

Hampton

2023 Agency Analysis: People, Profits, and Projections

Jan 2024

How did agencies do in 2023?

We thought it would be interesting to pulse-check agency owners inside of Hampton's private community to better understand how they fared in 2023. We polled dozens of agency founders and analyzed the data to create this report.

Here's a sneak peek at what you'll learn:

- Revenue and profitability breakdowns for 30 agencies
- Service breakdown and contractors & FTE splits
- General sentiment for 2023, and more!

This report will give you a better understanding of how the last year affected agencies at large, and help you make informed decisions in growing your own agency business in 2024. At the end of this report, you can also find the raw data we used.

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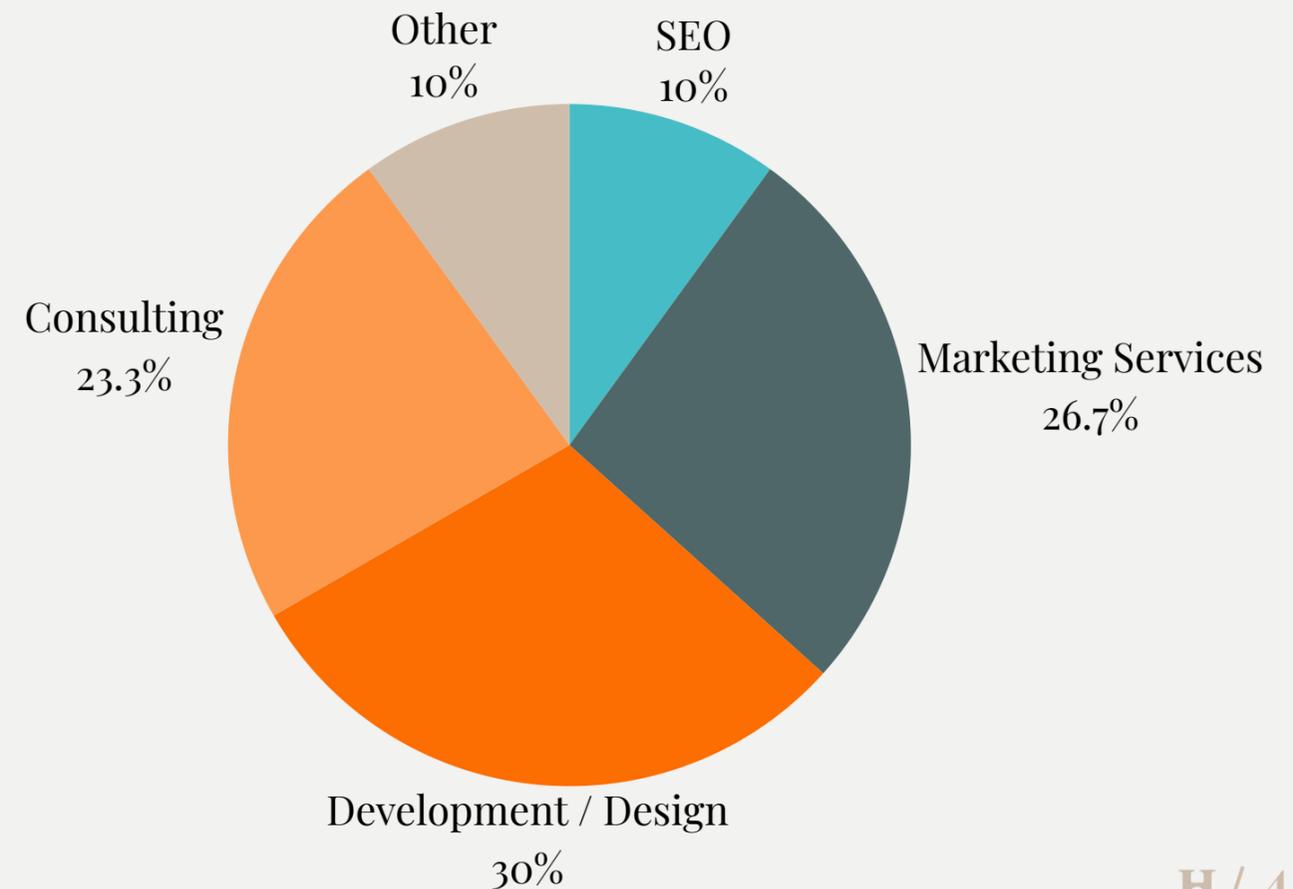
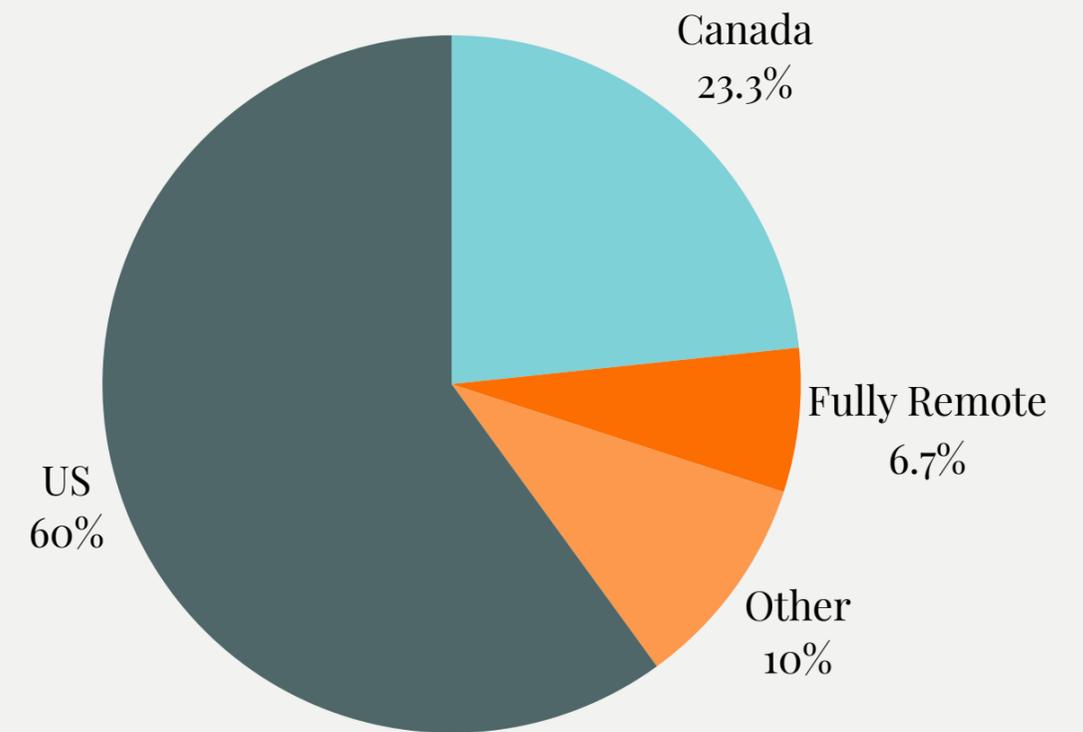
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Location & Service Breakdown

