

INDUSTRY REPORT

State of the Digital Marketing Agency in 2023



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Introduction

Wouldn't you love to know how other digital marketing agencies find new clients and train new employees? How much are their setup fees? What are the secrets of their tech stacks? How do they create proposals and generally get it all done? If these are the kinds of questions on your mind, we have great news: WordStream by LocaliQ's popular State of the Digital Marketing Agency Report is back!

We surveyed over 300 digital marketing agencies in the US and Canada on everything from the services they offer, how they price those services, their size and structure, their biggest business challenges, and so much more.

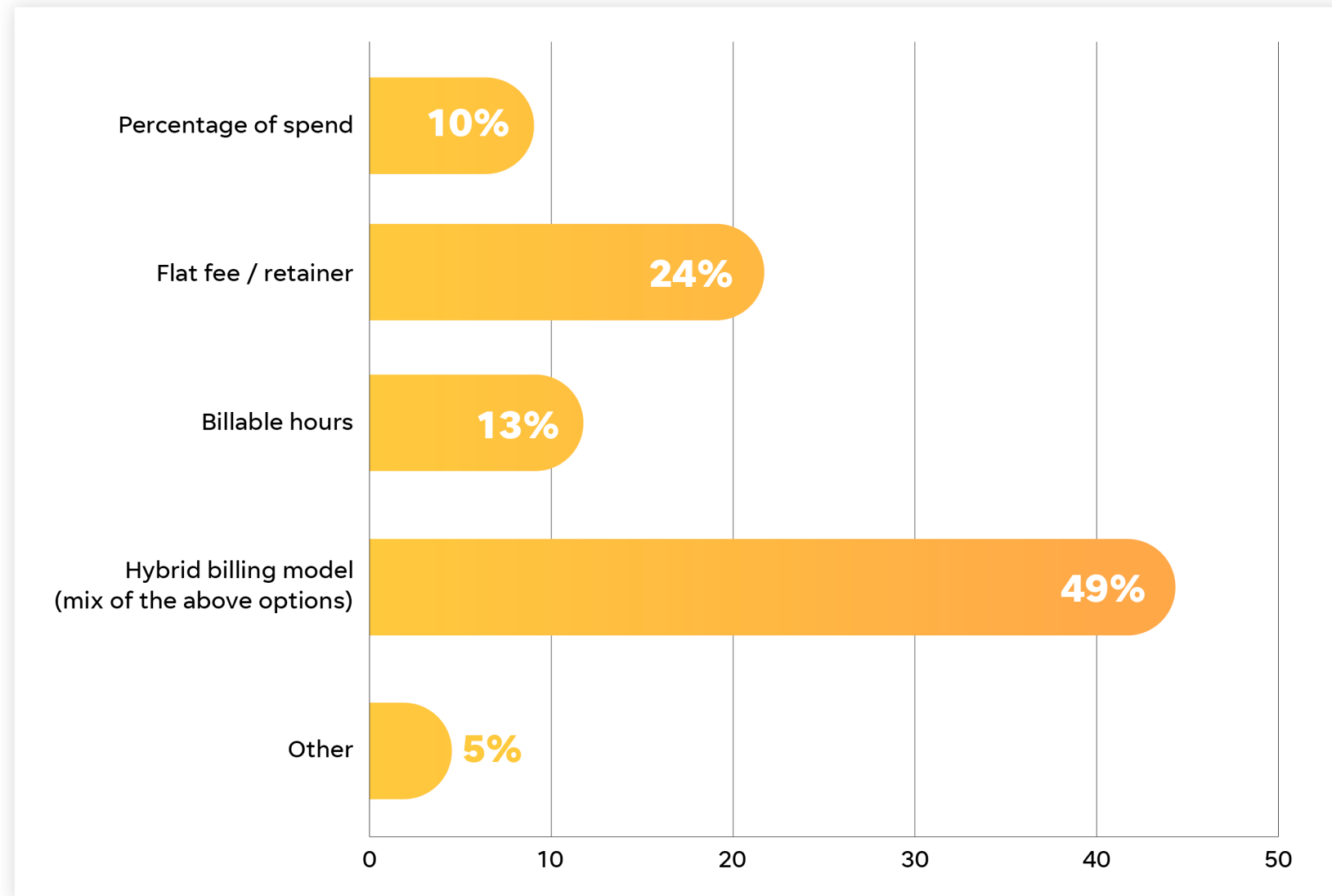
In this report, we're sharing all the data we gathered plus a wealth of valuable strategic information and insights to help you better understand the competitive landscape and inform your agency's planning as you go into 2024.



Pricing

- 05 How does your agency price your services?
- 06 What percentage of ad spend do you charge?
- 07 Does your agency charge a setup fee for new clients?
- 07 How much does your agency charge for a setup fee?
- 08 What does your agency charge additional fees for?
- 09 How are you currently creating budgets and proposals?

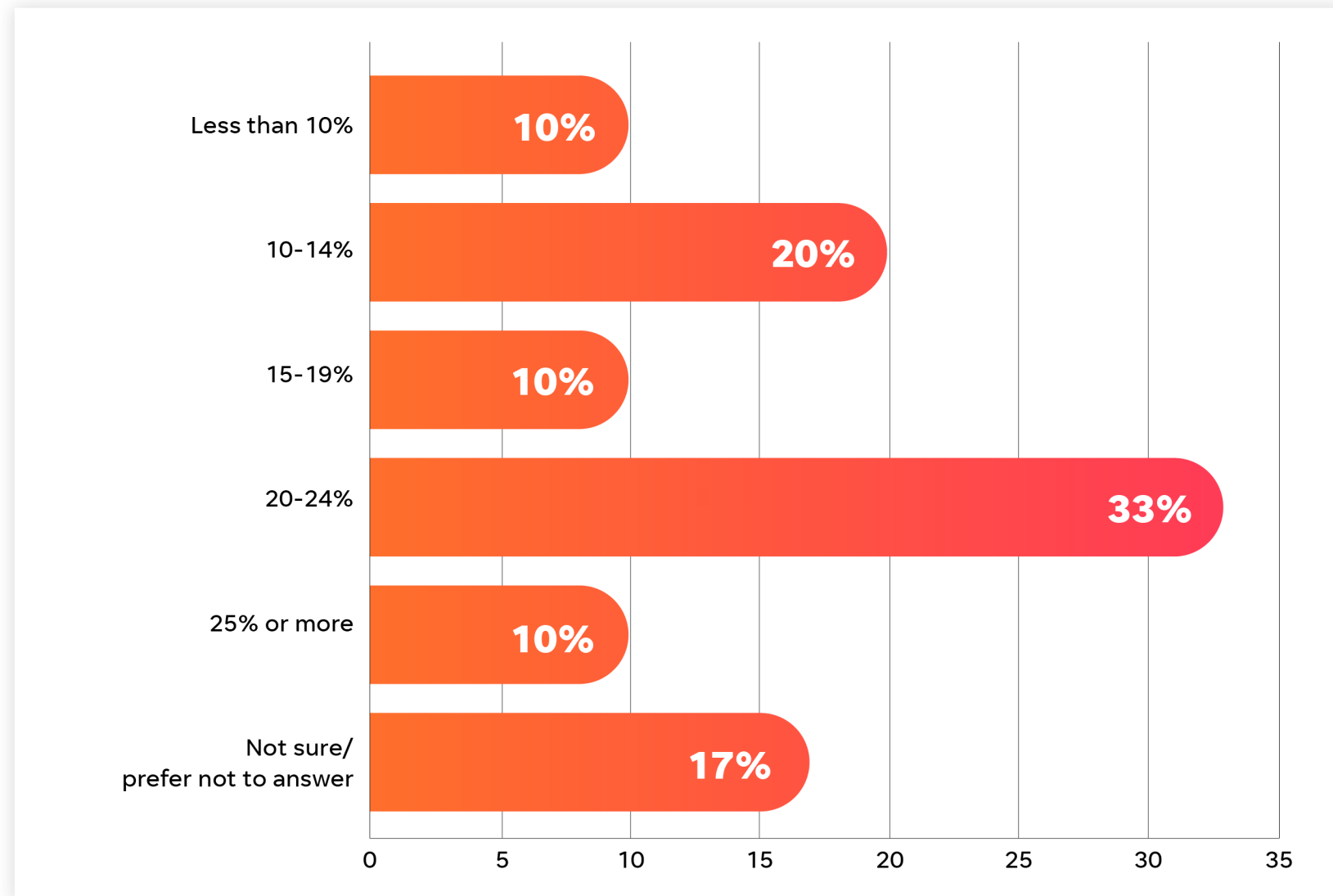
How does your agency price your services?



Our data shows that the hybrid billing model has grown in popularity over the last few years. In our 2020 report, flat fee and hybrid billing models were about equally common, but this year, almost half (49%) of all agencies we surveyed are using a hybrid billing model.

“There are lots of options for how agencies can price their services. We’ve seen hybrid billing models grow in popularity because they provide the flexibility for agencies to price their services in a way that benefits both their clients and their own bottom line.” said Erin Rose, Sr. Director of Partner Development for LocaliQ.

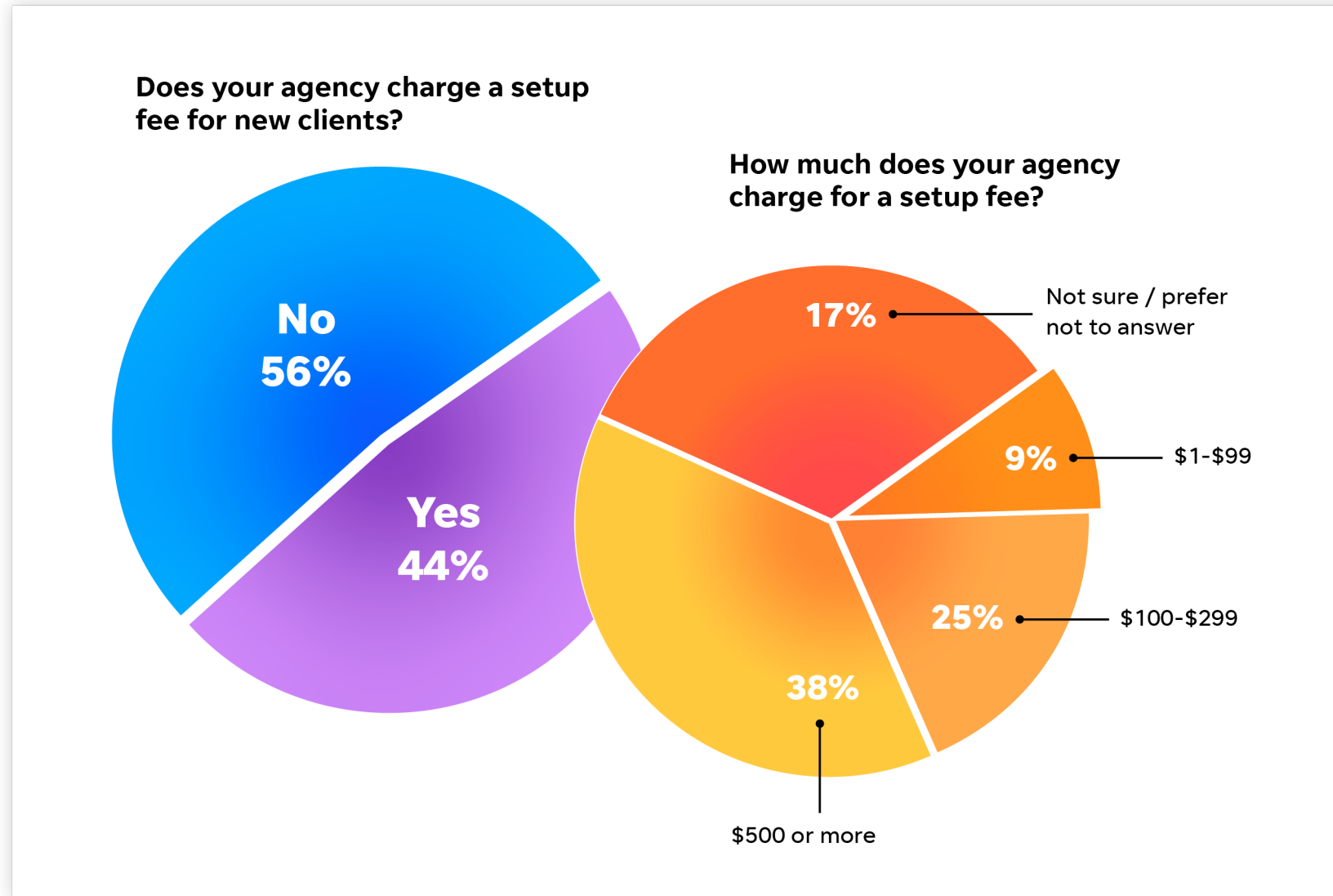
What percentage of ad spend do you charge?



