE)
Small
(10-24 FTE)
Medium
(24-49 FTE)
Large
(50-249 FTE)
Enterprise
(250+ FTE)
Mission, vision, and goals
Strategy creation
Roadmap design and implementation

“Nick brings experience and thoughtful insights to every meeting and deliverable. Highly recommend.”

Mazin Melegy

Managing Director, Crush & Lovely

How We Help Digital Agency Leaders Succeed

SECTION 04

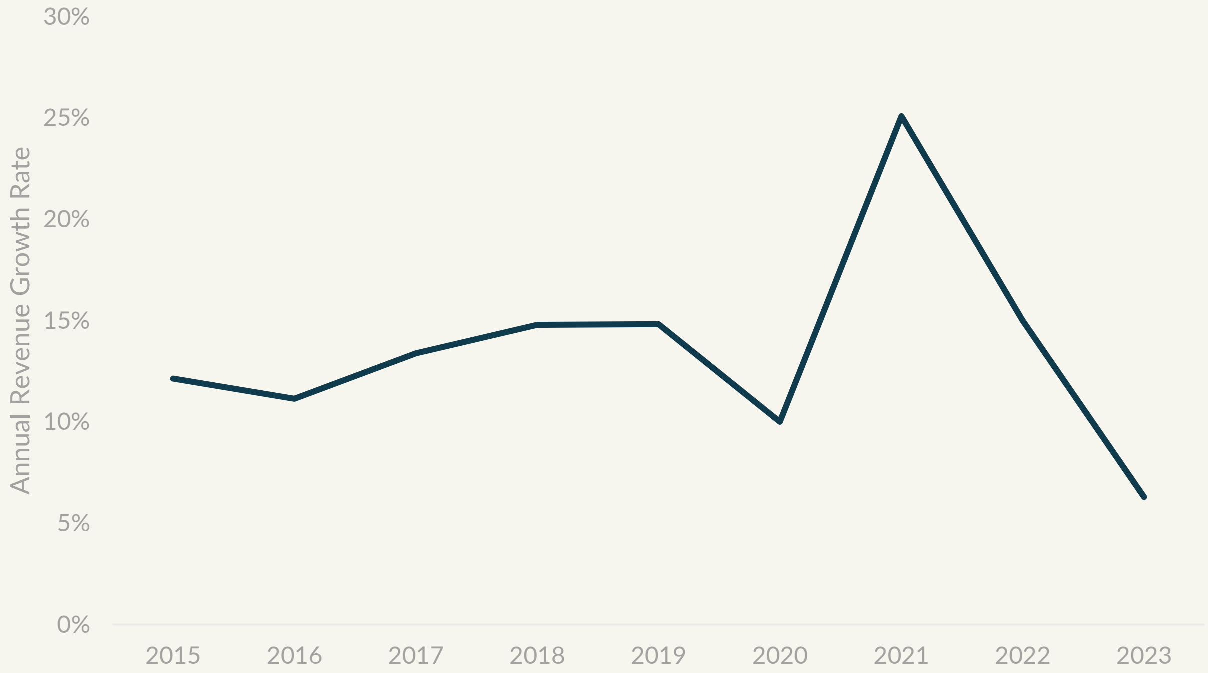
Agency Revenue Profile

Revenue Growth Rates

From 2015 to 2020, the average growth rate of agencies in our surveys was 13%. In 2021, the average growth rate almost doubled to 25% due to the enormous demand for digital solutions by corporations. In 2022, we saw revenue growth slow back down to 15%, which is much more in line with historical trends. When the results of 2023 came in, it was clear that this was the worst year for agency growth since we began tracking. The slowness that began in 2H22 spilled over into 2023 (and, from the sounds of it, through 1H24 too).

Contrary to expectations, larger shops tend to grow more quickly. Studio (<10 FTE), Small (10-24 FTE), and Medium (25-49 FTE) sized shops all tend to grow around 12-15% a year. This changes when we look at Large (>=50 FTE) shops. They tend to grow 31% faster than average.

Find out the most effective revgen strategies and tactics for growing digital agencies in our full How Digital Agencies Grow Report.