For this report, we surveyed 50+ agencies and after removing outliers and bad data we selected 30 agencies to analyze.

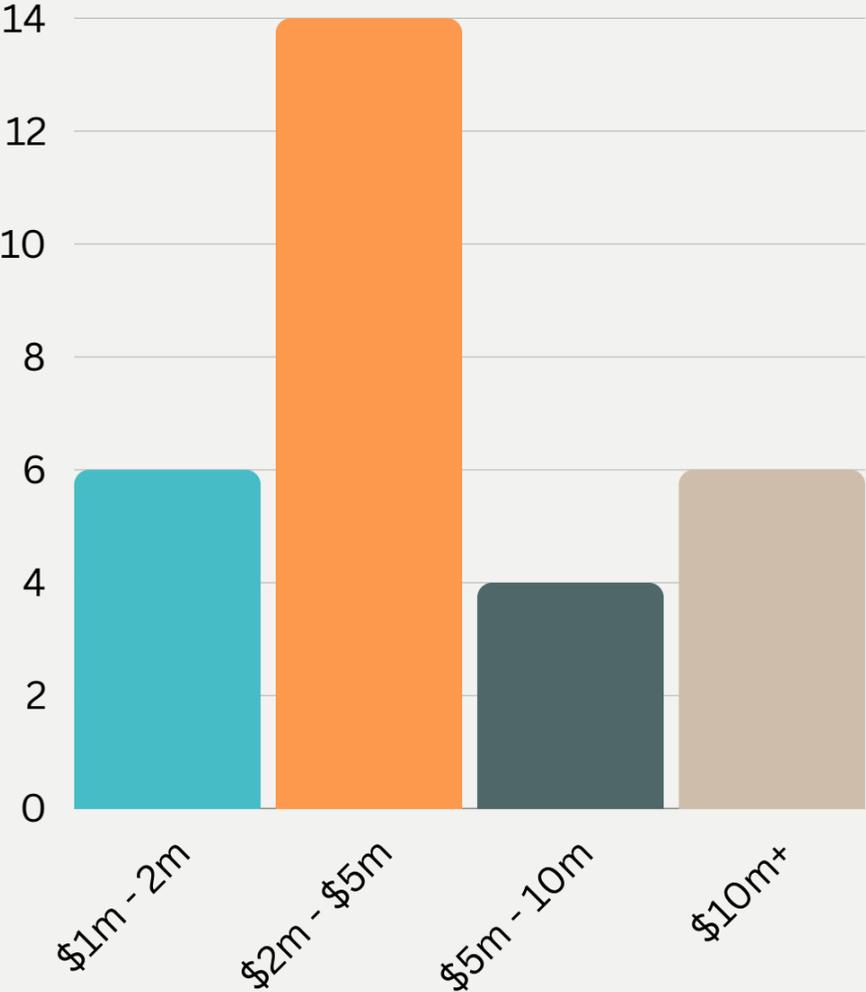
Over 80% of the agencies we selected were based in the US or Canada and the rest were based outside of North America or described themselves as fully remote.

In terms of services offered, Development/Design, Marketing, and Consulting made up the majority of our sample size with SEO and Others taking another 10% each.