Among agencies that are using percentage of ad spend as part of their billing structure, 20-24% was the most popular option for percentage of ad spend. This has increased over the last few years. Our 2018 report found only 11% of agencies were billing more than 20% of ad spend.

When billing based on ad spend, it's important to consider the cost of your time, employees, technology, and more while remaining competitive to retain and attract clients.

Does your agency charge a setup fee for new clients? If so, how much?

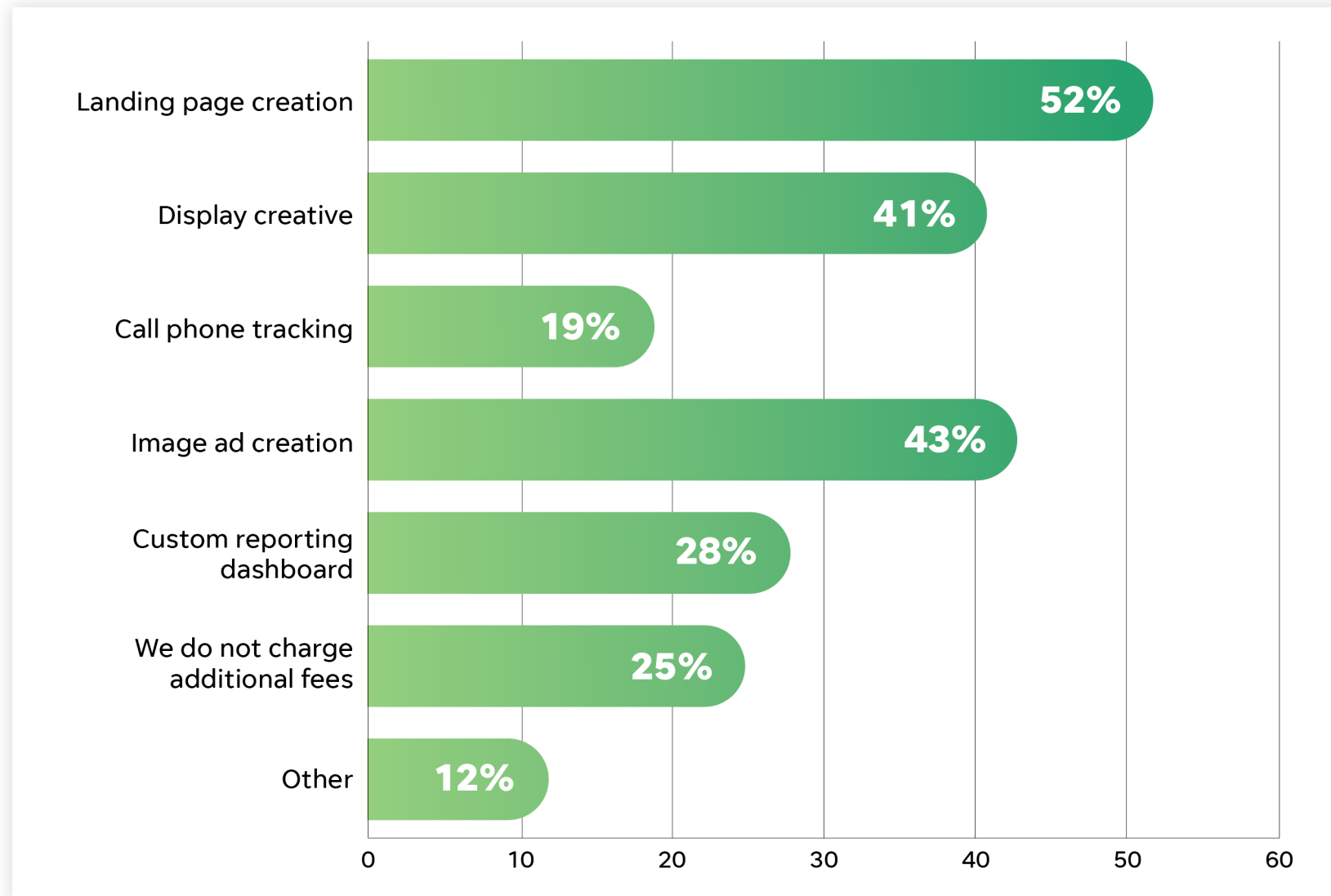


Surprisingly, over half (56%) of the agencies we surveyed do not charge a setup fee for new clients—even as part of their hybrid billing model.

For the 44% of agencies that do charge a setup fee, the highest percentage (38%) surveyed are charging \$500 or more. 25% are charging \$100-299, and 12% are charging \$300-499.

It's interesting that there's such a wide range between no set up fee and \$500+ set up fees, so choosing something in the middle could keep your agency competitive while helping you increase revenue.

Does your agency charge additional fees for any of the following?

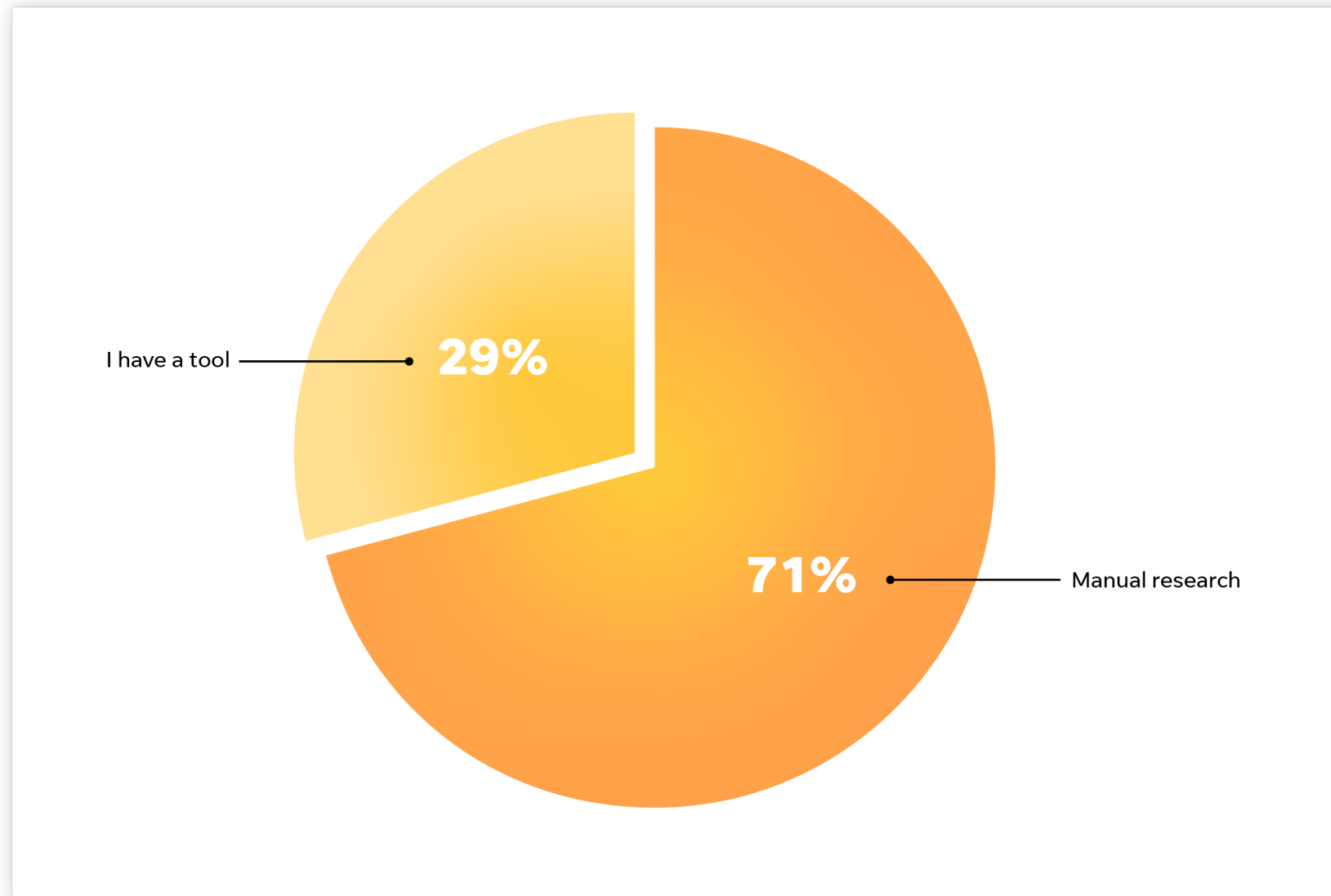


Landing page creation was the most popular item agencies charged additional fees for, followed by image ad creation (43%) and display creative (41%). This makes sense because these are time-consuming marketing activities that require expertise and creativity. Plus, effective landing pages and strong creative are crucial to the success of digital marketing campaigns.

Aside from creative services, reporting and tracking were valuable services agencies charged additional fees for.

By offering these services in-house, even for an additional fee, you can add value to your existing services while increasing revenue for your agency.

How are you currently creating budgets and proposals?



Over 70% of the agencies we surveyed are manually researching and creating budgets and proposals. This takes a lot of time and effort that could be spent in other areas of managing your agency.

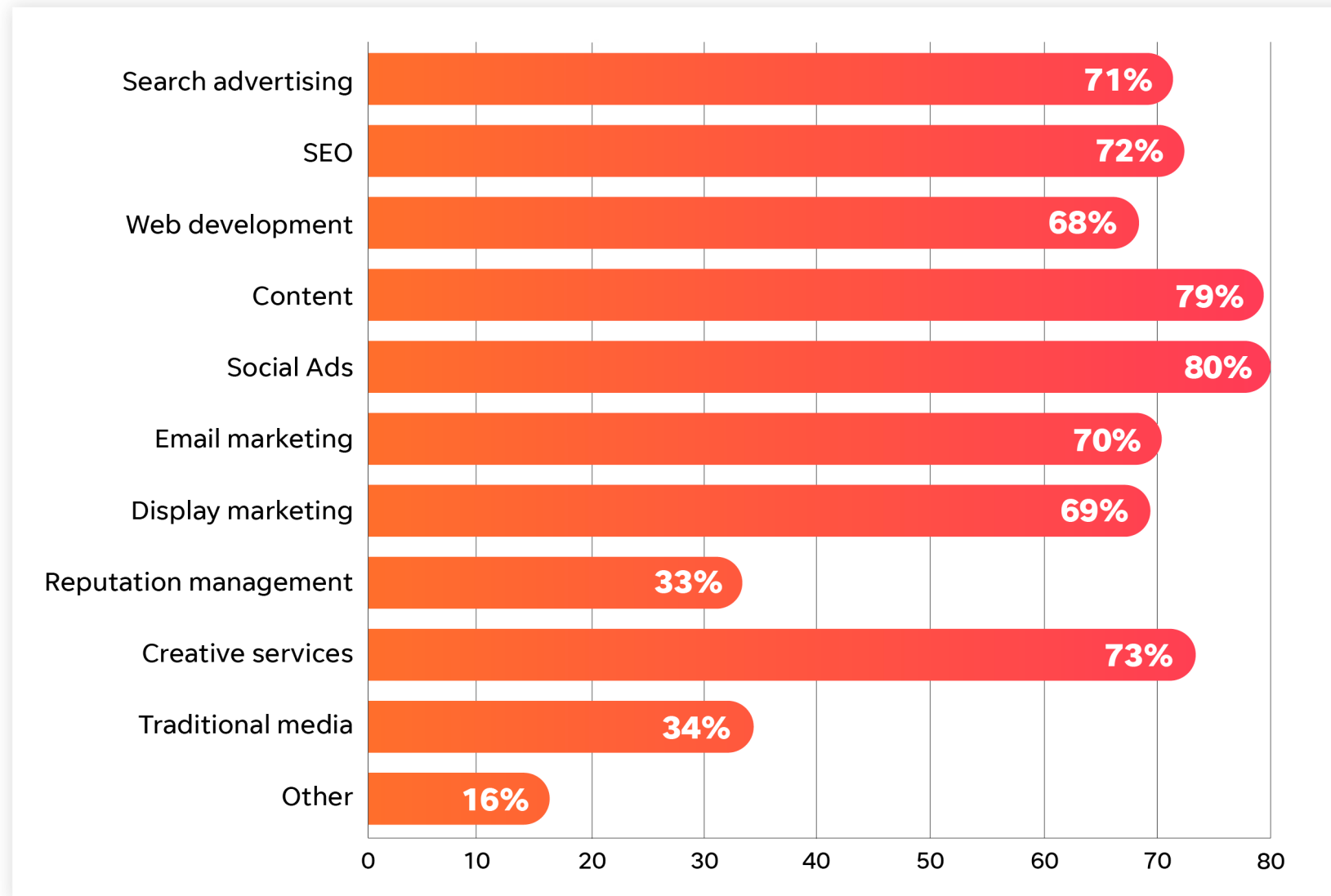
“The average budget proposal can take anywhere from 3 to 8 hours (but could be up to 40 depending on the complexity) when done manually. A budgeting proposal tool can streamline this so agencies are able to spend less time researching and building proposals and more time pitching new and existing clients,” said Erin.



