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O'Dwyer's Newsletter

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IPG'S NET TUMBLES AS REVENUES SLIP

Interpublic last week reported a 39.6 percent drop in 2Q net income to $94.7M as revenues dipped 1.7 percent to $1.9B. IPG shares, which hit a 15-year high July 24, were down more than 10 percent to $22.92 July 25, on the earnings news.

The constituency management group, which includes Weber Shandwick, DeVries Global and Golin, reported a six percent dip in revenues to $347M and a 2.2 percent slide on an organic basis.

Andy Polansky

Andy Polansky, CEO of **Weber Shandwick**, noted the performance followed high-single growth on as-reported basis and mid-single organic growth last year.

Weber Shandwick reported gains in Europe and Asia during the first-half with healthcare robust and an uptick in employee engagement and corporate consulting services, according to Polansky. DeVries showed nearly double-digit organic growth, while Golin registered mid-single digit organic growth during the first-half.

"Client spending in the quarter reflected increased cau-

(Continued on pg. 2)

QATAR HANDS $1.8M PACT TO TRUMP-LINKED FIRM

Qatar, which is locked into a diplomatic battle with its neighbors, has hired Avenue Strategies to a $1.8M contract to handle communications with the White House and Congress.

Corey Lewandowski, President Trump's former campaign manager, and Barry Bennett, Ben Carson's campaign chief and senior Trump advisor, launched Avenue in January. Lewandowski exited the shop in May.

Trump has sided with Qatar's adversaries---Saudi Arabia, Bahrain, United Arab Emirates and Egypt, telling the Qataris they must stop funding terrorist groups.

Barry Bennett

Qatar, which is home to a US air base, denies any such funding.

Avenue's job is to advance the bilateral relationship between the US and Qatar, including assistance in promoting economic and security cooperation. The firm is to prepare for visits to the US by members of Qatar's government.

A $150K monthly retainer covers the one-year contract.

FTI GUIDES SAGE'S DEAL FOR INTACCT

FTI Consulting handled UK-based Sage Group's $850M deal to acquire Silicon Valley's Intacct Corp., provider of cloud-based accounting software company.

Stephen Kelly, CEO of Sage, called the deal another major step forward in winning new customers at scale and supporting his cloud-first acquisitions strategy.

"Intacct opens up huge opportunities in the North American market, representing over half of our total addressable market," he said.

Charles Palmer (L) & Dwight Burden

With the completion of the deal, Intacct will be recast as Sage Intacct and led by current CEO Robert Reid. The company has an 11,000 customer base. It recorded $67M in revenues for the fiscal year 2016 ended in June and a $23M pretax loss.

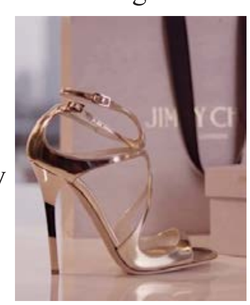
Byron Deeter, an investor and former board member, told TechCrunch: "Intacct is at the scale where they could be a public company today, but instead chose to partner with Sage given the nature of the deal, and the opportunity to have a broader impact together."

FTI's Charles Palmer and Dwight Burden guided Sage's takeover of Intacct.

MICHAEL KORS SHOE DEAL FITS FOR ICR

ICR is handling Michael Kors Holdings' $1.4B deal to acquire Jimmy Choo PLC, the high-end footwear brand noted for its signature $3,000 sky-high stilettos.

Discounting and the fall in mall traffic have hurt MKH, which distributes its fashion-forward designs in department stores and outlets.



JC provides an opportunity to grab higher-end customers and bigger profit margins.

John Idol, CEO of MKH, called JC "an iconic brand with a rich history as a leading global luxury house." He welcomed CEO Pierre Denis to MKH's luxury group, noting that JC achieved 11 percent compounded growth annually since 2012 under his guidance.

Idol also praised JC creative director Sandra Choi for her "groundbreaking fashion vision and fashion artistry."