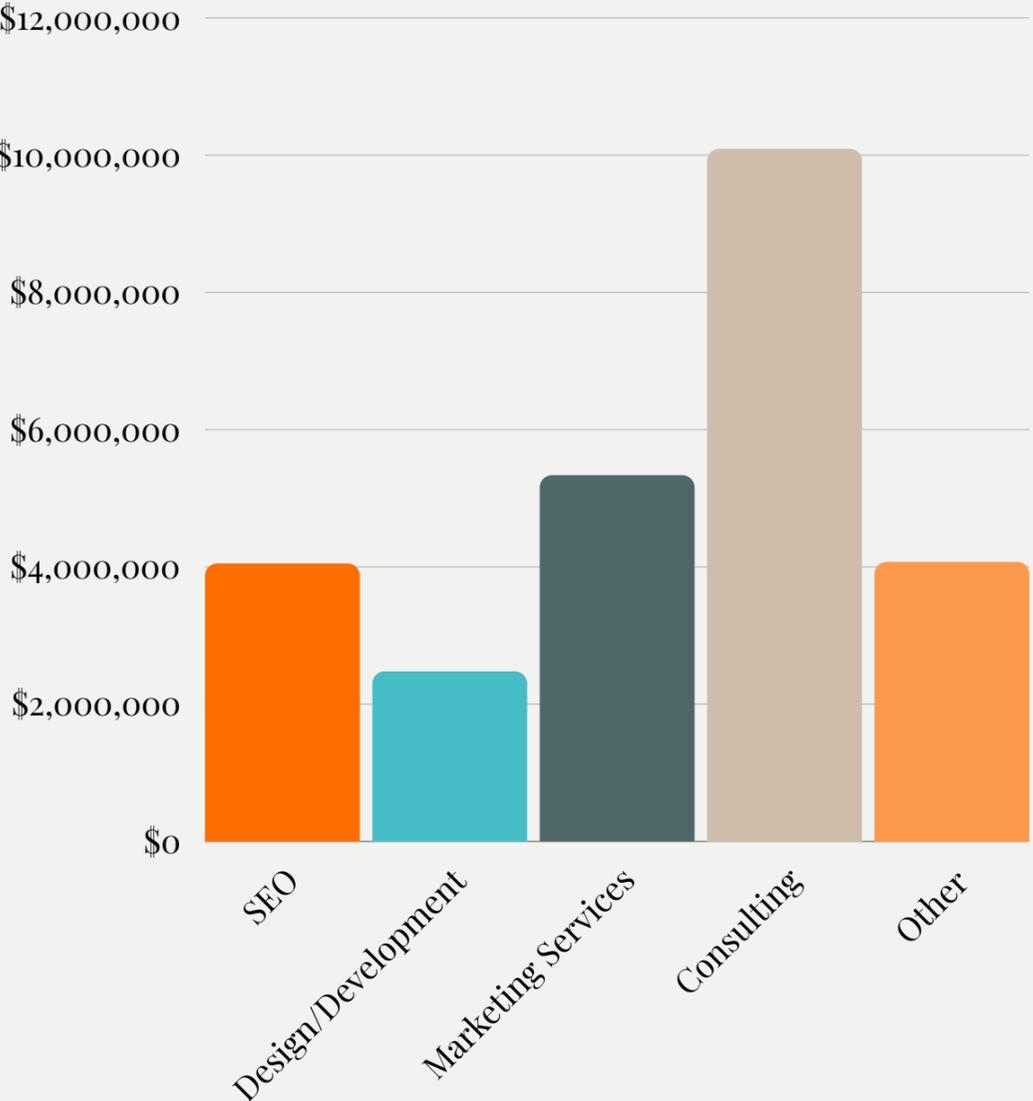


Agencies by Revenue

About half the agencies we spoke with reported that their revenue for 2023 was between \$2m and \$5m. The other half was pretty evenly split up between the rest of the revenue ranges.



Agencies that offered consulting services generated by far the most revenue, nearly doubling the next highest category - Marketing Services.