Services and clients

- 11 What services does your agency offer?
- 12 What social ads services does your agency offer?
- 13 How many products/services are your clients running with you?
- 14 What is your average customer lifespan?
- 15 What industries do your clients work in?
- 16 What online advertising platforms are you currently managing?

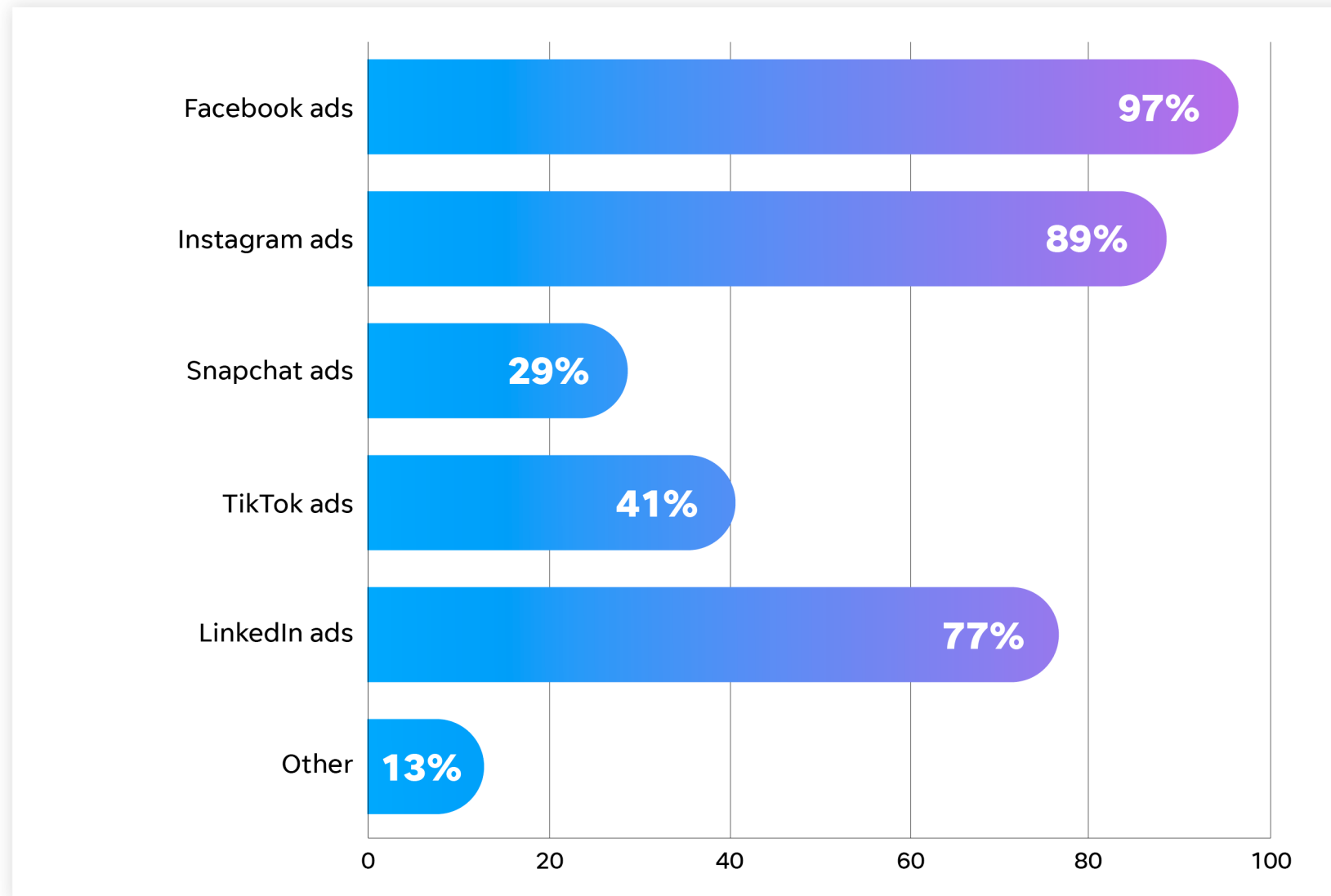
Which of the following services does your agency offer?



It's interesting to see the mix of services the agencies we surveyed offer—with social ads, content, and creative services leading the pack, followed by SEO, search advertising, and email marketing. These strategies continue to be accessible and cost-effective for all types of businesses—making them a reliable option for agencies offering digital marketing services.

This data also shows that most agencies are offering multiple services for their clients. We'll dive further into that data later in the report.

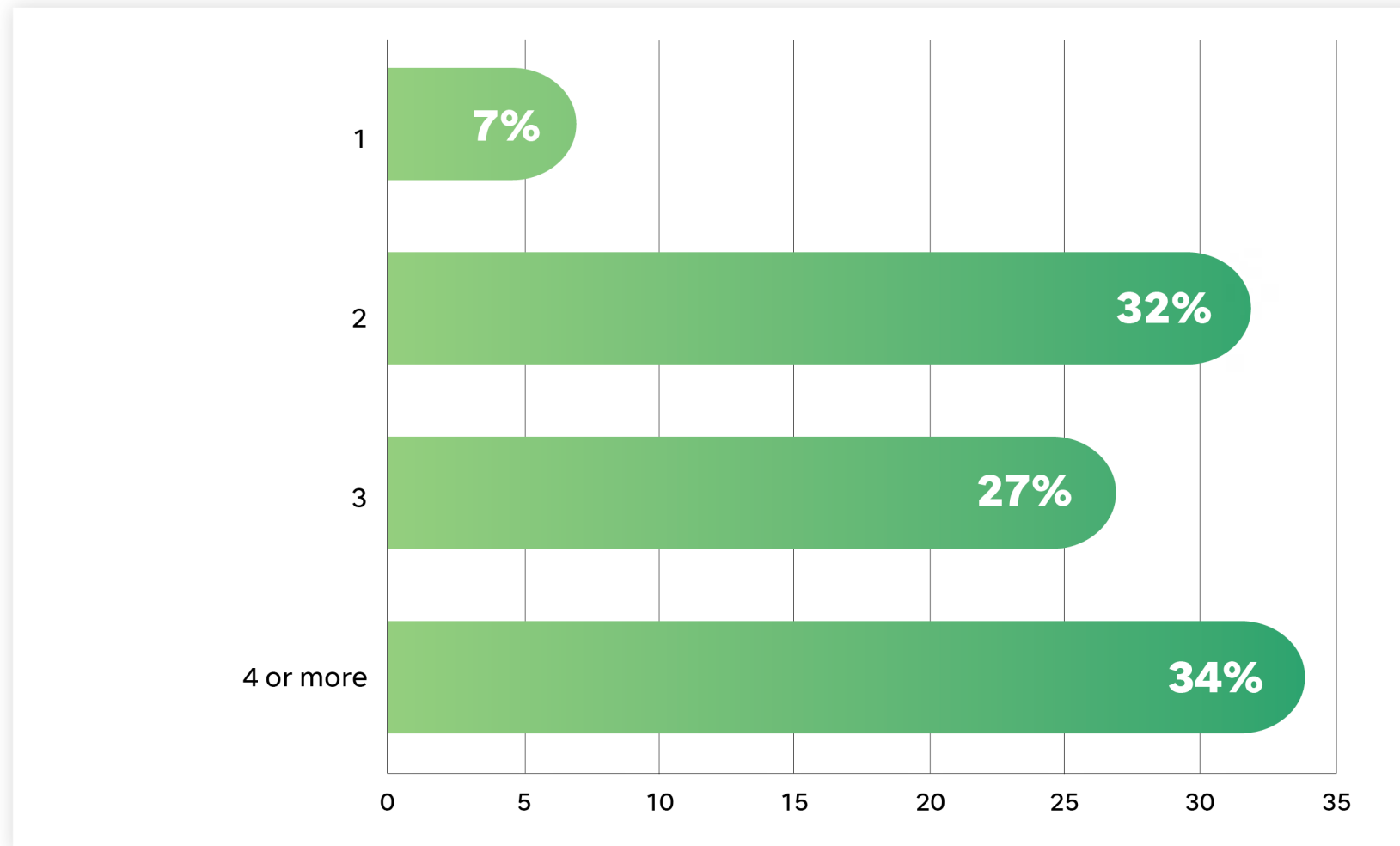
Which of the following social ads does your agency offer?



Of those agencies offering social ads services, almost all (97%) of them offer Facebook ads. Nearly 90% of them also offer Instagram ads, and 77% offer LinkedIn ads. Snapchat and TikTok make up lesser offerings but may grow over the next year or two.

Social ads continue to be huge drivers for businesses looking to generate leads, and Facebook and Instagram are good bets for success in that area.

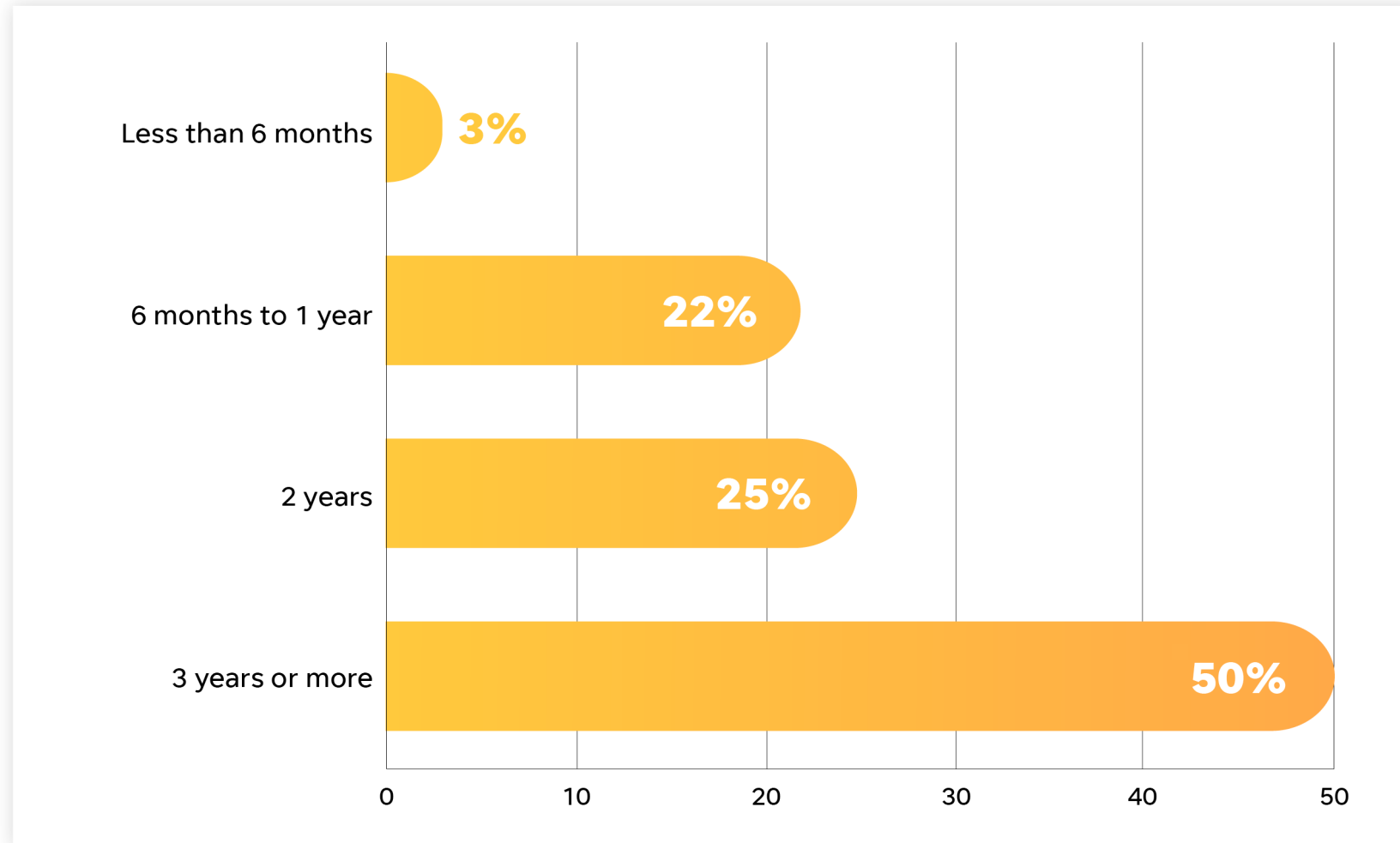
On average, how many products/services are your clients running with you?