JC operates 150 retail shops and markets shoes plus handbags, scarves, sunglasses and belts. It is stepping up its presence in the men's shoe market.

ICR's Jean Fontana and Alecia Pulman are handling the acquisition.

IPG'S NET TUMBLES AS REVENUES SLIP

(Continued from pg. 1)

tion, but we don't see evidence of a broad-based economic downturn,' said CEO Michael Roth of the financial results. He's confident the ad/PR conglom's investments in digital expertise and data-driven/technology-enabled marketing will help it achieve the low-end of its three to four percent organic growth target for the year.

First-half organic growth clocked in at 1.5 percent overall and 1.7 percent in the US.

Roth said IPG would remain "highly focused on costs, in order to build on our strong record of driving margin improvement."

'FAILING' NYT MOVES INTO THE BLACK

The New York Times Co. moved into the black during the 2Q, posting a $15.6M net income, up from a $211K red ink performance of a year ago deficit.

Operating profit grew to a $27.7M, up from $9.1M in 2016. Revenues jumped 9.2 percent to $407.1M.

CEO Mark Thompson said NYTC registered a "strong quarter" in which it grew revenue and profitability and made "significant changes to ensure that the acceleration of our digital business continues in the long-term."

The Times cracked the 2M digital-only news subscriber mark during the period. Digital-only subs rose 69 percent to the 2.3M level.

Revenues from digital-only news products jumped 46.4 percent to $82.5M. Digital advertising jumped 22.5 percent to $55.2M sparked by increased revenues from the smartphone, programmatic and branded content segments.

Print advertising continued to fall, dropping to $77.1M as the luxury, real estate, telecommunications, technology and travel categories registered declines.

The Times had an $11.9M charge for streamlining the company's overseas print operation and an $11.7M write-off for a partial withdrawal obligation under a pension plan. Severance costs weighed in at $19.3M.

Thompson expressed optimism for the future. "We believe that more and more people are prepared to pay for high-quality, in-depth journalism that helps them make sense of the world," he said.

PRESS CLUB LAUDS KORNHEISER & WILBON

The National Press Club is giving Tony Kornheiser and Michael Wilbon, the co-hosts of ESPN's "Pardon the Interruption," its Fourth Estate Award.

Kornheiser started his career in journalism with *Newsday*, and has also worked for the *New York Times* and *Washington Post*, as well as hosting a radio show on D.C. station WTEM that was syndicated nationally on ESPN Radio.

Wilbon began his career at the Washington Post and has been an NBA studio analyst for "KIA NBA Countdown" on ABC and ESPN since 2006.

Previous winners of the Fourth Estate Award include Wolf Blitzer, Gwen Ifill and Charlie Rose. The award will be presented at a dinner in DC on Oct. 4.

OBTAINING HIGHER PROFITABILITY IN PR

By Richard Goldstein, partner at Buchbinder Tunick & Company LLP

I've authored many a column on PR firm profitability and what it takes to be a profitable agency. The benchmark in the industry has been 20 percent. I've always felt that 20 percent profitability leads to mediocrity.

Based on Gould Partners' PR agency report for 2016, profitability of the surveyed firms is 15.2 percent. Agencies under $3.0 million in revenue netted 14.3 percent, while firms up to $10 million netted 14.6 percent. Agencies up to $25 million netted 17.4 percent and those more than $25 million netted 18 percent. So much for the industry benchmark of 20 percent! The Canadian firms that participated in the Gould survey averaged an operating profit 23.4 percent.

In my view, the industry goal needs to be 33 percent. For many agencies, 20 percent is a push, let alone 33 percent. Nevertheless, the bar needs to be set at 33 percent. There's a definite path that needs to be followed to obtain 33 percent.

The building block to profitability

The most basic principle of profitability is to know what it will cost your agency to service a client. PR principals ask this question for many purposes, including formulating overall strategies, service emphasis, and meeting reporting obligations.