FTEs and Profit Margins

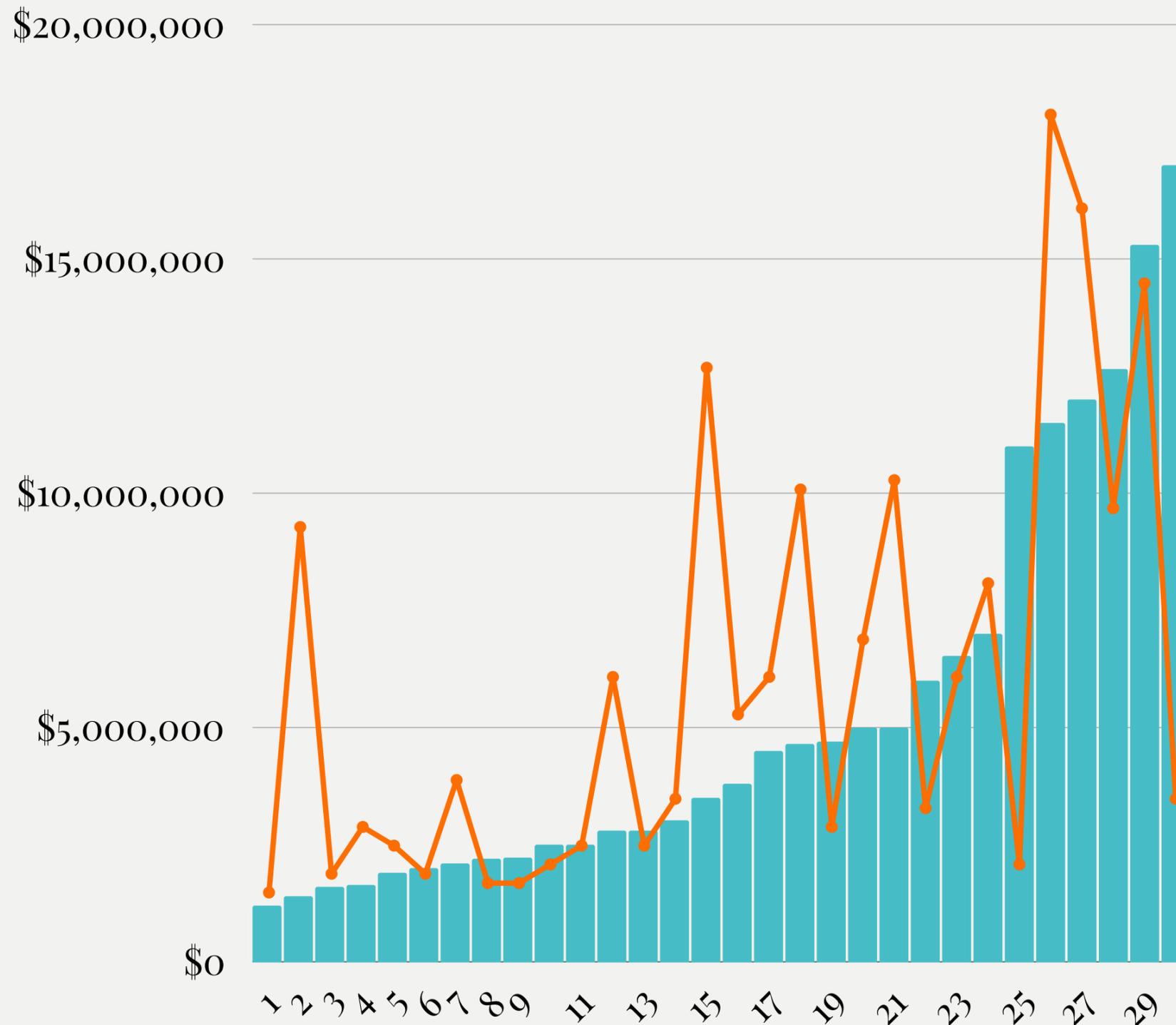
Interestingly, agencies with the lowest profit margin were the ones that generated between \$5 and \$10m in revenue. Our analysis found that margins dropped as revenue increased but there was an uptick once revenue passed \$10m.