Source: Promethean Research – Digital Agency Industry Report 2024

PrometheanResearch.com

Revgen Structure

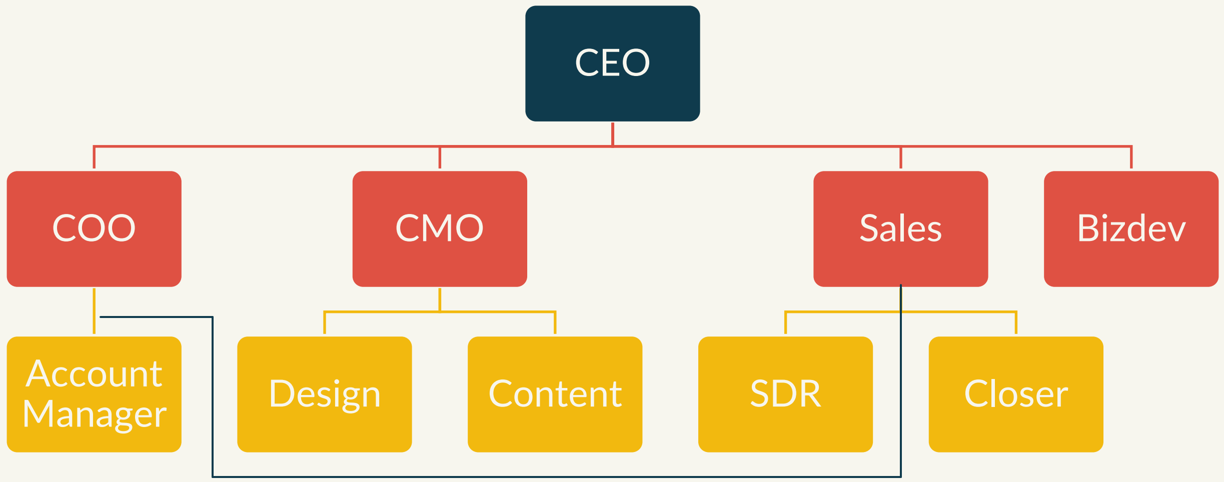
In a standard shop of 25 employees, the responsibility of revenue generation typically falls on a partner, the CEO, or sometimes 1-2 salespeople (a Sales Development Representative – SDR, and a closer).

There is typically a marketing professional who manages design and content direct reports, but there is rarely a formalized lead generation process.

Sales processes are also typically bare bones. When they are built out, they consist of a/some lead gen professional(s) (aka sales development representatives) and, at larger organizations, dedicated closers (account executives).

Our research has shown that account management can fall under sales, but it usually lives under operations. Many account management programs are underdeveloped and spawn out of project management programs when an agency grows past about 10 FTEs.

Business development is typically under the CEO's responsibilities, but we have seen cases where there are dedicated business development professionals who report directly to the CEO.



What's missing from your revgen strategy?

Remove growth blockers, gain real revgen traction, and grow more reliably.

We've helped hundreds of agencies over the years, and our research has covered thousands more. This has allowed us to identify the core components of a successful revgen strategy:

- Leadership, vision, and goals
- Strategy design
- Positioning
- Channels and tactics
- Marketing, sales, account management, and bizdev
- Strategic alignment and support
- Implementation plans

We evaluate each of these, find the gaps, and provide recommendations on how to improve them.

All in a single two-week sprint.

"Nick's research-driven approach and deep understanding of the agency space were instrumental in helping us develop our go-to-market strategy."

- Lee Roquet
CEO, Finch

Learn More About Our Revgen Review Service

Promethean Research

Revgen Investment & Lead Sources

The average digital agency invests 7.1% of its revenue in sales and marketing activities. This includes everything from salaries to media spend. Unfortunately, this isn't sufficient to meet the lofty growth goals set at annual strategy meetings.

In a typical digital shop, whether it's dev, marketing, or design, they will derive most of their leads and revenue from referrals. While referrals can be a great way to start, relying on them for the majority of a firm's revenue generation presents a few challenges. The first is their lack of predictability. Second, they typically come from people with similar networks, which limits the ability to grow project scopes with new referrals. Finally, there's little to no control over the referral's quality, which can jeopardize relationships.

By no means are referrals bad. They're an excellent way to grow a business, but what separates companies that can break through the 30-50 employee plateau is often a strong revenue generation engine.

7.1%

The percent of revenue the average digital agency spends on sales and marketing activities.

Pricing Methods

Most agencies use a blended approach to pricing, utilizing some combination of Time and materials, Fixed bid, Retainer, and Value-based models. Very few use Performance-based or Points-based pricing.

Fixed Fee / Project

The most common way to price services is with a fixed fee structure. This model estimates the cost of a project and then adds a margin to arrive at a fixed fee the client will pay. This type of model includes retainer-based billing and progress-based billing.

This model works best with clients who have a set budget they're unable to exceed and need to know project costs beforehand. Both parties assume risk with these types of arrangements, as both cost overruns and savings are absorbed by the agencies. Fixed-fee models also may limit agency revenue growth as the option to add additional services typically isn't available until the contract renewal time.

