

Chapter 9: Business Services

This major group includes establishments primarily engaged in rendering services, not elsewhere classified, to business establishments on a contract or fee basis, such as advertising, credit reporting, collection of claims, mailing, reproduction, stenographic, news syndicates, computer programming, photocopying, duplicating, data processing, services to buildings, and help supply services.

Advertising Agencies

SIC: 7311 NAICS: 541810

Establishments primarily engaged in preparing advertising and placing such advertising in periodicals, newspapers, radio and television, or other advertising media for clients on a contract or fee basis.

Description of Business

Businesses in this industry conduct market research, carry out creative development, outsource product duplication, and secure media outlets for clients. Firms may opt to specialize within this broad range, although industry trends are suggesting that clients prefer advertising agencies which offer multiple services.

General Industry Information

Most of the country’s advertising activity is centered in high-density locations. New York, California, and Illinois respectively have the largest number of advertising businesses. The bulk of advertising is conducted by various small business operations. In spite of this fact, there are large corporate entities that lead the industry in terms of trends and pricing. Major leaders in this industry include Omnicom Group, WPP Group PLC, and Interpublic Group. Combined, these three firms accounted for over \$23.8 billion in sales during 2003.

Table 9-1: Advertising Agencies

Financial Performance Ratios

Margins	
Manager/Owner Salary (% of revenue)	15-30%
Operating Expenses (% of revenue)	95%
EBITDA/Operating Margin (% of revenue)	3-8%
Ratios	

Current Ratio	0.9-1.45
Quick Ratio	0.75-1.25
Accounts Receivable Turnover (per year)	>7
Debt/Total Capital Ratio 9%)	0-30%
Asset Turnover Ratio	+/- 60%



Business Valuation Formulas 30-45% of annual revenues.
1.5 to 2 times ODCF



Equipment Valuation and Real Estate Rental Formulas

Equipment
OLV of equipment ranges from 5-10%, depending upon age and quality of equipment.

Real Estate
Rent as a % of Sales: 4% or less. The typical lease is a gross expense lease. The typical space occupied ranges from 1,300-6,000 sq ft, with a median of 2,400 sq ft or 50-100 sq ft per employee.



Financing Most business sales of this type include financing. Terms last up to seven years, with a typical down payment between 30% and 50% of the sales price.



Red Flags and Risks Buyers should make certain that the seller takes care of accounts payable and/or guarantees the receipt prior to the completion of the acquisition. It is important to have the previous ownership explain trade discounts or trade agreements with key suppliers and customers. Retention of contracts, talent, and clients is critical to this industry, where overhead is minimal and the majority of the value is intangible. Buyers are essentially paying for a company's goodwill, so due diligence should be conducted on all types of intangible assets.



Resources

The Advertising Council www.adcouncil.org 815 Second Avenue, 9th Floor New York, NY 10017 (212) 922-1500	American Advertising Federation www.aaf.org 1101 Vermont Ave, NW Suite 500 Washington, DC 20005 (202) 898-0089 (800) 999-2231
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Billboard Advertising

SIC: 7312 NAICS: 541850

Description of Business Establishments primarily engaged in the preparation of poster displays and painted and electric displays on billboards, panels, bulletins, and frames, principally outdoors.