Including contractors did not have a massive effect on RPE (revenue per employee) for most agencies, except for those doing \$10m+.

On average these agencies had a much larger contractor force compared to smaller agencies (+ contractors) which reduced RPE by 55%!

	\$1m - \$2m	\$2m - \$5m	\$5m - \$10m	\$10m+
avg FTE	16	24	34	53
avg RPE	\$146K	\$182K	\$216K	\$476K
avg RPE (+ contractors)	\$137K	\$149K	\$150K	\$264K
avg margin	27.8%	20.7%	14.9%	18.8%

Revenue Per Employee Graphed



Overlapping revenue with the number of FTEs, we unsurprisingly see that in general, as revenue increased so did the number of FTEs.

That being said, some agencies bucked this trend, mostly thanks to large teams of contractors.

The spikes you see in FTEs come from agencies that have offshored their teams, allowing them to maintain a high team count without necessarily requiring a ton of revenue.

Sentiment

Overall, the general sentiment from agency owners was mixed, leaning towards negative.

Many agency owners faced challenges in 2023:

- rapid growth leading to operational difficulties
- lower than expected revenues
- issues with profitability & maintaining healthy margins

A consistent theme was that many agencies experienced rapid growth in 2022, hired aggressively to meet the demand, and then experienced a slowdown in 2023 reducing profitability.

While their mood may be tense at the moment, many agency owners nonetheless expressed cautious optimism for the future with plans to restructure, focus on more lucrative contracts, and improve operational efficiencies.

The Raw Data

In the following pages you will find the raw data we used for this analysis organized by revenue.

	2023 Revenue	2023 Profit	FTE / Contractors	Location	Main Service	Comments
1	\$1.2M	\$150K	7 / 1	Texas	Digital Marketing	Goal is \$200k per employee, not there yet but working toward it.
2	\$1.4M	\$400K	46 / 2	Québec, Canada	Shopify Development	All full time employees are overseas hence the high count
3	\$1.6M	\$850K	9 / 0	Florida	Design & Development	N/A
4	\$1.6M	-	14 / 5	California	Email Marketing	We grew so fast in 2022 that we just hired people like mad. 2023 was all about ensuring our numbers make sense, which is why the numbers look terrible. We are still figuring out this puzzle piece and where we struggle the most
5	\$1.9M	\$475K	12 / 0	Arizona	Software Development	Our revenue per system architect is \$540,000
6	\$2M	\$400K	9 / 0	Ohio	Software Development	Our toughest year ever. Our revenue per employee should be much higher but we let go 6 people this year.
7	\$2.1M	-\$200K	19 / 10	New York	Marketing	Rev per employee is \$115k or so. Not profitable first half of the year, 5% EBITDA back half of the year.
8	\$2.2M	\$700K	8 / 0	Colorado	SaaS Product Marketing	N/A