Value-based

Pricing services based on the value an agency's work generates for a client is the goal for most agencies as it aligns the agency's and client's goals more than the fixed-fee model and can generate substantial profits for the agency. Agencies typically experience pushback when selling this model, as value-based prices can be much higher than cost-plus pricing. This model is best employed by experienced, proven agencies that can point to successes to help clients understand the return on investment.

Hourly / Time & Materials

This is the simplest pricing model and is often employed by firms in their early stages. Here agencies price their services based on the costs and time required to perform those services and then bill on a periodic basis based on the time incurred. There can be a blended "firm-wide" hourly rate charged or different rates based on the skill level of the individuals working on the project.

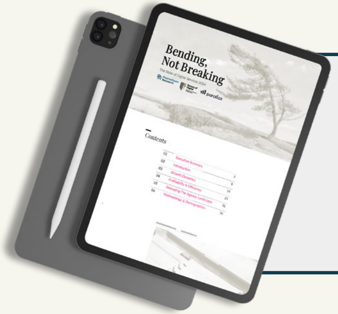
Performance-based

This is where agencies (typically marketing agencies vs. dev or design) will charge a fee based on the change in a particular performance metric that they influence. This metric is often sales, but it could also be something more targeted that the client’s measuring like page views, social engagement, leads generated, etc.

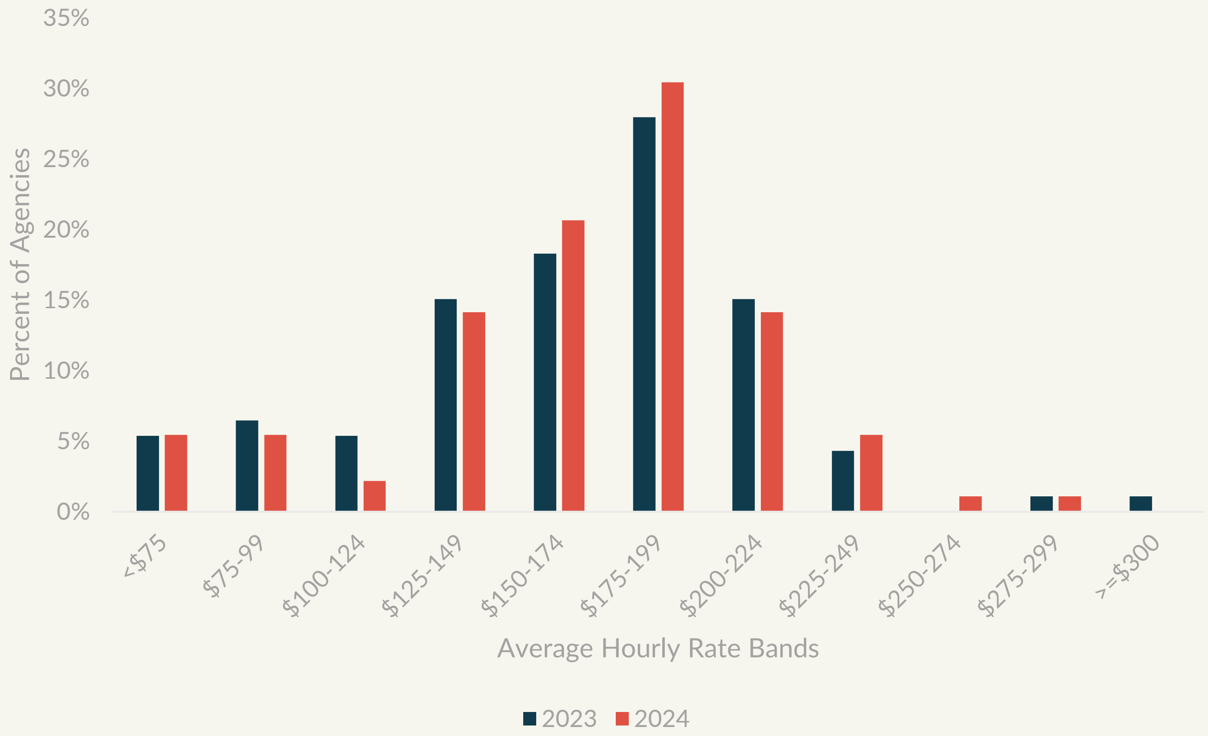
Hourly Rates

Pricing was a huge discussion point throughout 2022, but as pipelines dried up in 2023, much of the mad dash to raise rates slowed. 22% of the agency leaders in our survey reported an increase in their agency's hourly rate from 2023 to 2024. This is almost half of the amount who reported raising their rates from 2022 to 2023.

65% of the agencies in our survey now price their services in the $150-224 range, with 30% pricing in the $175-199 range.



Get even more in-depth benchmarks and industry data in our State of Digital Services Report.



