Analysis of Agency Costs (AAC) 2026 Observations

Based on 2025 Data

Agenda

1. Background
2. Overall Benchmarks
3. Key Observations & Insights
4. Recap & Takeaways

Background

Study Objectives

What the Analysis of Agency Costs (AAC) study sets out to do

1

Benchmark the costs to run a PR agency

Margin, revenue per employee, working capital, payroll and expense mix, and the departments agencies staff.

2

Give every participant a confidential peer comparison

Each agency received its own report against agencies of similar size and profitability. No individual agency is identified.

3

Surface where to look, but not what to do

The findings point to the areas most worth investigating inside your own agency.

How this differs from Workforce Economics. The two studies are companions. AAC looks at the whole agency: what it earns, what it spends and what it keeps. Workforce Economics looks at the people inside it: compensation, billing rates and utilization by role.

2026 Approach

What changed and why

1

A simpler survey

The Excel worksheet was replaced by an online survey with fewer, clearer questions, so entries are easier to make and more accurate

2

A shorter department list

Agency functions were consolidated to 14 departments that match how agencies are actually organized

3

New deliverables

Individual agency reports (already delivered), aggregate presentation (this document), and a master crosstab with even more data as reference

Surowicz Consulting

Conducted with the help of Surowicz Consulting, an independent research and strategy consultancy. Custom quantitative and qualitative research, culminating in actionable recommendations.

surowiczconsulting.com

How to Read This Report

Things to know before reading the numbers

Reading the numbers

- All %s are rounded to the nearest whole number
- An asterisk (*) marks data cuts based on fewer than 10 agencies
- No individual agency's data is identified or shared. Benchmarks are group figures only.
- Median is used throughout as a primary metric, not average. The rationale is that an average can be pulled up by the largest firms and therefore not be as representative.

The Sample

Who completed the 2026 AAC study

61

Agencies

Data is based on calendar-year 2025

Revenue Band	%	N=61
$5M or less	36%	22
>$5M to $9M	13%	8*
>$9M to $20M	21%	13
>$20M to $60M	20%	12
>$60M	10%	6*

Corporation type	%	N=61
Group C or S Corp	54%	33
LLC	41%	25
Subsidiary of a Holding Co.	3%	2*
Unincorporated business	2%	1*

Number of FTEs	%	N=61
Small (20 or fewer)	36%	22
Midsize (21-99)	39%	24
Large (100+)	25%	15

Service Offering	%	N=61
Multiple offerings	39%	24
One primary offering	61%	37

"Primary" was defined as service category with the highest gross income

While we hoped to analyze service area data across Consumer, Corporate/B2B, Healthcare, and Public Affairs, no one service offering had a high enough sample to compare

Firmographics are generally similar to last year's 63 agencies that completed

** indicates extremely small sample sizes <10 agencies*

Sample Sizes & Statistical Significance

How to interpret the results

At this sample size, careful consideration should be applied to what is meaningfully different in the data – all samples should be considered small, and therefore all findings should be considered directional

As mentioned, data cuts based on extremely small samples under 10 agencies are called out with asterisks throughout the report

While findings are not statistically significant, a helpful rule of thumb is that anything 20% above or below the benchmark, or 20% apart from each other, is directionally different and therefore potentially interesting

However, samples range from 6 to 24 agencies across the cuts in this report, and a 20% gap means very different things depending on size

Overall Benchmarks

The Lay of the Land

Key cost and profit metrics of a typical agency: all shown as medians

Margin

14%

- 93% of agencies operate with a profit
- 39% of agencies operate with a profit of 20+%
- 15% of agencies operate with a profit of 30+%
- Of all revenue sizes, >$5M to $9M agencies see the highest margins at 22% (n=8)*

Revenue per Employee

$227K

- No firmographic characteristics define agencies that have high revenue per employee

Working Capital

2.2 months, $1.1M

- 12% of agencies in the sample have negative working capital (n=7), highest among higher-margin agencies (20%+) and C/S Corps*

Total Payroll and Payroll-related Costs, as a Percent of Revenue

70%

- Payroll incl. freelance, temp and bonuses: 62%
- Payroll-related costs (e.g., taxes, insurance, retirement): 9%

Note: line-items don't add up exactly to the total because they each represent medians

Departments Staffed

8/14

General Executives	98%
PR & Account Management	95%
Finance & Accounting	69%
Administrative / Office Services	69%
Creative & Content	62%
HR & Talent Acquisition	59%
New Business & Agency Marketing	54%
Digital	41%
Research, Strategy & Analytics	38%
Project Management	34%
Social Media & Influencer Mgmt	33%
IT	33%
Paid Media	28%
Earned Media Relations	21%