Of those surveyed, 93% said their clients are running two or more services with them—with 34% saying their clients run an average of 4 or more services with their agency. This is good news because if your clients are running more services with you, there's a good chance you'll be able to retain and potentially upsell them.

This also means your agency should consider ways to offer more services to clients. Running one or just a couple of services decreases your revenue potential—and keeps you from providing a better experience for clients who will have to work across agencies for all their digital marketing needs.

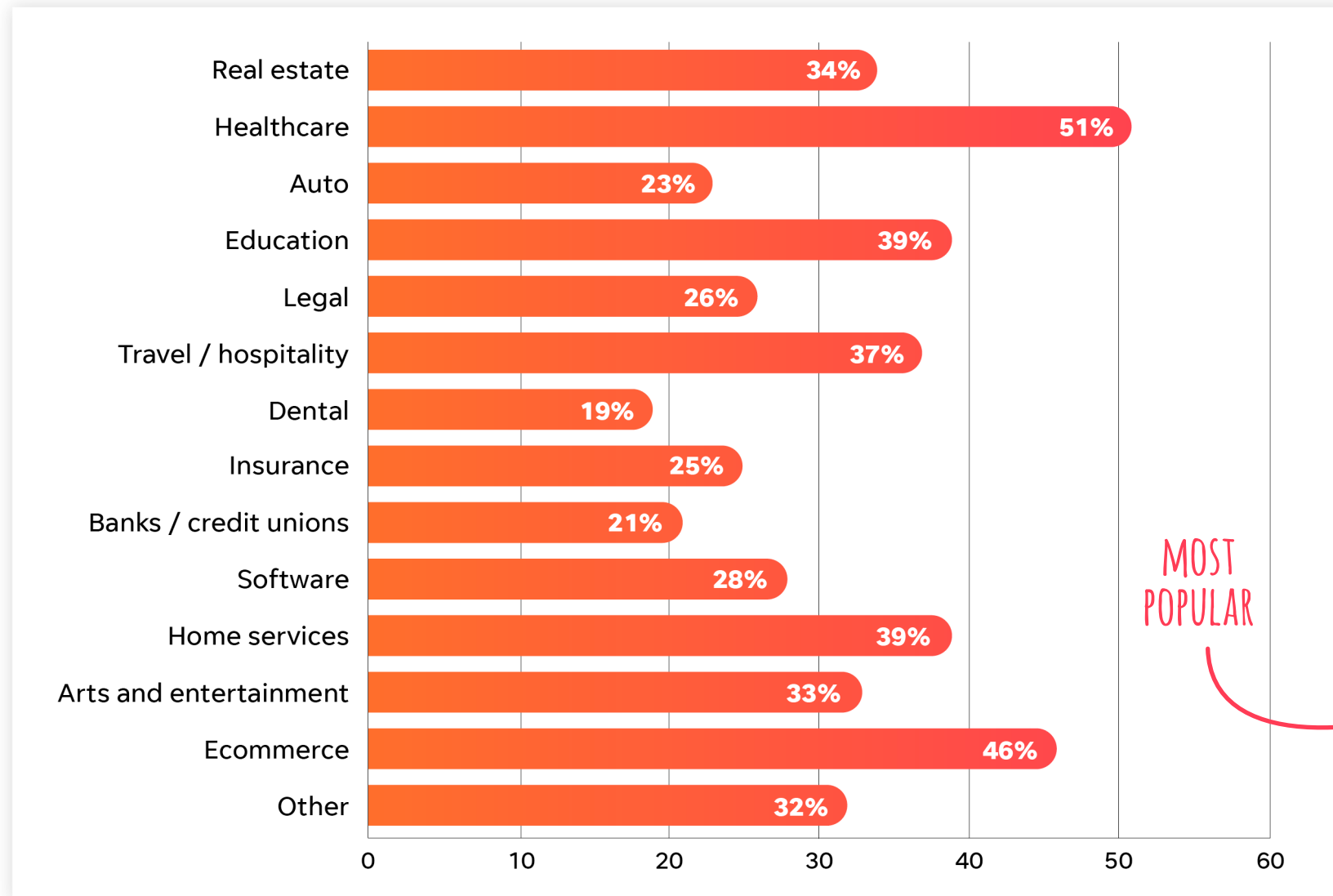
What is your average customer lifespan?



As agencies have expanded their offerings, they've seen their clients run more services with them and have been able to retain them over the last few years. Half of the agencies we surveyed said their average customer lifespan is three years or more, with only 3% seeing clients turnover after less than six months.

If your agency is struggling to retain clients, consider collecting client feedback through a survey to understand what is (and isn't) working for them. Then, let your clients know how you'll use their feedback to improve.

What industries do your clients work in?



The agencies we surveyed work with a variety of industries, including some specialized industries such as healthcare, ecommerce, home services, and education. Some notable “other” industries included non-profits, retail, and B2B.

Are there specific industries your agency drives the best results for? Put together industry-specific pitch decks, industry benchmarks, and case studies to streamline your proposals and outreach.

MOST POPULAR



Healthcare
51%



Real estate
34%

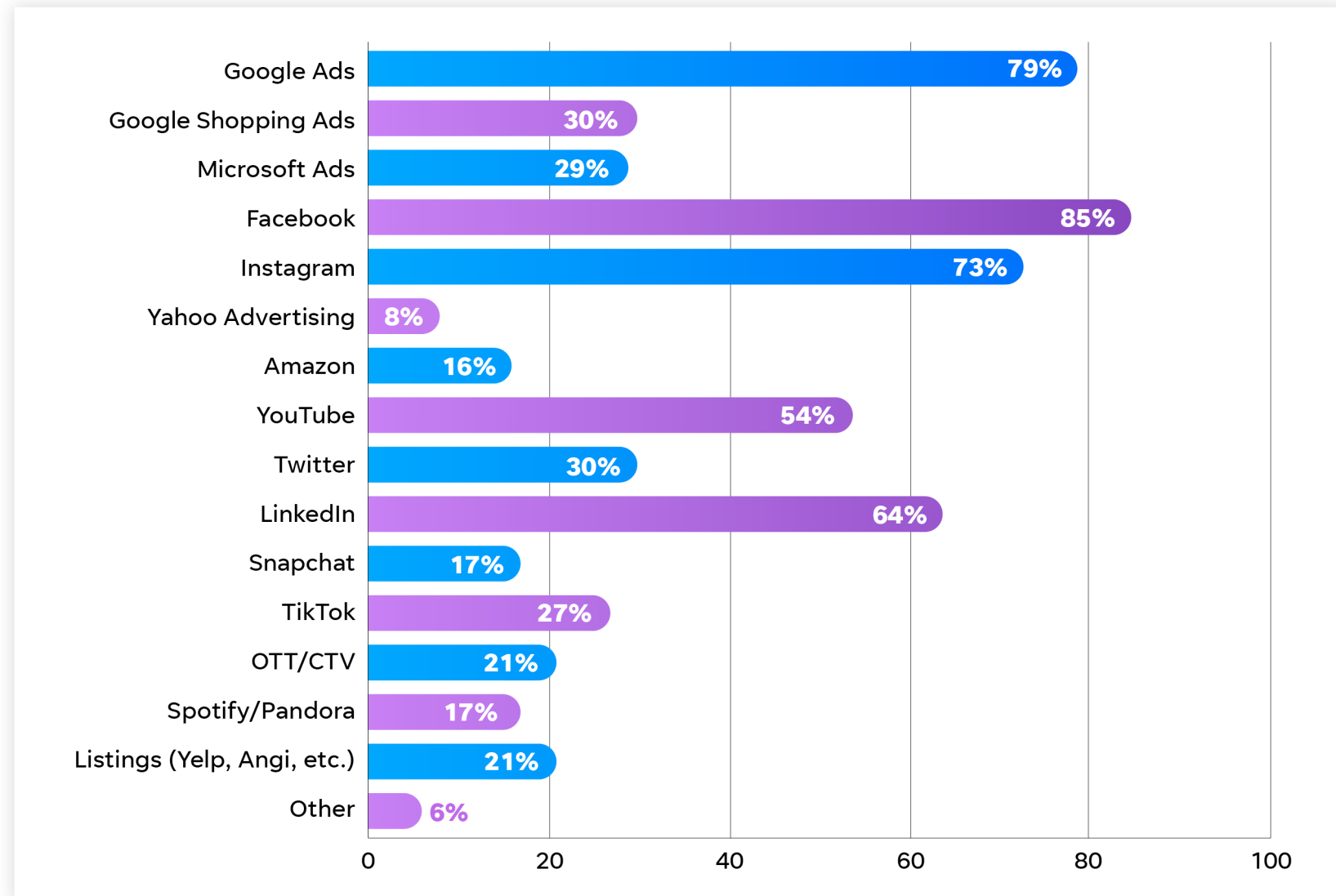


Ecommerce
46%



Home services
39%

What online advertising platforms are you currently managing?



85% of agencies we surveyed are managing Facebook ads for their clients, 79% are managing Google Ads, and 73% are managing Instagram. This aligns with our findings that social ads is one of the top services these agencies offer.

However, with only 24% managing Snapchat and 17% managing TikTok, there are some areas of opportunity for agencies already providing social ads services.

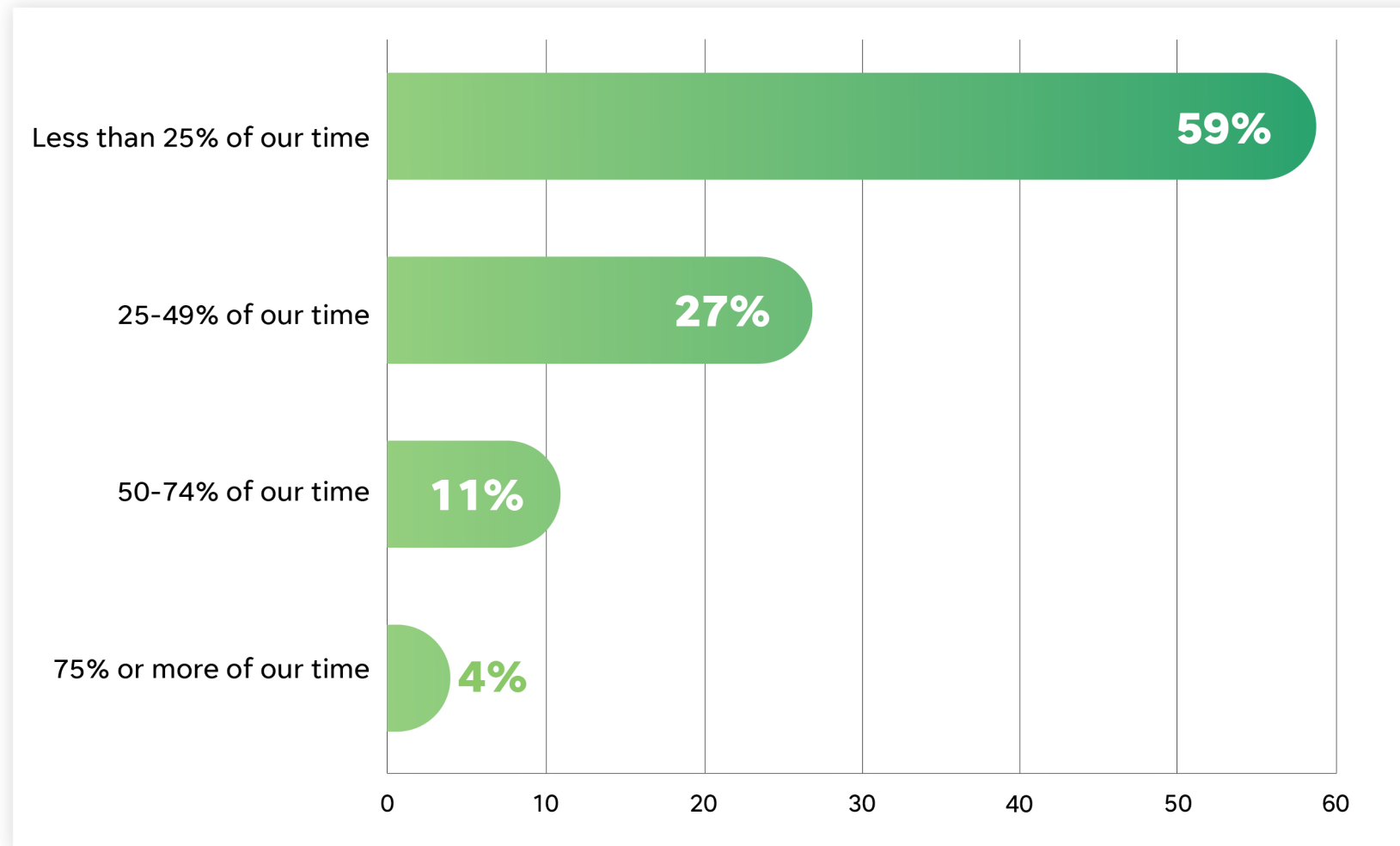
Because a cross-channel and cross-platform strategy is most effective for driving awareness and leads, more agencies may want to consider offering services such as [listings](#), [OTT](#), and [Microsoft Ads](#).