Source: Promethean Research – Bending, Not Breaking: The State of Digital Services 2024

"Working with Promethean was the most impactful decision we've made in the ten years since I started RocketBike."

Max Greenhood
Founder & CEO, RocketBike

How We Help Digital Agency Leaders Succeed

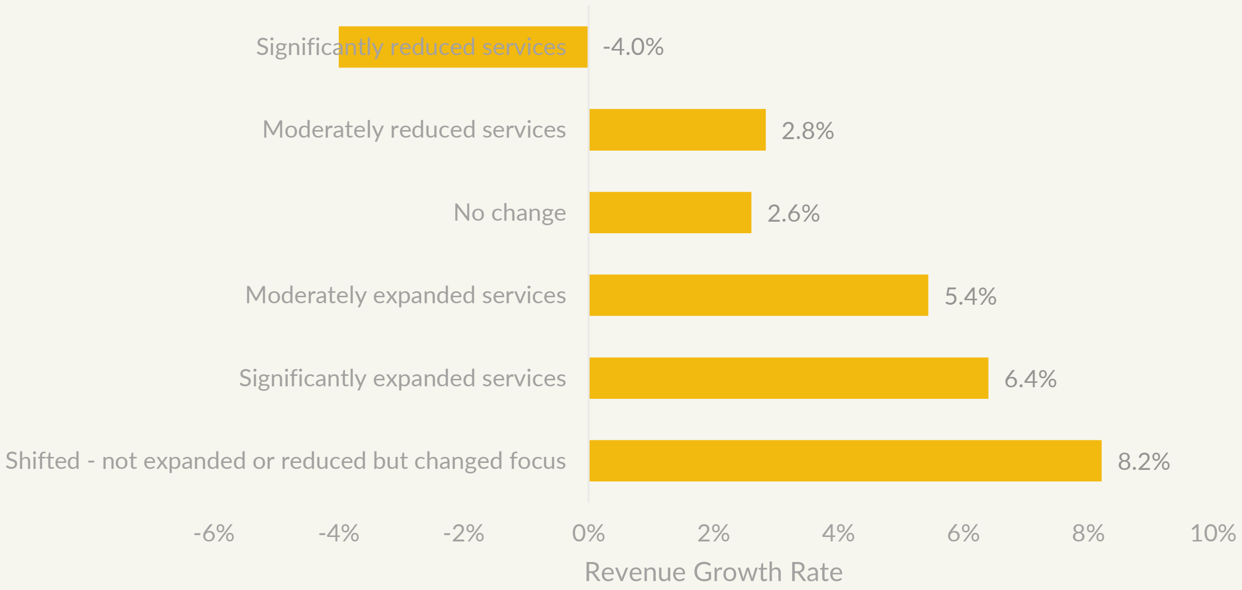
SECTION 05

Services & Specialization

Agency Service Mixes

Agencies continue to offer a broader suite of services than they used to, with the average shop offering 6.4 distinct services. This is down slightly from the 6.6 services offered in 2022, but up from 2021 (5.7) and 2020).

Agencies that expand their services tend to grow significantly faster than those that reduce their services, but those that shift their service mix (not expanding or reducing but changing focus) tend to grow the fastest. We believe that the agencies that are shifting their service mixes are doing so to respond to opportunities in the marketplace. They are shifting their services to better align with what the market is demanding, and this is allowing them to grow at above-average rates. With the sizable change that's happened recently, this appears to be a winning strategy.