The PR agency needs to understand the basic principles of job costing. When we think of job costing, a manufacturing company may come to mind. While this is often correct, the PR agency needs to know the cost of providing services to each client before the service is rendered, not after. Job costing is a system where costs are assigned to a distinct unit, batch, or product or service. The product or service is often custom made, such as providing unique services to a customer.

PR agencies provide customers with services or intangible products. Within the PR sector, jobs often differ considerably in terms of their length, complexity, and resources used. It's critical for agencies to know their job cost for profitability analysis and pricing. Accurate cost information is especially important for PR agencies because competition can be fierce among agencies.

Here's a homework assignment for you: look up Activity Based Costing for service industry firms and determine if this method of understanding the cost of providing services to customers should be considered by your agency.

Guaranteeing low profitability

Based upon the Gould reports, many agencies are experts in this area. So, what can cause low profitability in addition to not understanding the cost of providing services to your clients?

Low profitability is a direct result of not managing your engagements properly or knowing how to price the engagement. Either of these can result in always operating in crisis mode.

Fear of losing a client is next. Fear leads, in my view, to over servicing. If it's not fear, please let me know why you over-service at your agency. I'm happy to publish your comments, a top ten list if you will.

Thinks about the last time you hired a contractor to work on your home. You arrived at a price and the contractor started work. An unforeseen event arose that required

(Continued on pg. 3)

OBTAINING HIGHER PROFITABILITY IN PR

(Continued from pg. 2)

the contractor to make a change or do the job differently or you wanted a modification to the work to be completed. Did the contractor over service you? Or, did you learn two key words: "Change Order?"

The test of profitability

In my experience, smaller agencies (less than $2.0 million) generally have lower profitability for the reasons mentioned above. When I meet an agency that seems to have profitability issues, I review three basic factors (similar to a medical professional performing a basic examination).

The first test is the revenue per professional test. I generally multiply the total full-time employees (or its equivalent) by $200,000. I would expect to see a $2.0 million agency with ten professionals as having $200,000 for this benchmark. According to the Gould survey, revenue per professional was $211,995 for 2016. This is a key indicator of productivity of professional staff.

The second test is to divide revenue by billable hours (note: this is not part of the Gould survey). Smaller agencies are hard pressed to tell me how many billable hours are generated. I usually use 1,500 hours per professional or some other amount that agency management feels is appropriate. I would like to see an average billing rate of at least $185 per hour. In this case, the revenue for the agency should approximate $2.775 million not $2.0 million. Accordingly, the agency has failed to earn $775,000 of additional revenue. The real problem is when the test result comes up with $85 hour. This is not as uncommon as you would think among smaller agencies.

Labor cost is next on the list. According to the Gould survey, total labor cost is 58.9 percent, up from 58.5 percent. According to the survey, this is too high and an indication that salaries, bonuses and freelance labor have not been managed tightly. Model firms keep it as low as 50 percent. Frankly, I find it difficult for firms operating in key markets (New York City, Los Angeles, Chicago) to meet the 50 percent mark. In fact, in my experience, agencies with poor cash flow and profitability benchmark at 70 percent to 80 percent.

Therefore, if labor is 70 percent and operating overhead is approximately 26 percent, total cost are 96 percent. You can do the math.

NYT'S POWERFUL BOOK CRITIC STEPS DOWN

The *New York Times*' chief book critic, Michiko Kakutani, stepped down after a 38-year career at the paper, a change that many observers say will change the shape of the publishing industry.

Michiko Kakutani

Referred to as a "one-woman kamikaze" by Norman Mailer, Kakutani was known as much for her enthusiasm toward the works she championed as she was for her often sharp jabs at works that did not meet her standards.

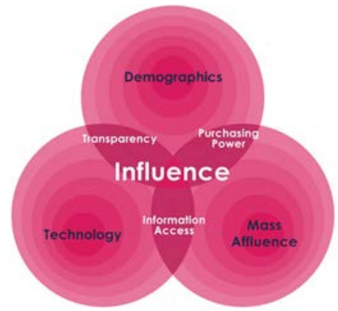
She started at the Times in 1979 as a cultural reporter, becoming a book critic in 1983. She won the Pulitzer Prize for criticism in 1998.