Time management and technology

- 18 Approximately what percentage of time does your agency spend on paid search?
- 19 How much time do you spend every week on PPC management, per client?
- 20 How much time do you spend every month on reporting, per client?
- 21 What tools do you use for your tech stack?

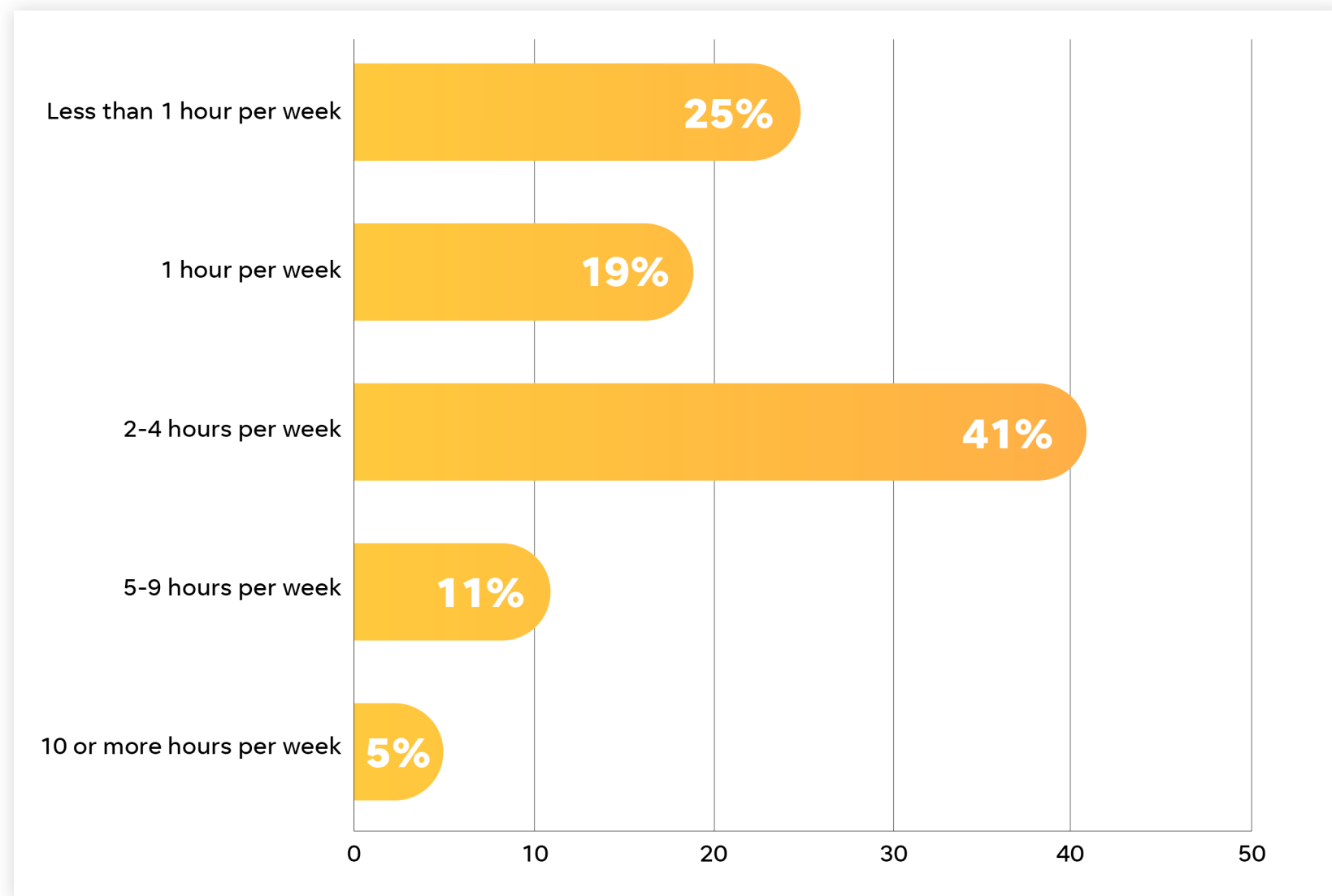
Approximately what percentage of time does your agency spend on paid search?



46% of agencies offering search advertising are spending more than 25% of their time managing just paid search for their clients. This is a lot of valuable time and resources spent managing PPC, especially for agencies who also offer other marketing services.

Nearly half of agencies surveyed are spending more than 25% of their time and resources managing paid search for clients.

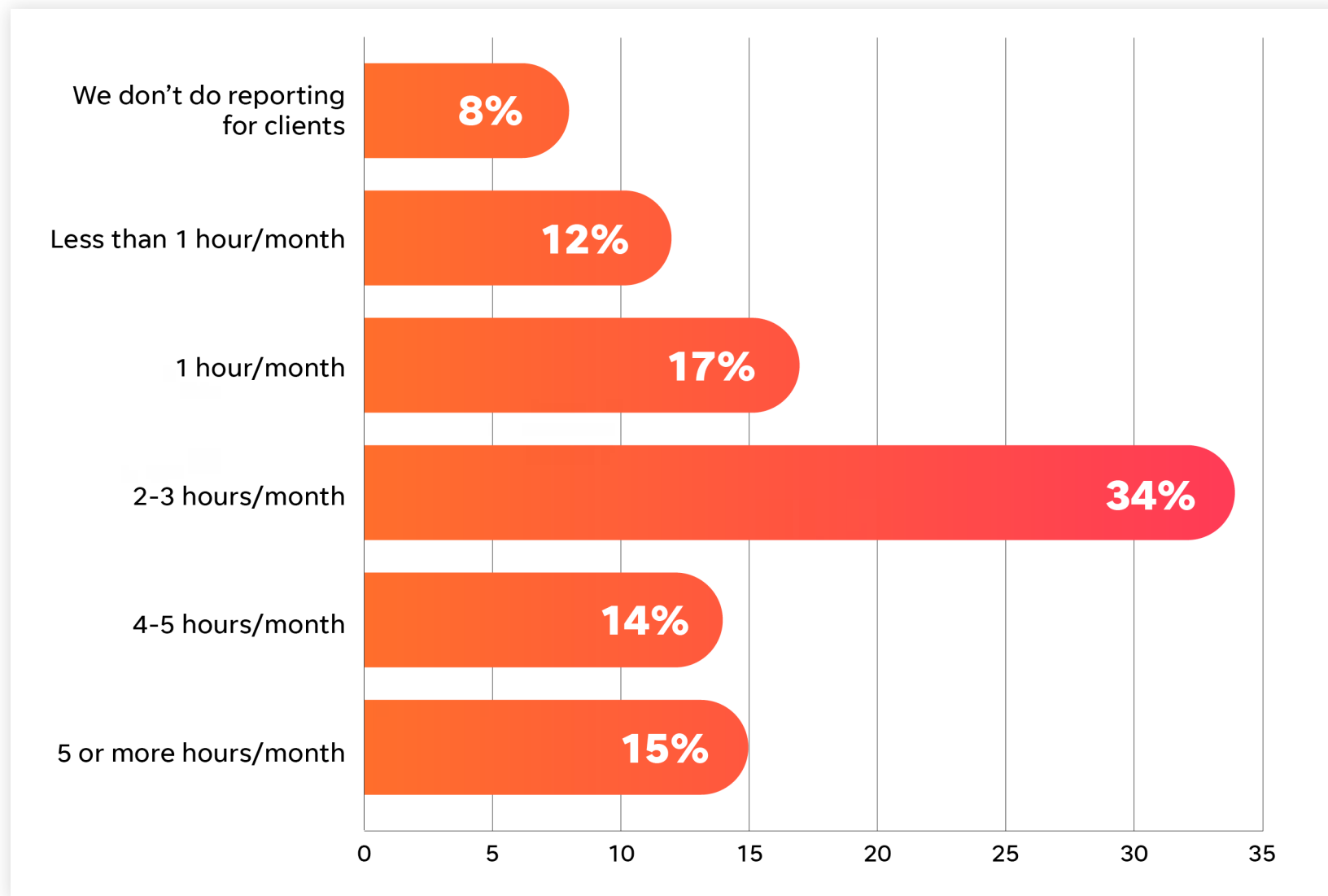
How much time do you spend every week on PPC management, per client?



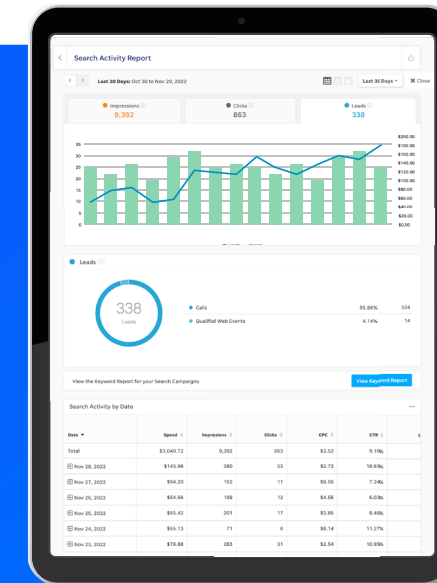
41% of agencies offering search advertising services are spending 2-4 hours per week managing PPC per client—and 16% are spending 5 or more! This time can add up quickly and hinder your agency from onboarding new clients and adding more services to help retain existing clients.

If you're spending more than a couple hours per week managing search per client, consider outsourcing or researching automated tools that can cut down on your PPC management without sacrificing results.

How much time do you spend every month on reporting, per client?



63% of agencies surveyed spend two or more hours per month per client, with 15% of those spending five or more hours per month on reporting for each client. This adds up quickly, especially with fewer employees dedicated to full-time account management.

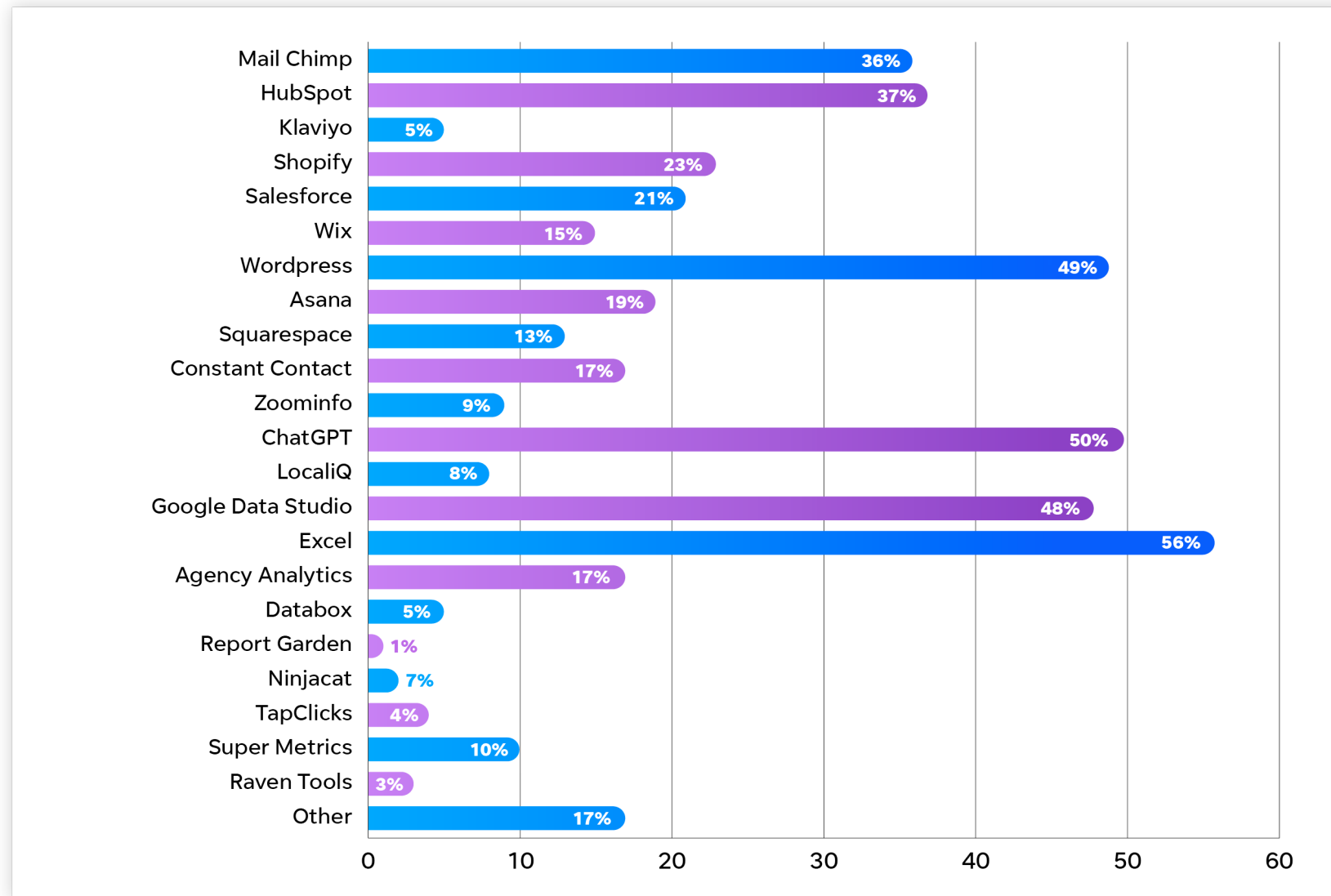


Our Marketing Dashboard can automate reporting for your clients.