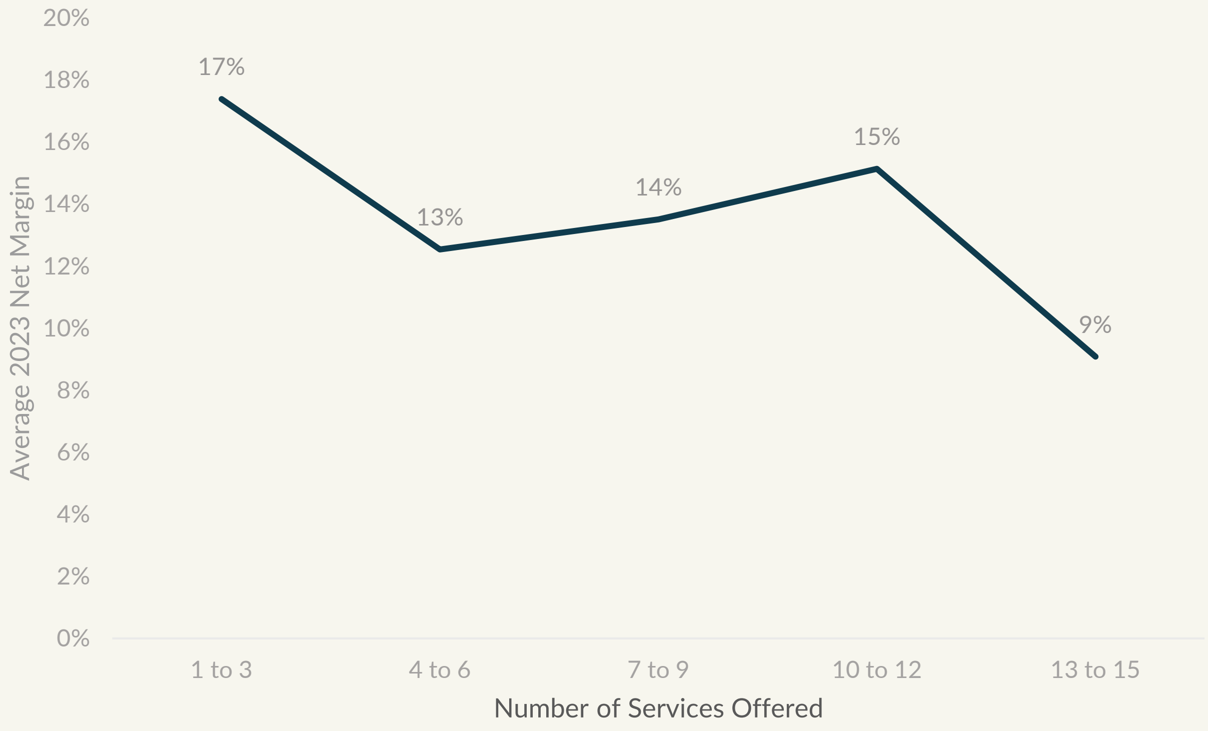


Source: Promethean Research – Bending, Not Breaking: The State of Digital Services 2024

Services & Margins

We have observed a somewhat negative correlation between the number of services an agency offers and its net margin. This was mostly due to the significantly higher margins earned by those offering three or fewer services and the sub-average margins earned by those offering 13-15 services.

In 2023, those offering Software dev., Mobile app dev. or design, or Staff augmentation all tended to earn ~30% lower net margins than the agencies that didn't offer those services. Conversely, agencies offering Branding/identity design or AR/VR dev./design had net margins that were 16-17% above those that didn't offer those services.



Agency Specialization

Up through 2021, we saw a steady march toward specialization. At that point, about half the agencies in our surveys self-identified as specialists, either by vertical, service mix, or both. It used to be much more common for an agency to focus on a specific industry niche vs. a specific service mix, but this all changed in 2022. That year, we saw a massive jump in agencies specializing. This continued in 2023, with 83% of agencies specializing by service mix or industry. Of that, 79% specialize by service mix, and 51% specialize by industry. As we have seen across multiple surveys now, specializing results in significantly faster growth rates.

2023 Representation

	Industry Generalist	Industry Specialist	
Service Generalist	14%	2%	16%
Service Specialist	46%	39%	84%
	59%	41%	100%

2024 Representation

	Industry Generalist	Industry Specialist	
Service Generalist	17%	4%	21%
Service Specialist	32%	47%	79%
	49%	51%	100%

Source: Promethean Research – Navigating Change: The State of Digital Services 2023 | Bending, Not Breaking: The State of Digital Services 2024

“Promethean gets to the core of how you need to position, focus, and grow, and strips away the BS in a way that transforms your business.”