The Times announced Thursday that Parul Sehgal, a senior editor and columnist at its Book Review, would join Dwight Garner and Jennifer Senior as one of the paper's book critics.

'HUMAN TOUCH' TOPS TECH, SAYS GRAYLING

Despite the advancing technological tide, when it comes to influencing consumers there's still nothing that beats the human touch.

That's the conclusion drawn by a new study undertaken for global communications firm Grayling by U.K.-based thought leadership consultancy Reputation Leaders.



Slugged "Inside Influence," the survey charts the ways in which different generations make purchasing decisions.

There is plenty of information on the decline of traditional mass media (especially newspapers) as a force in influencing opinions and behaviors, the effects of widespread high-speed internet access (up from 1% of Americans in 2000 to almost 70% today) and the mushrooming of social media.

But the key takeaway is that direct advice from another person can still have more power than any high-tech means of communication.

Grayling CEO Peter Harris noted that "three out of four people who solicit the views and opinions of others, want to talk to someone, either face to face (58%) or on the phone (17%)." But that doesn't mean online sources don't still play a pivotal role in driving consumer interest toward a product or service, the study finds.

Especially at the beginning of the decision-making process (what the study calls the "research" phase), information gathered from both owned and earned channels has a powerful effect on consumer choices. It is as the process moves toward the point of decision that face-to-face contact assumes its high level of influence.

The poll was based on interviews with more that 2,000 Americans ages 16 and up in March.

Check out **grayling.com** for the full report.

FINANCIAL REPORTER HAYS JOINS EDELMAN

Laurie Hays, 30-year journalist with *The Wall Street Journal* and Bloomberg, is joining **Edelman** July 31 as executive VP in its financial communications & capital markets unit.

Laurie Hays

She will provide counsel to boards and management teams and lead the No. 1 PR firm's special situations group, reporting to Lex Suvanto, global managing director.

"Laurie has spent decades covering or overseeing corporate news stories at two of the world's most important financial news outlets, which makes her an ideal advisor for executives operating in this kind of environment," said Suvanto.

Hays, who also worked as Moscow correspondent, held the deputy managing editor position at WSJ, and left Bloomberg as senior executive editor in 2015 to join Brunswick.

At Brunswick, she handled mergers and acquisitions, CEO transitions, activism defense and crisis situations.

The death July 22 of Peter Osgood, CEO of Carl Byoir & Assocs. from 1983-86 and vice chair of Hill & Knowlton from 1986-91, recalls the destruction of Byoir, once the No. 3 PR firm.

It had revenues of $17 million in 1985, 200 clients and 300 employees, 175 in New York. Then billing $11M, it was sold in 1978 to Foote, Cone & Belding for about $3M.

Peter Osgood

CARL BYOIR & ASSOCIATES

Hill & Knowlton, acquired by J. Walter Thompson in 1980, bought Byoir in October, 1986 for a reported $12M in cash. JWT in the same month acquired Gray and Co., Washington, D.C., for stock worth $17M. The addition of Byoir and Gray restored H&K temporarily to its position as the largest PR firm.

By 1996, only three Byoir New York staffers were left—Lee Silberman, Jack Griffin and secretary Pearl Lester. Virtually all accounts, branch offices and numerous media-orient services were lost or closed. The financial news dept. which once had 37 NYSE clients was closed.

No. 1 Firm Erases No. 3

The press-resistant No. 1 firm had acquired the press-friendly No. 3 firm and destroyed it.

Byoir was staffed by many former reporters. New hires had to have five years at a wire service or major news medium. Efforts at building press ties not only included lunches and dinners with reporters but invites to the homes of execs, golf dates and invites to other functions.

Byoir execs were stars of the annual "Financial Follies" of the New York Financial Writers Assn. CEO George Hammond was president of PRSA in 1969. The firm hosted a hotel room with alcoholic drinks on Election Day for reporters at a time when bars could not sell drinks. Two states still ban alcohol sales on Election Day—Massachusetts and Alaska.