Share of all 61 agencies staffing each department

** indicates extremely small sample size <10 agencies*

Key Observations and Insights

Investigations worth probing in your agency

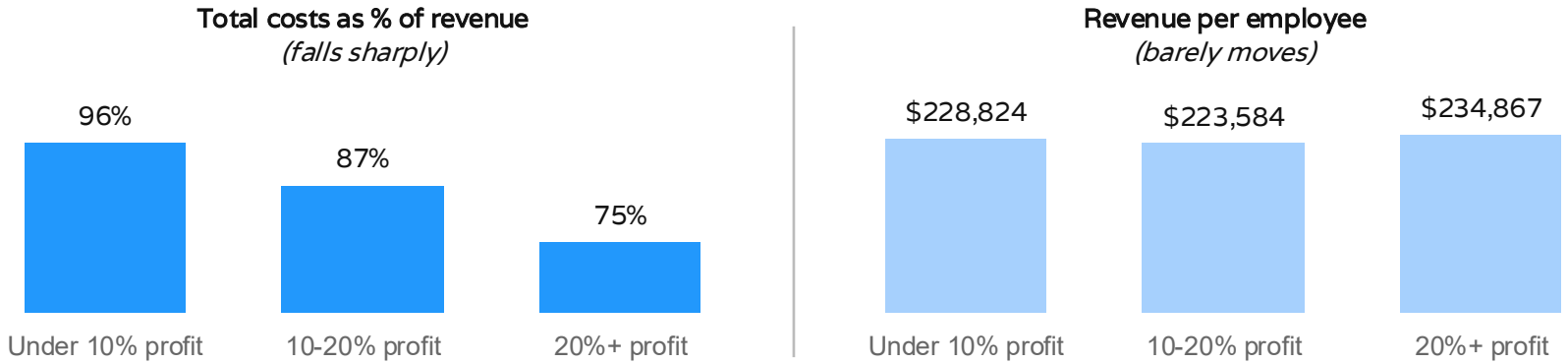
1 No one element predicts profitability, but specific areas offer clues

Profitability isn't explained by:

- Size
- Legal structure
- Service mix
- Revenue per employee

2 For PR agencies, margin tends to rest on lower costs, not higher revenue

Spend falls steadily from lower profit agencies to higher profit agencies, whereas revenue per employee remains essentially flat across profit bands



What can we learn from this: The need for new revenue models. Agencies need revenue models that increase income without adding labor at the same rate.

3 Cost efficiencies stem mostly from payroll and payroll-related costs, but other areas can offer modest but consistent savings too

How much each cost category shrinks as % of revenue, low- to high-margin agencies

	% shrink (low → high margin)	*Share of revenue*	*Potential for gain (shrink x share)*
Payroll	23%	62.0%	+14.4 pts
Payroll-related	32%	9.4%	+3.0 pts
Space & facilities	40%	3.6%	+1.5 pts
Professional fees	48%	1.6%	+0.7 pts
Corporate expense	11%	6.3%	+0.7 pts
Administrative	9%	1.5%	+0.1 pts

+6.0 pts combined

What can we learn from this: Gains can be made across cost categories – payroll the most significant – but others can add up.

4 Knowing payroll has such a major impact on margin – we investigated which departments are more likely to be staffed at higher-profit agencies

Project Management: about half of low-margin agencies staff a dedicated PM function, but only about a fifth of high-margin agencies do. A dedicated PM function may reflect the delivery complexity that comes with scale or may be added after coordination has already become costly.

Most departments follow the same direction as Project Management: eleven of the fourteen functions are staffed less at high-margin agencies – after PM, it's Creative & Content, New Business, and Finance & Accounting.

Paid Media is often assumed to be a margin lever, but the data says otherwise: it is staffed at the same rate in low- vs. high-margin agencies.

PR & Account Management: staffed more often at high-margin agencies, but nearly every agency staffs it, including lower-margin agencies.

Social & Influencer: also staffed more often at high-margin agencies, but the pattern rests on only a small number of agencies and should be read as highly directional.

	Under 10% margin (n=20)	*20%+ margin (n=24)*	*Net Change*	
Project Management	50%	21%	-29 pts	Significantly less common at higher-margin agencies
Creative & Content	75%	54%	-21 pts	
New Business & Agency Marketing	55%	38%	-17 pts	
Finance & Accounting	75%	58%	-17 pts	
Research, Strategy & Analytics	40%	29%	-11 pts	Less common at higher-margin agencies
Digital	35%	25%	-10 pts	
HR & Talent Acquisition	60%	50%	-10 pts	
Earned Media Relations	20%	12%	-8 pts	
General Executives	100%	96%	-4 pts	Equally common at high or low margin agencies
Administrative / Office Services	70%	67%	-3 pts	
IT	30%	29%	-1 pts	
Paid Media	25%	25%	+0 pts	
PR & Account Management	90%	100%	+10 pts	More common at higher-margin agencies
Social Media & Influencer Mgmt	10%	38%	+28 pts	

Share of agencies in each profit band that staff that department

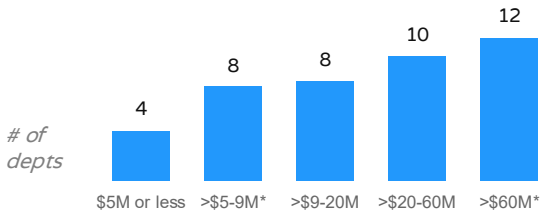
What can we learn from this: This is a correlation story, not a causation one. While these departments are more (or less) likely to show up as indicators of margin, this does not mean they should be prioritized or cut. This provides a view into how to investigate your own department mix and diversification strategy.