Rachel Gertz

CEO, Louder Than Ten

How We Help Digital Agency Leaders Succeed

SECTION 06

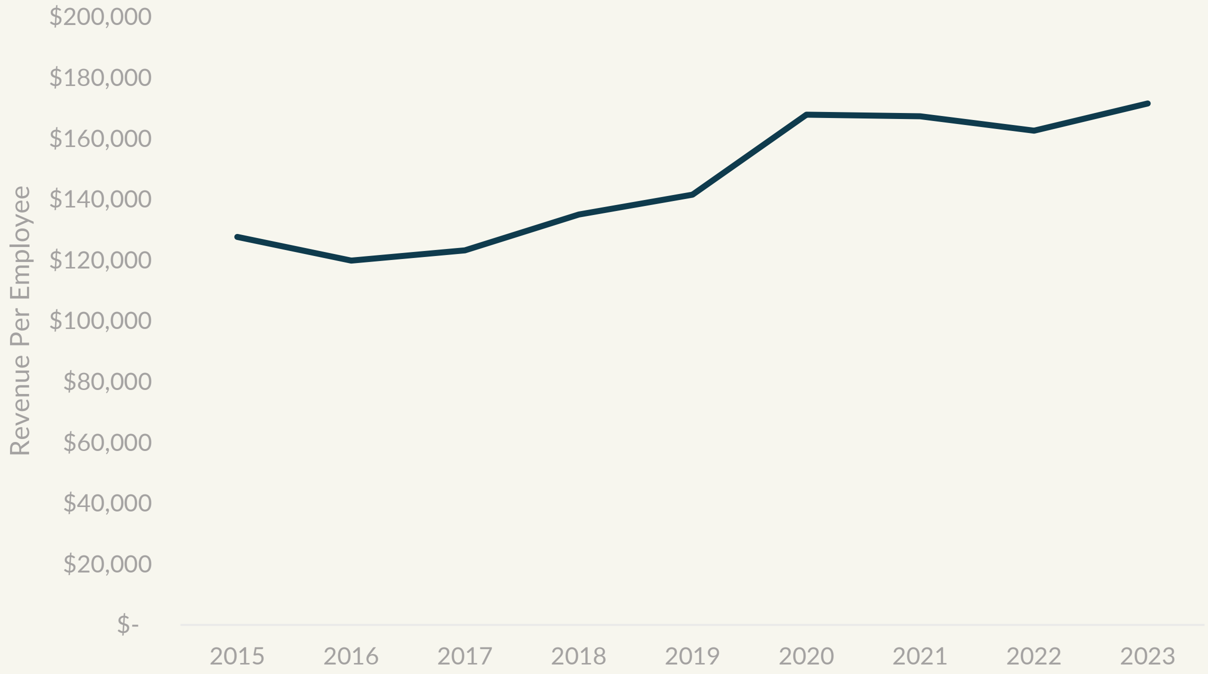
Efficiency & Profitability

Revenue Per Employee

Revenue per employee, a common efficiency metric for digital agencies, has been trending upward since we began tracking it back in 2015. The average agency made $172k per full-time employee in 2023.

As artificial intelligence tools become increasingly ubiquitous, we expect to see additional efficiency gains at agencies over the next few years.

Learn how digital agencies are using AI to enhance efficiency and reshape their financial positions in our full Digital Agencies & AI Report.



Source: Promethean Research – Digital Agency Industry Report 2024

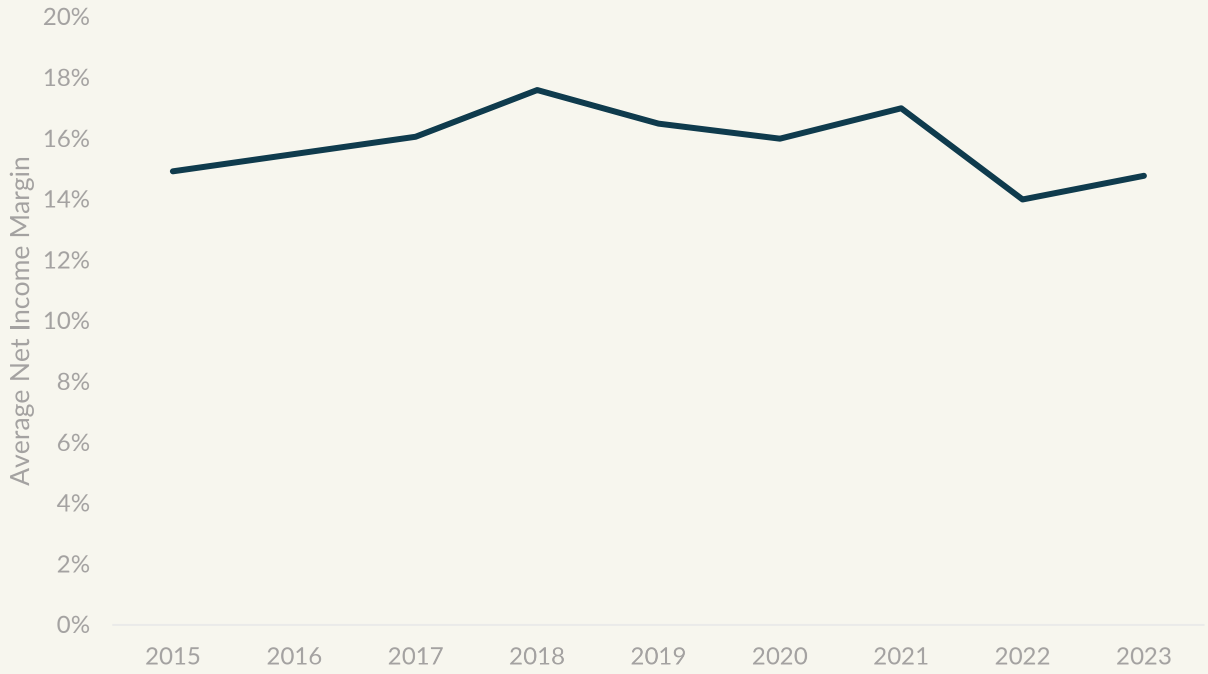
Digital Agency Profitability

Agency margins are mainly influenced by two levers. The most impactful is often the billing rate. Closely behind billing rates is an agency's utilization rate. These two levers have the most significant impact on an agency's profitability.