Staff morale was high. Alumni gathered in New York for a dinner Sept. 27, 2011, the 25th anniversary of the sale to H&K. Organizers were Virgil Scudder, Nancy Glaser, Bob McEwen and Allen Faust.

Byoir Lost Accounts, People

Byoir lost many big accounts starting in 1983 including RCA (34 years); Hughes Tool (40 years); Hallmark (37); CIT Financial (33); Borg-Warner (20); ACF (17) and Fireman's Fund (14). Also lost was ITT, a $500K account, along with Northeast Utilities, Wool Bureau and Aspirin Foundation.

Robert Wood, president under CEO Hammond and later chairman and CEO, said he was not allowed to influence policy after Osgood joined on March 1, 1983. He said that until 1983, Byoir had never lost an account to another firm.

Osgood and Abbott Jones, president of FC&B, operated under the supervision of Martin Sorrell, CEO of WPP, which made a hostile takeover of JWT in 1987.

The first major move of Jones and Osgood was the firing of nine executives and six support staffers on "Bloody Friday" March 18, 1983. Two other execs quit.

"I told them not to do that three times," said Wood. "If we let people go, it was one at a time." One result was five age discrimination suits that were not settled until 1986. By May of 1986, 22 VPs or above had quit Byoir/NY.

Ditched were most of the 17 units that specialized in placements in magazines, radio-TV, newspapers, life-style media, etc. Full-time reps at clients that saw Byoir people at 27 clients at one time, were mostly dropped. The central copy desk under John Stahr was cut as was the policy of having a few specialists handle all media contacts.

"Bloodiest Takeover" in Ad History

Armand Mattelart, author of ***Advertising International: The Privatization of Public Space***, said the WPP move was "the most bloody takeover in the history of advertising." WPP, in buying Young & Rubicam in 2000, also added Burson-Marsteller, one of the three biggest PR firms. It had been purchased by Y&R in 1979. Mattelart called **Sorrell** "the king of mortgage finance."

Current debt of WPP on revenues of $18.6 billion, is $8.51B. Debt/equity ratio is 67.24. Omnicom, on revenues of $15.4B, has debt of $4.98B. Interpublic, on revenues of $7.86B, a debt of $1.92B.

WPP, Omnicom, Interpublic and other companies purchased 16 of the 25 biggest PR firms on the 1980 ranking in ***O'Dwyer's Directory of PR Firms***. Six were in the "Top Ten"—H&K, B-M and Byoir, the three biggest; Manning, Selvage & Lee, Doremus & Co., The Rowland Co. and Ketchum, MacLeod & Grove. The advertising industry soon clamped down on many of the informational practices of the PR firms.

Disappearing was the client list of more than 400 that H&K posted in O'Dwyer's Directory. The Byoir client list vanished upon its purchase by H&K.

Congloms and others pursued a policy of "Don't buy, Don't Tell" with the PR trade press, meaning plug the flow of money and info. As a result, nine PR media ceased publication—three by Ragan, two of Paul Holmes including a monthly magazine (*The Holmes Report* continues an online NL), plus *PR Reporter* NL, (sold and now online), and *PR Newser*.

The policy of silence helped kill The *New York Times* ad column, chopped at the end of 2014 when Stuart Elliott, after a 23-year run, took two years' retirement pay. Sydney Ember, a 2012 grad of Brown University, was to succeed him but that did not happen, Apparently, too many ad agencies withheld input.

Byoir execs said they felt were betrayed by Hammond, who had controlling interest. He was a close friend of Robert Carney, ex-chair of FC&B, who became a Byoir director.

Hammond had signed the death warrant of the firm, whose culture prized good writing and ties with the press. New hires had to have five years at a major news medium and had to take an extensive writing test.

Shortly after Osgood's arrival, nine execs and a half dozen support staff were fired on "Bloody Friday" March 18, 1983. Five vets sued on grounds of age discrimination and won.

– Jack O'Dwyer

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