Want to learn more?

Let's talk

What tools do you use for your tech stack?



A good tech stack is essential for agencies—especially smaller agencies doing more with fewer people and resources. Tools for marketing automation and email marketing like HubSpot and MailChimp continue to be important for agencies. Agencies are also commonly using tools and software for reporting and analytics, project management, content management, and ecommerce/ payments.

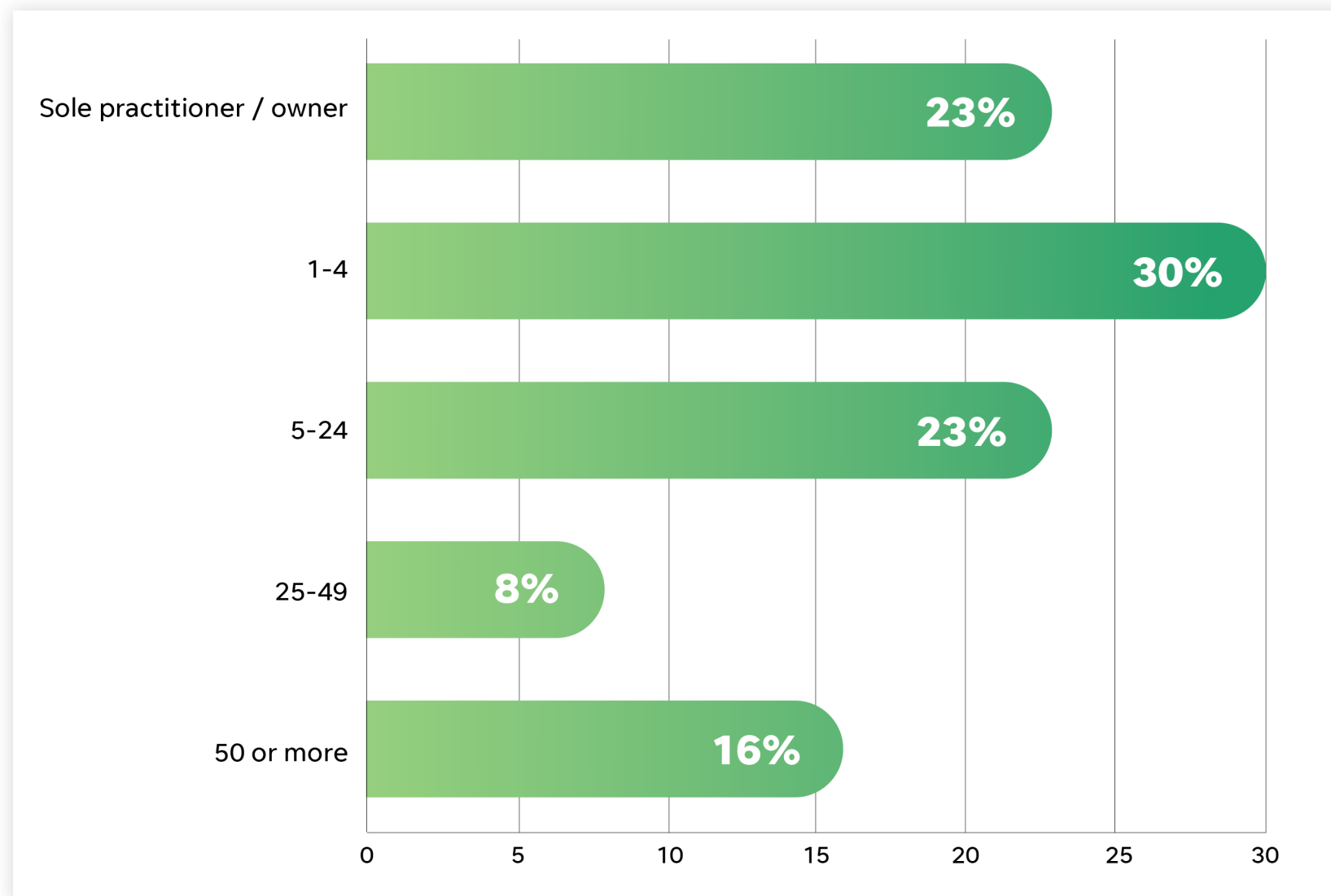
But one new addition is the prominence of ChatGPT. This AI tool has become an important resource for agencies and marketers looking to automate tasks that were more time intensive. We'll be curious how the use of AI tools will evolve and impact agencies in the future.



Agency structure

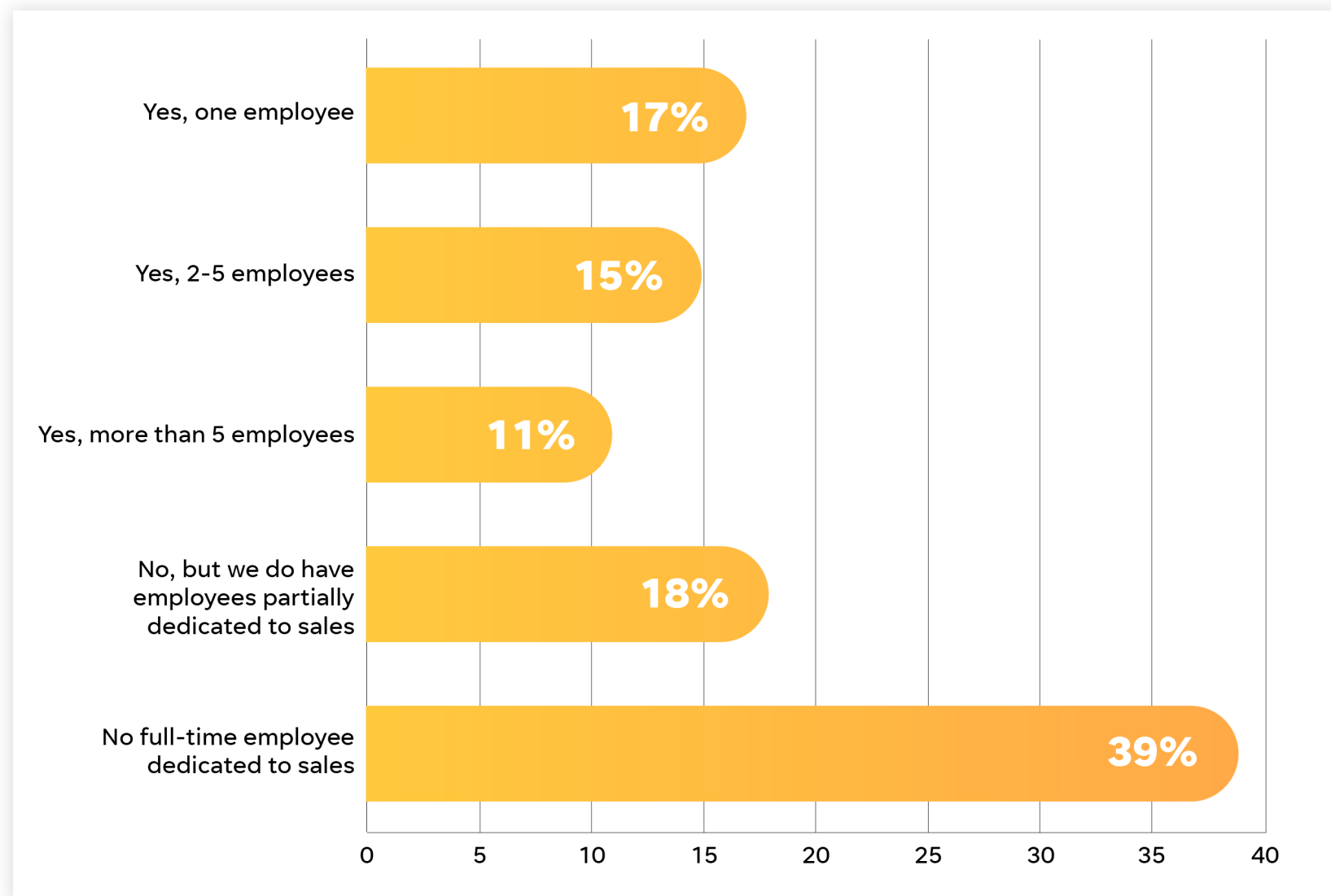
- 23 How many full-time employees does your agency have?
- 24 Does your agency have employees dedicated to sales full-time?
- 25 Does your agency have employees dedicated to account management full-time?
- 26 How long do your employees typically stay at your agency?

How many full-time employees does your agency have?



53% of those surveyed have fewer than 25 employees and 23% are sole practitioners. Meaning most of these agencies' employees are wearing multiple hats, from account management, sales, reporting, and more. We'll dig in deeper here over the next couple of charts.

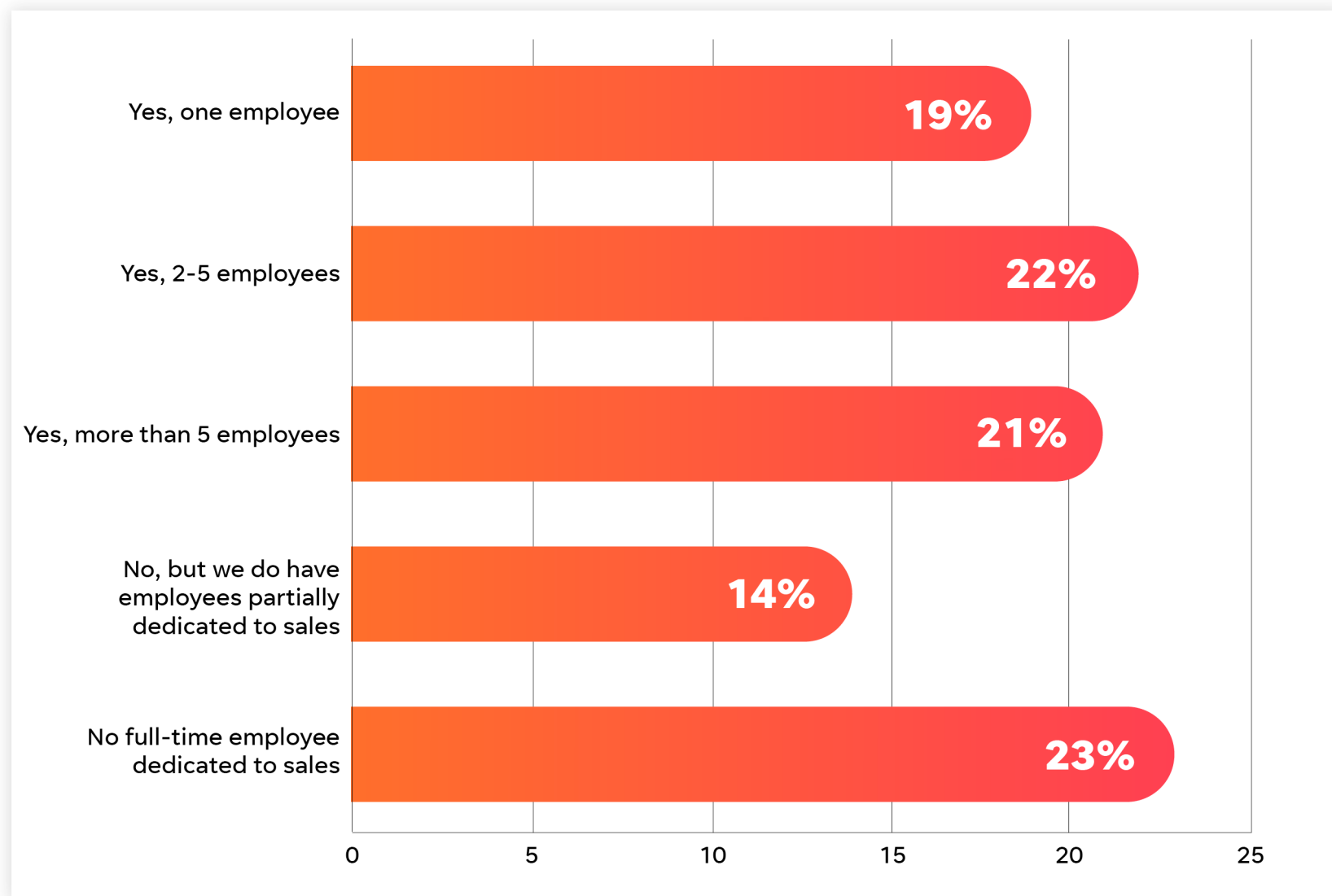
Does your agency have employees dedicated to sales full-time?