The average profit margin for a digital agency in the U.S. since 2015 is 15%. Studio (<10 FTE) sized agencies are typically the most profitable. After a shop grows past 10 FTEs, net income margins fall slightly to an average of 15% for Small (10-24 FTE), and then they fall further to an average of 13% once an agency grows above 25 FTEs. This places digital agencies as one of the more profitable types of businesses.

The most significant expense for an agency is employee costs. Salaries and benefits make up almost all Costs of Goods Sold and a significant portion of Operating Expenses.

After employee costs, app and tool costs make up the next largest segment. According to our 2023 Digital Shop Tools Survey, the average agency spends 3.7% of its revenue (minus any passthrough spend) on tool costs.

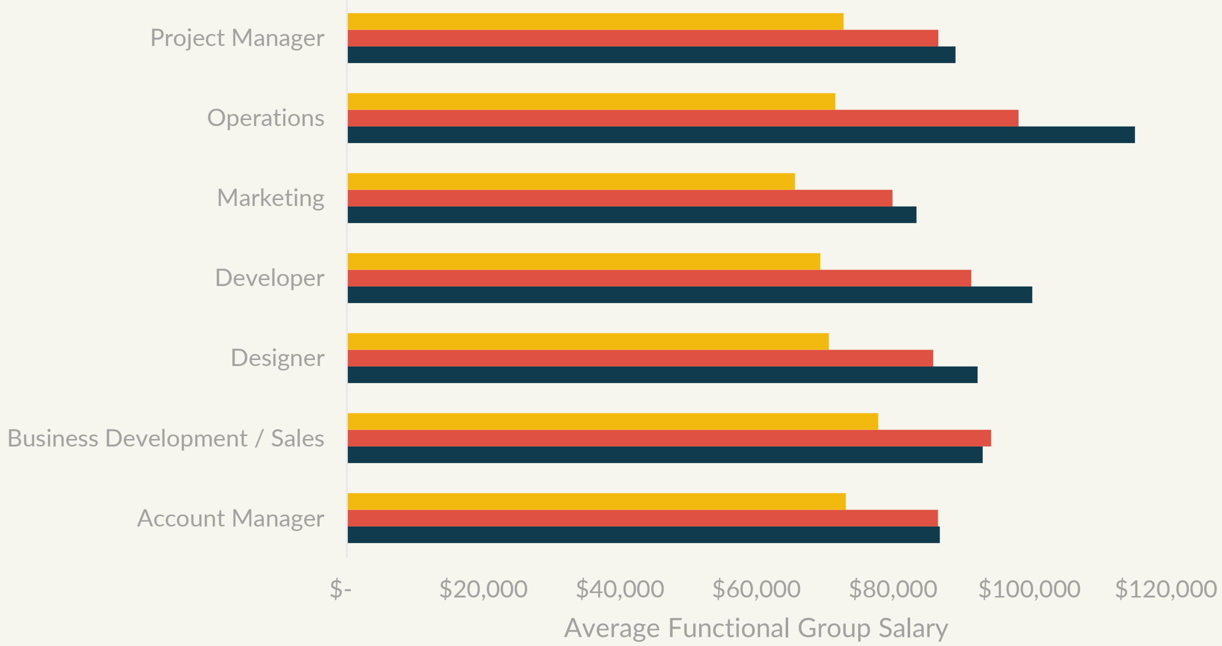


Source: Promethean Research – Digital Agency Industry Report 2024

Employee Compensation

Salaries are by far the largest component of running a digital shop. Many factors make identifying correct market rates more complicated, the most critical of which is a severe lack of transparency. Between 2019 and 2022, salaries for most positions rose 25-35%. The rapid salary growth that occurred during the pandemic has cooled. In 2024, we still saw low-double-digit gains for Operations and Developer roles, but these were significantly less than in previous years. Account Manager and Business Development / Sales salaries have stagnated or declined slightly since our 2022 checks.

Get the full salary story in our 2024 Digital Services Salary Guide. It includes compensation tables for 351 individual job titles across 7 agency functional areas, based on 1,350 individual employee salaries and 104 individual owner salaries.



Source: Promethean Research – Digital Agency Salary Survey 2024

Owner Compensation

The average combined compensation for an owner in our 2024 survey was $267k, up from $242k in 2022. Similar to 2022, half of the compensation came from salary, while the other half was comprised of dividends, withdrawals, bonuses, or other cash compensation.