	2023 Revenue	2023 Profit	FTE / Contractors	Location	Main Service	Comments
9	\$2.2M	\$430K	8 / 5	New York	Performance Marketing	Unfortunately, trajectory of the business is slowing from top line standpoint due to 3 market factors: reduced budgets, fewer new DTC companies launching (where we do most of our work), and a shift in brands hiring SME independent contractors vs full on agencies
10	\$2.5M	\$700K	10 / 30	Colorado	SEO	N/A
11	\$2.5M	\$600K	12 / 4	Ontario, Canada	Design & Development	We can likely 2x profit in 2024 while keeping headcount flat
12	\$2.8M	\$200K	30 / 5	Portugal / California	Software Development	Our revenue and profit goals were affected by tech layoffs and "VC winter"
13	\$2.8M	\$750K	12 / 2	BC, Canada	Design & Development	N/A
14	\$3M	\$400K	17 / 0	California	CRM Customization	N/A
15	\$3.5M	\$800K	63 / 4	New York	Web & Mobile Development	All employees are offshore
16	\$3.8M	\$300K	26 / 0	BC, Canada	Software Development	Our margins are bad right now because we gave everyone raises in the post-COVID frenzy, bloated our management layer, and now we're working to fix it.

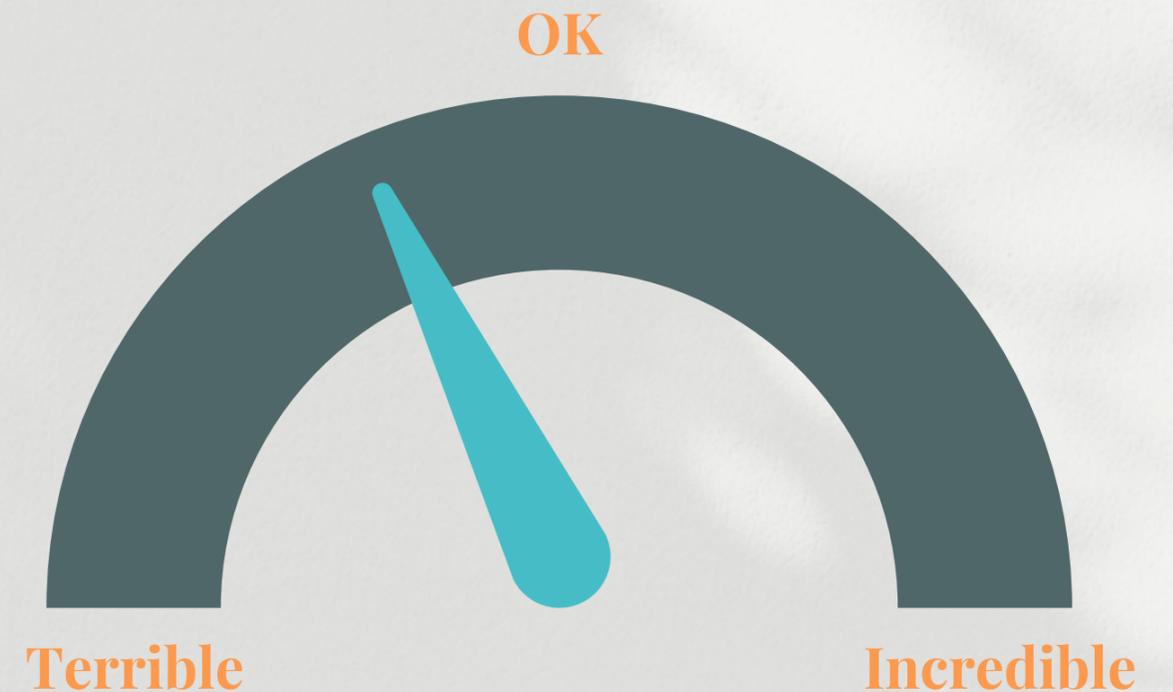
	2023 Revenue	2023 Profit	FTE / Contractors	Location	Main Service	Comments
17	\$4.5M	\$500K	30 / 4	Washington	Content Strategy	We're probably heavy on employees right now but we're focused on the work and customers and are working to move away from project work and toward having all large contracts which should increase the revenue per employee as we progress.
18	\$4.65M	\$1.05M	50 / 7	North Carolina	SEO	We hired 20 additional FTEs in Q3 & Q4 2023, so our average RPE is currently the lowest it's ever been. We've had a lot of growth in late 2023, and we anticipate a lot of growth in 2024. So, we're temporarily sacrificing margins for the ability to scale over the next 2 years and increase our overall revenue per employee in 2024/2025.
19	\$4.7M	\$2.7M	14 / 0	Arkansas	Analytical Testing	N/A
20	\$5M	\$1.35M	34 / 0	Ontario, Canada	SEO	It's been harder to maintain the target profit margin the more people we hire.
21	\$5M	\$800K	51 / 1	UK	Social Media	We dipped from 29% EBITDA to 16% this year due to investments in infrastructure. Staff to revenue ratio is now up at 85% when it was once 59% but we need to do this to get to the next level of clients and revenue.
22	\$6M	\$100K	16 / 15	Colorado	Consulting	2023 was a tough year...lower top-line and lower profit as we chose to make less and keep great people.