Of those surveyed, over half (57%) of agencies don't have any employees fully dedicated to sales. 18% have employees partially dedicated to sales, and 43% have at least one employee fully dedicated to sales.

And with our earlier finding that 70% of agencies do budgeting and proposal research manually, this means agency employees are taking on a lot of responsibility and spending a lot of time finding and closing new clients.

Does your agency have employees dedicated to account management full-time?

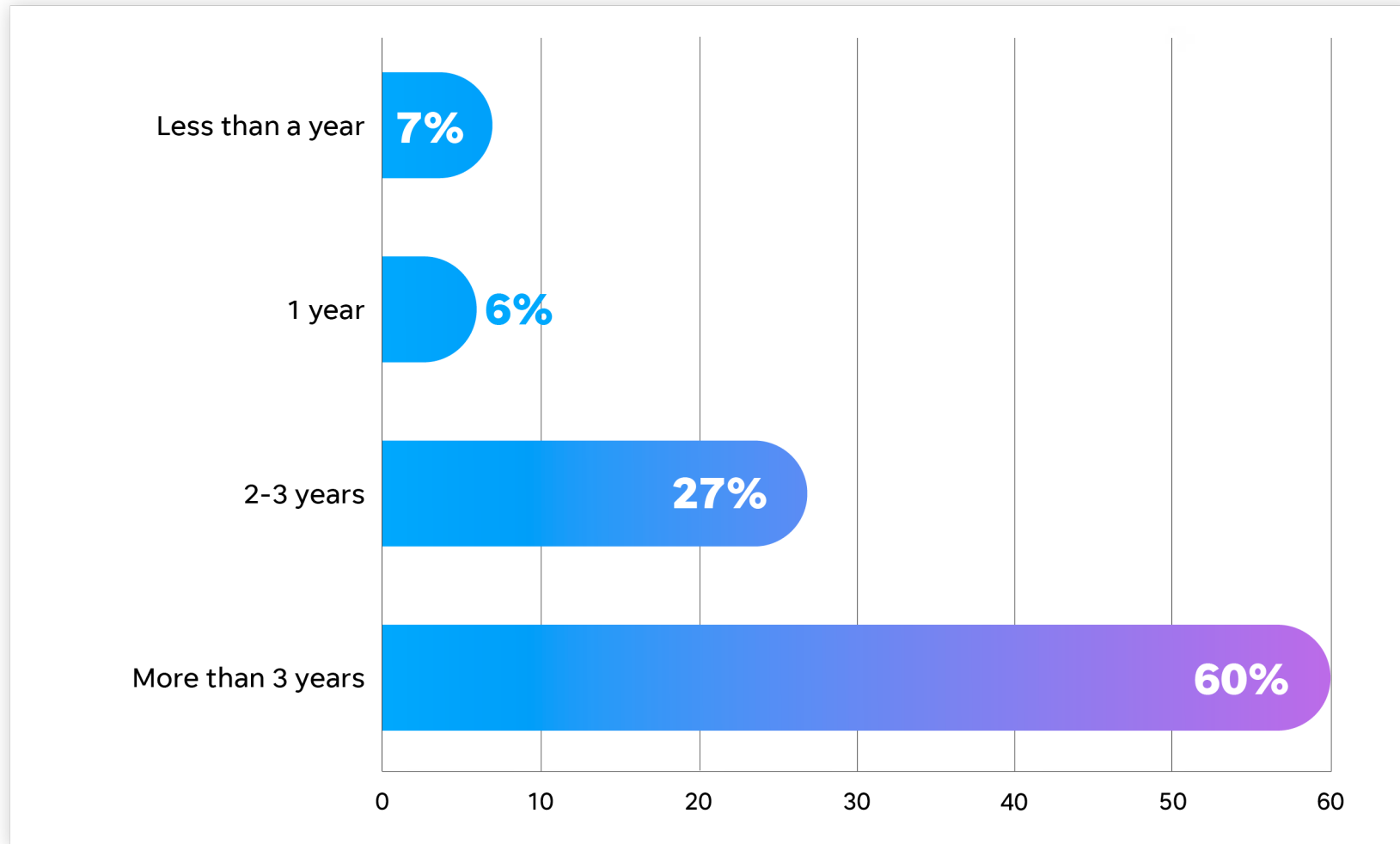


More agencies (62%) have at least one employee dedicated to account management than sales. However, 23% have no employees dedicated to account management and 14% have employees only partially dedicated to account management.

Want to simplify account management? *We can help!*

[Let's talk](#)

How long do your employees typically stay at your agency?



Luckily for the agencies we surveyed, most (60%) of their employees have tenures of more than three years. Only 13% have employee turnover of a year or less. This level of employee retention is a great selling point for agencies looking to hire new employees and expand their teams.

If you find your agency has turnover after a year or two, focus on your onboarding process, look for ways to keep employees engaged, and consider developing a mentorship program to foster both personal and professional growth for your employees.

70%

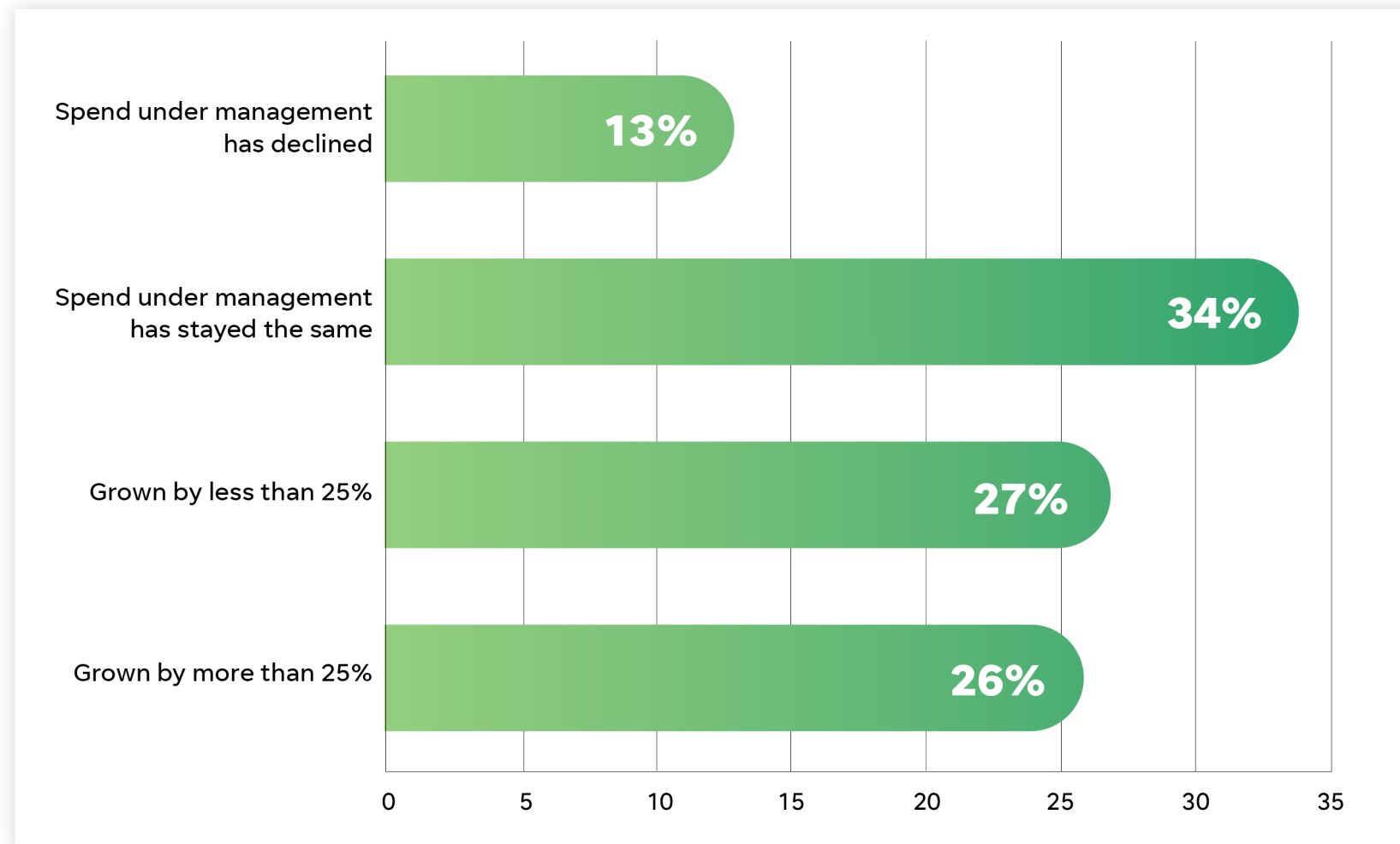
A good onboarding process leads to nearly 70% of employees staying at their company at least three years.



Challenges and growth

- 28 In the last year, by how much has your managed spend grown?
- 29 If your managed spend has grown, what's the breakdown of spend?
- 29 If your managed spend has grown, what's the breakdown of how?
- 30 What is your main source of acquiring new clients?
- 31 What are the biggest challenges your agency will face this year?

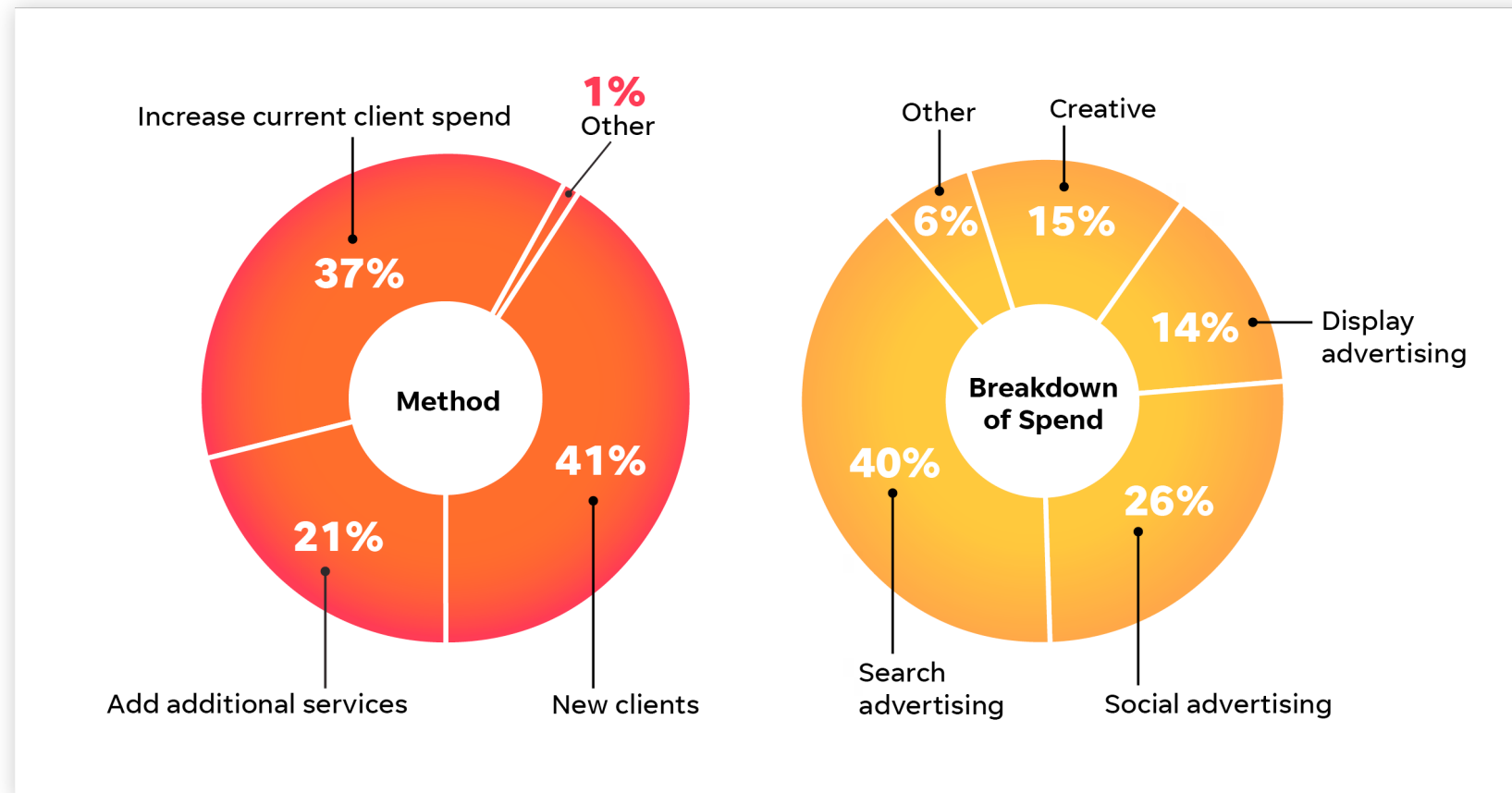
In the last year, by how much has your managed spend grown?