Firm size correlated with greater compensation until agencies grew above 50 full-time employees. Studio shop owners took home an average of $192k, Small shop owners earned $305k, Medium shop owners $335k, and Large agency owners received an average of $226k.

Average Agency Owner Compensation

Agency Size	Salary	Dividends or Withdrawals	Other Cash Compensation	Bonuses	Average Total Comp.
Large (>=50 employees)	$188,106	$37,500	$0	$697	**$226,303**
Medium (25-49 employees)	$149,956	$175,318	$1,136	$9,008	**$335,418**
Small (10-24 employees)	$138,386	$147,692	$12,936	$5,594	**$304,608**
Studio (<10 employees)	$95,649	$89,857	$985	$5,217	**$191,708**
Average	**$132,944**	**$123,645**	**$4,511**	**$5,599**	**$266,699**

Source: Promethean Research – Digital Agency Salary Survey 2024

Get the full salary story in our 2024 Digital Services Salary Guide. It includes compensation tables for 351 individual job titles across 7 agency functional areas, based on 1,350 individual employee salaries and 104 individual owner salaries.

More Research for Digital Agencies

Proprietary research, the latest strategic thinking, and guides for digital agencies.

Check Out Our Research Shop

PrometheanResearch.com

SECTION 07

Methodology & Demographics

About This Report

The objective of this report is to provide a high-level review of the digital services industry from 2015 to 2024.

This report was published in August 2024.

Photos by:

Erwan Hesry

Erik Eastman

Mehmet Turgut Kirkgoz

Alexander Shatov

Lala Azizli

Cherrydeck

Erol Ahmed

Pine Watt

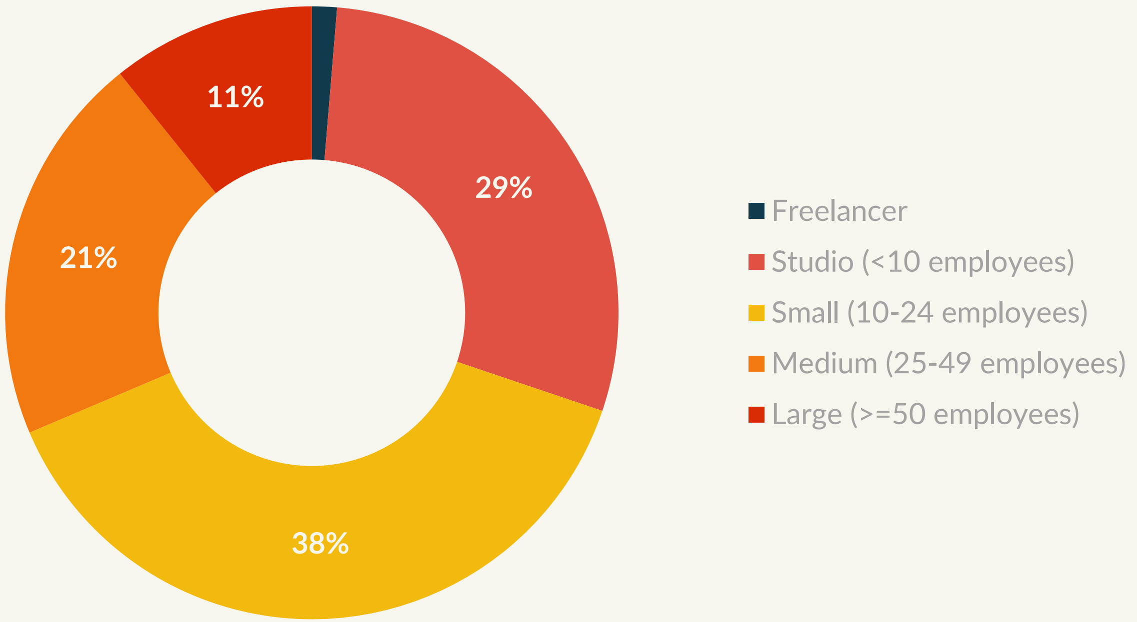
Rodion Kutsaiev

Promethean Research

Survey Respondents

This report is a compilation of responses from digital agency owners and managers, primarily from North America. Multiple online surveys of digital service company owners were conducted from 2015-2024 to collect insights across key performance indicators. Interviews with owners, managers, and employees, plus specific company analysis, and public data, were also used to supplement the survey data.

The pie chart to the right shows the distribution of the 911 agency sizes that were used in the majority of this research. Some sections used broader observational sets that contained 45,930 agencies. Please see the associated reports for exact demographic data pertaining to each.



For more information, including research and resources for digital shops, visit Promethean Research.

Promethean Research