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# 7 THREATS DIGITAL AGENCIES FACE (AND HOW WORDPRESS CAN HELP)

WHITE PAPER

Over the last number of years, digital agencies around the world have racked up a considerable amount of business delivering online solutions for blue-chip clients. As we head into the latter part of 2016, however, there's a growing sense that the good times may be drawing to a close.

Following a spate of recent high-profile shutdowns across the industry, many agency chiefs are starting to grow genuinely concerned about the alarmingly long list of threats to their industry, which are everywhere to be seen.

In this white paper, we'll step through the main dangers looming on the horizon, and consider how WordPress can play a key role for agencies in what's becoming an increasingly challenging environment in which to thrive.

Before we get on to the threats themselves, however, let's briefly recall some of the big agency names that have left the stage in the recent past.

## High Profile Exits Are Causing Industry-Wide Ripples

Though it's widely dispersed geographically, the digital agency world is a relatively small one. When more than a couple of large shops shut their doors, a collective shudder naturally goes through the wider community.

The last couple of years have seen a number of leading names give up the ghost in one way or another. [Teehan+Lax](#) drew down the shutters for the final time as their founders [moved to Facebook](#). [Adaptive Path](#) were, somewhat surprisingly, [bought out by Capital One](#) (though they continue to operate).



### This is Goodbye

As we [close our doors](#) at Teehan+Lax, we want to thank everyone who has poured their creative energy into this company over the years, and especially recognize an amazing group of people who helped us finish strong.



**Justin Aguilar**  
Started in '11 | @jxtn



**Kyra Aylsworth**  
Started in '10 | @kyria



**Steffan Barry**  
Started in '12 | @tstellbarry

The demise of Teehan+Lax was a surprise to many.

[Smart Design](#) also turned a lot of heads when they [shut down their San Francisco office](#). On the other side of the pond, [Mark Boulton Design](#) in the United Kingdom was [acquired by Monotype](#).

None of these events were exactly earth-shattering, but each one added to a growing sense of unease among many in the industry about what could be coming down the line over the next decade.

Let's move on now to look at seven of the key threats that agencies are going to have to navigate to stay alive.

## 1 The Agency Model Is Wide Open to Disruption From Below

Agency fans of [Clay Christensen](#) may have spotted a worryingly familiar disruptive scenario heaving into view over the last couple of years. In the [Christensen model](#), companies that bite the bullet tend to get disrupted from below by seemingly innocuous competitors who take increasing advantage of the latest technology to eventually eat their lunch.

In this context, a significant portion of traditional agency business is under attack from the likes of WordPress [Shopify](#), and many others – software that can *already* deliver out-of-the-box solutions to problems that agencies have happily charged tens of thousands of dollars to build custom solutions for in the past. Admittedly, we're not yet at the stage where they can challenge on larger development projects but, given the rate of change to date, it's a fair bet that it won't be long until we are.



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*Solutions such as WordPress are nibbling away at agencies from below.*

At the very least, these relatively off-the-shelf solutions are putting significant downward pressure on pricing, while driving up client expectations across the board. Being in the middle of that set of forces is an increasingly awkward place to be for many agencies, particularly the smaller ones.

Out of these disruptive technologies, WordPress is the obvious product that agencies can employ to their own advantage. Its open-source nature means that agencies can leverage the platform's power for their own clients, rather than having it work against them.

## 2 Traditional Clients Are Increasingly Looking to Move Work In-House

While the disruption threat is mostly coming from below, agencies are also under pressure from their own clients. More and more large firms, who traditionally would have provided the bulk of agency revenue, are looking to take their design and development work in-house.

Google and Facebook have led the charge in this respect, albeit in very different ways. Both firms have made strong moves to build out their own competencies in areas that previously would have been very lucrative targets for agencies. Google's ramping up of [interior design teams](#) has borne very public fruit in the arrival of high-profile projects such as [Material Design](#). Facebook, by contrast, has been merrily hoovering up top design talent from across the industry since at least 2013.