34% of those surveyed said their spend under management has stayed the same in the last year. 53% said their spend under management has grown in the last year—26% by more than 25% and 27% by less than 25%.

Between the stressors of the economy and coming out of the pandemic, it's encouraging to see that agencies have been able to grow their managed spend, although the rate of growth is lower than we saw in our 2018-2020 reports.

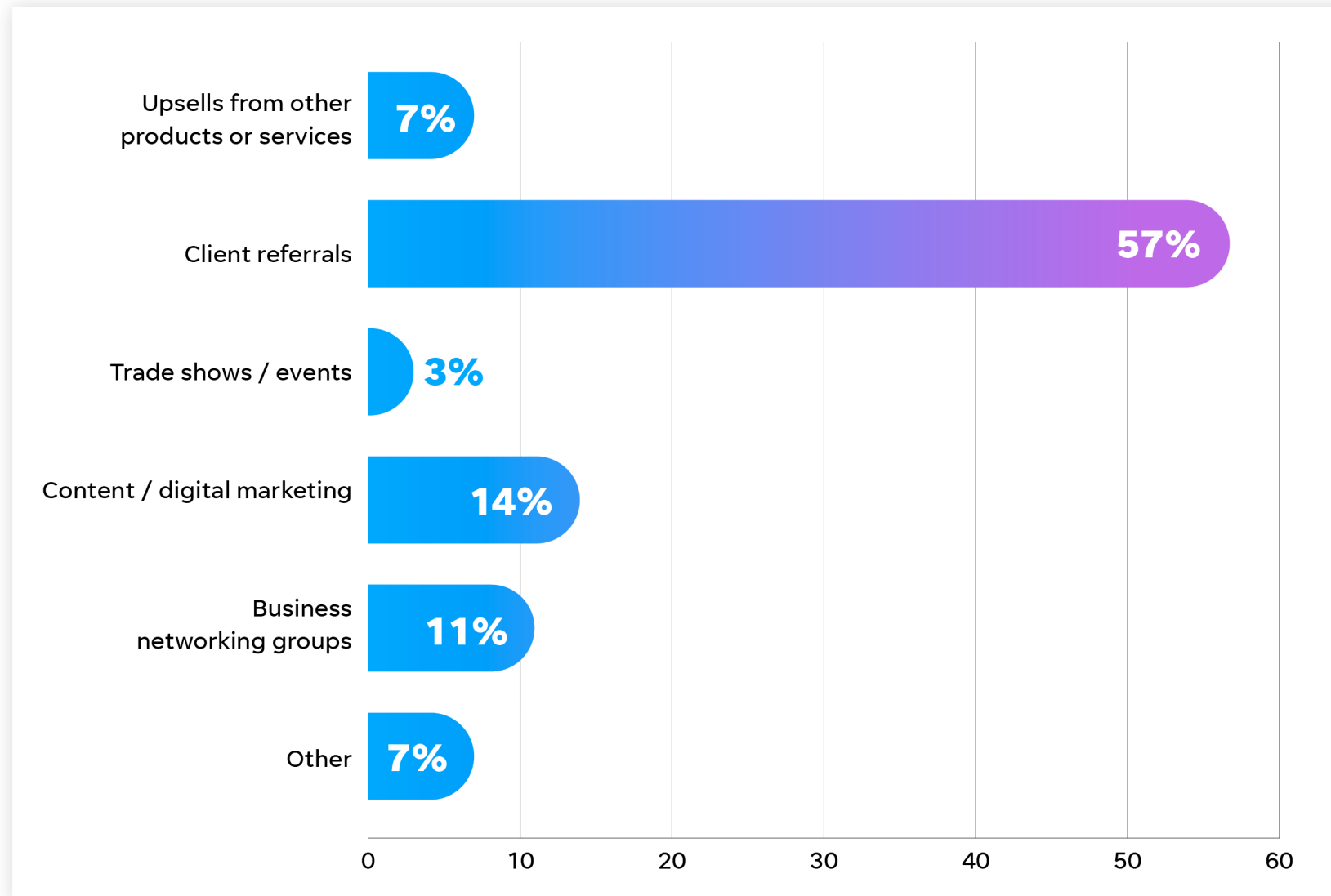
If your managed spend has grown, what's the method and breakdown of spend?



It's interesting to see that search advertising was the highest driver of growth when it's not the most prominent service offered by the agencies we surveyed. This shows how effective search advertising can be at driving revenue—for both agencies and their clients.

It's also noteworthy—and encouraging—to see that new clients was the biggest driver of growth, especially since this is such a prominent challenge for agencies. An increase in current client spend was the second-highest driver of growth, which speaks to the importance of retaining clients and continuing to offer relevant services through your agency for them to run.

What is your main source of acquiring new clients?



As we found in previous reports, client referrals were by far the top source for acquiring new clients, followed (not closely) by content and digital marketing.

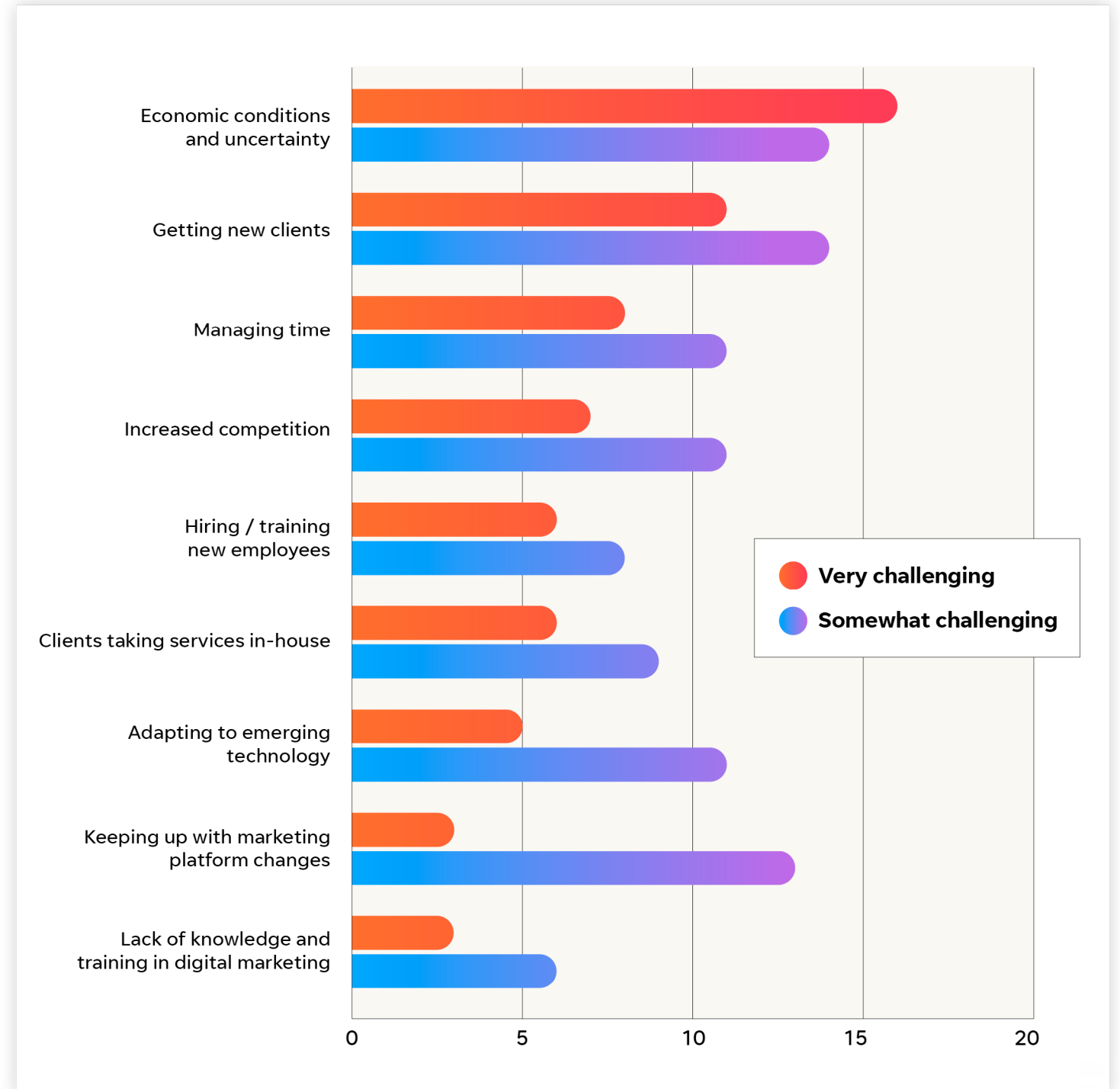
Referrals are amazing, but if your challenge is finding new clients you should switch it up. Here are just a few other ways to get new clients if your referral well is running dry:

- Create lead magnets such as guides and ebooks—then send educational nurture emails to prospects to encourage conversion.
- Speak at industry events and have a presence at tradeshows.
- Target agency clients though social ads on Facebook and LinkedIn.
- Partner with complementary agencies to promote your services to their clients (and vice versa).

What are the biggest challenges your agency will face this year?

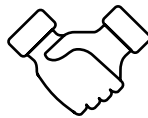
Getting new clients has been a consistent top challenge for the agencies we've surveyed since 2018. The agencies we surveyed this year still anticipate getting new clients will be a big challenge, but economic conditions and uncertainty is the top challenge they're worried about for 2024.

This answer wasn't even an option in previous reports, and agencies were reporting higher rates of growth. For example, in 2018, nearly half of agencies surveyed saw their managed spend increase by more than 25%, compared to only 26% this year.





With continued fears about a recession or slow economy, there are some simple steps your agency can take to assuage these concerns.



Outsource where you can.

Rather than hiring full-time employees in-house, find ways to partner with other agencies or businesses to handle activities such as account management, billing, and HR.



Identify growth opportunities.

Most agencies' clients run multiple services with them, so look for ways to add value to your agency by offering additional services.



Retain clients.

It costs more to attract new clients than it does to retain them, so focus on delivering great customer service, results, and reporting to keep clients happy.



What it all means

What does this data mean for your agency? Here are the three biggest takeaways to consider as you look ahead.

Agency pricing moves toward a hybrid model

How to price your services is one of the most important strategic decisions your agency needs to make. Our report reveals that agencies are using a range of different pricing models, but hybrid models are currently the most popular.

In previous years, a flat fee or retainer was much more popular, but that's fallen out of popularity in favor of the hybrid billing model. This year, 49% of agencies surveyed work off a hybrid billing model that may include a flat fee or retainer, billable hours, percentage of spend, and/or more.

Of the agencies using percentage of spend as part of their model, most set the percentage between 20-24% of ad spend, higher than in years past.

Agency employees wear many hats

In terms of size and structure, most of the agencies we surveyed have fewer than four employees. This means that in 2023, everyone within the agency wears multiple hats, including

account management, sales, building reports, and researching and creating budgets and proposals.

Further, 41% of agencies are spending more than 25% of their time managing just paid search for their clients, even when they offer more services than PPC. Agencies are relying on both free and paid tools to help streamline their efforts, including new tools like ChatGPT.

The economy presents a new challenge

Getting new clients remains a top challenge for agencies, which was also true between 2018 and 2020.

But this year's report revealed a new challenge. We found that in 2023, digital agencies are worried about the economy—they named economic uncertainty and inflation as their second-largest business challenge. Our 2020 report based on 2019 survey data didn't even include the economy as an option, which illustrates how much the landscape has changed in the last three years.

DATA SOURCE

This data was compiled from 311 respondents to a survey conducted via email in September 2023. Recipients consisted of digital marketing agencies of varying sizes based in the US and Canada.

Is your agency prepared for growth in 2024?

This peek inside how other digital agencies operate, use their resources, and service clients can help inform your 2024 planning—and can illuminate some areas to focus on improving or streamlining. For example, did you find you're spending too much time on PPC management or reporting? Are you not offering enough services for your clients?



Whatever the case may be, we can help. WordStream by LocaliQ is your source for data and insights that make sense of digital marketing. And when you need more help to meet your goals, the LocaliQ platform can empower you to grow and scale your agency. Reach out to learn more.

Let's talk



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