5 Adding departments may increase revenue, but it doesn't drive margin

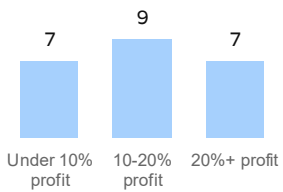
The number of departments an agency staffs rises with revenue but stays flat with margin. More departments doesn't necessarily mean more profit.

More departments doesn't equate to higher profit

# of Departments by Revenue Band
(rises steadily)



# of Departments by Margin Band
(no clear trend)



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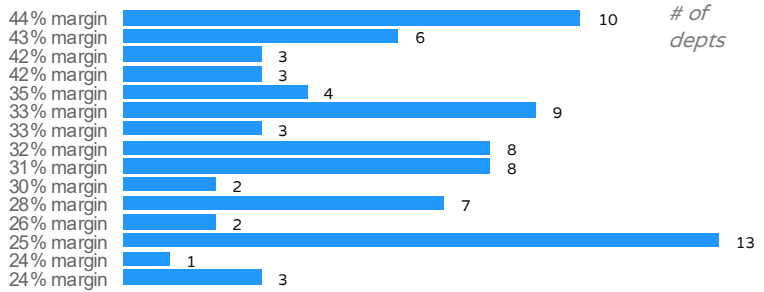
All-agency median: 8 departments

No minimum department count is needed to reach 20%+ margin; high-margin agencies exist at every level of diversification, from one function to thirteen.

The 15 most profitable agencies staff anywhere from 1 to 13 departments



Ranked by 2025 operating margin, highest at top. n=15 of 61.

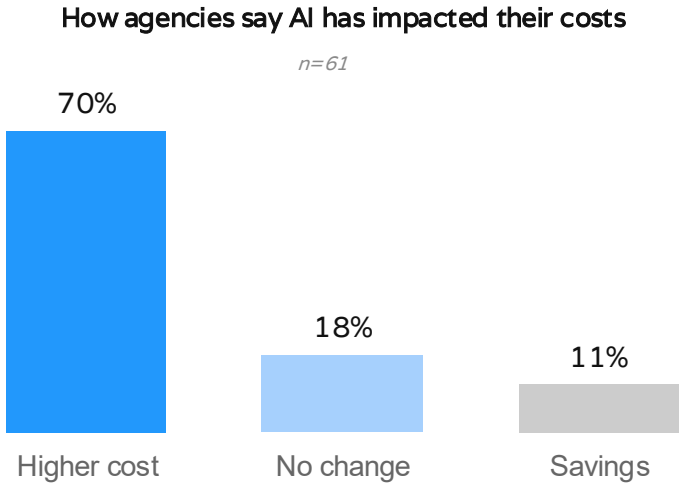
What can we learn from this: Diversification across departments is a business choice more than a margin driver. Considerations include: if a department makes sense, if it's being billed appropriately, and if it has the right growth plan to deliver revenue based on required staffing (this study didn't seek to attribute department-level-revenue or account for department maturity).

6 Lastly, buyers need to understand that AI continues to be a cost

Clients believe that AI should be saving their agencies (and in turn, them) money.

Yet, at this point – AI is seen as a cost by 70% of agencies, not a savings.

This could be important to reinforce with clients and their procurement teams during negotiations.



What can we learn from this: This benchmark can give agencies a data-backed answer when procurement pushes for rate reductions on the assumption that AI should be lowering costs.

Recap & Takeaways

Recap

In short, the key headlines to remember

The typical agency runs a 14% margin, generates $227K per employee, holds about 2.2 months of operating expenses in working capital, and spends ~70% of revenue on payroll and payroll-related costs. A few of the highest profit agencies run on negative working capital, though that rests on only seven agencies across the sample.

1. Profitability isn't explained by any single firmographic — size, legal structure, or service diversification.
2. For PR agencies, margin rests on lower costs more than it does on higher revenue.
3. Cost efficiency comes from payroll first, payroll-related expenses second, then modest but consistent savings across a few other areas.
4. Payroll has the largest impact on margin because of its relative size. Within payroll, some departments are less common in higher-margin agencies.
5. Revenue growth may come from department diversification, but margin growth does not necessarily track accordingly.
6. When it comes to negotiations, agencies continue to see AI as a cost center, not a cost saver.

Actions to consider

Recommended explorations for 2027 planning

1

Audit cost discipline broadly, not just in the biggest line items.

Payroll shows the largest swing between low- and high-margin agencies, but only because it's ~62% of revenue to begin with.

Payroll-related expenses, another 9% of revenue, are the next place to look, with a potential margin gain of 3pts if realized.

2

Get clear about your department diversification strategy

Much of payroll costs originate from which departments you staff. Not every department is associated with high margin, with Project Management being the clearest example based on the data.

3

Prepare for AI cost exposure – but consider sharing this context with procurement in negotiations.

The majority of agencies report AI as a cost, something worth putting on the bargaining table as proof that AI doesn't equal an automatic reduction of costs.

https://prcouncil.net/new-studies/

Thank you!