	2023 Revenue	2023 Profit	FTE / Contractors	Location	Main Service	Comments
23	\$6.5M	\$870K	30 / 4	California	Digital Marketing	Our Gross Agency Revenue Per Employee (GARPE) for full-time employees is \$217,614. Our margin this year is 13%, but was 20% last year. Margin decrease was due to increasing hires.
24	\$7M	\$2M	40 / 20	Remote	Paid Social Media Management	2024 we'll be \$10M top \$3M bottom
25	\$11M	\$3.9M	10 / 66	Alberta, Canada	Consulting	We offer a productized service with low cost contractors and employees to check it
26	\$11.5M	\$1.7M	90 / 10	Remote	Consulting	Closer to \$150k on a run rate basis as we hired a bunch later in the year and revenue is higher now than the calendar year implies
27	\$12M	\$5M	80 / 0	Texas	Consulting	We are 30% in US, and rest overseas
28	\$12.6M	\$885K	48 / 27	Texas	Consulting	Our margins are lower due to aggressive hiring
29	\$15.3M	\$2.3M	72 / 5	Ontario, Canada	Consulting	We have an exceptionally large operations team and other Operating expenses. We in theory could outsource bookkeeping and other things to save another 250-500k/year, but employee support and success is important to us.
30	\$17M	-\$200K	17 / 4	-	Marketing	2023 was a tough year for us.

In Summary...

Here's a summary of what we learned after analyzing 30 agencies performance in 2023:

- Agencies offering consulting services generated the most revenue.
- Profit margin dropped until agencies crossed \$10m in revenue, then it increased.
- Agencies doing <\$10m rely on offshoring to keep profit margins high
- Many agencies struggled in 2023 after seeing record growth in 2022 and going on hiring sprees to meet the demand.
- Several agency owners were impacted by macro factors like economic slowdown, “VC winter”, etc.



The overall sentiments among agency owners is that 2023 was tough, but they are hopeful for a strong 2024

Average Revenue: \$5.3m

***Average Team Size:** 29.5

Average Margin: 21%

Average RPE: \$238K

PS: A little bit about Hampton

Listen, I'm going to be honest with you - our private member community is probably not for you. There are a lot of reasons why you shouldn't join:

- It's expensive
- You'll be challenged
- It's a time investment

And that's OK, it's not for everyone (we're also very picky about who we let in). But as we can see from this report running a business is no cakewalk. Sometimes, it's nice to know that when things get tough you have a squad of experienced founders ready to go to battle with you.

Again, Hampton is probably not for you... but in case you think it is, you can [apply here](#).