*Wired's 2013 piece showed which way the in-house wind was blowing.*

This is a trend that's been gathering pace for some time. Wired was on the case as far back as 2013, when they pointed to the number of top-tier companies looking to get their hands around design as a discipline by importing entire teams. As [Leif Abraham points out](#), there's a lot of potential upside in doing so:

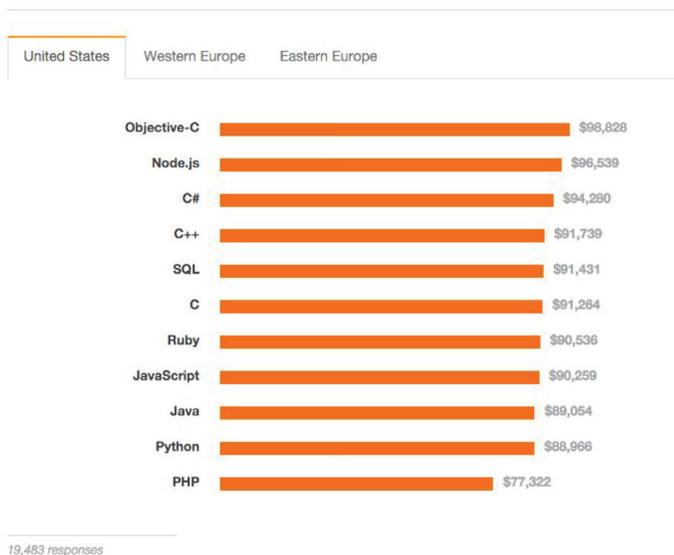
*From a business perspective, what digital agencies are doing well is they are producing most of their work in-house, on an hourly-based fee. The agency becomes an outsourced product team for the client and which makes the client dependent on them. If the client wants to leave the agency, they would risk killing the product they've created together with the agency, as a transition to a whole new team can be a difficult process. However, for the client, this is a very expensive model because the agency can charge for any little change to the product on an hourly basis. With an average rate of about \$200/hour, something like a quick color change on a button can easily become a \$1,000+ job.*

### 3 Attracting Top Talent Is an Ever More Expensive Affair

Our third point is a natural follow-on from the second. With Fortune 500 companies taking design increasingly seriously as an internal process, competition for the top talent in the industry has heated up immensely.

Whether it's in terms of designers, developers, project managers, or any of the other major roles digital agencies need to fill, getting the right people onboard is an increasingly expensive business. Entry-level positions at firms across the wider industry are rocketing skywards with no sign of a finish line in sight — average salaries at giants such as Google and Facebook are firmly in the \$100,000-plus range, and they're by no means outliers.

#### VI. COMPENSATION BY TECHNOLOGY



Stack Overflow's latest developer survey shows that technical talent doesn't come cheap. Even looking at the average salaries of particular roles that agencies have to fill is a sobering experience if you're in charge of keeping

the books. On the design side of things, specific disciplines such as UX design are catching up fast with pure tech roles in terms of average wages. On the development side of the equation, you're looking at the guts of \$100,000 per year to fill a seat, regardless of core language competency.

As a service industry, digital agencies face the constant challenge of working in an essentially feast or famine environment. Against that backdrop, the type of annual wages firms increasingly face to secure top talent add up quickly. It doesn't take more than a couple of bad months to put entire teams in serious jeopardy.

Again, WordPress has a role to play here. Though the salaries typically demanded by top WordPress developers are by no means modest, they're substantially less than what can be commanded by, for example, experienced Java, iOS, or Ruby developers, and there's a large global talent pool to choose from.

### 4 Being an "Everything" Agency Is a Big Ask

Though it was never exactly a walk in the park, running a genuinely full service digital agency has become a substantially more complex affair in the last five years. The explosion of social media and the emergence of a highly fragmented mobile app environment are just two of the factors that have complicated matters considerably.

Rather than simply putting together a site as a one-off project as in the days of yore, agencies are now expected to put together complex, multi-channel, multi-stage campaigns where a finished website is just one small part of the combined deliverables. That means bigger teams, more specialist disciplines to hire for, longer pitching processes, and a host of other potential complications. In this type of environment, agencies are increasingly faced with three basic alternatives: go big, go niche, or go home.

Choosing the first option is an inherently difficult thing to do. As David Crow pointed out in the context of discussing the shutdown of Teehan+Lax, "service firms are not destined to be huge companies."

Going niche, on the other hand, means you can get your arms around an area of expertise, but possibly at the expense of serious long-term growth opportunities.

No matter what way you look at it, there's a tricky line for agencies to walk. Putting together the type of service packages that blue-chip clients are prepared to pay top dollar for is a genuinely big ask – and you'll need *bulletproof* revenue streams to keep the lights on. For many firms, it's all too easy to get caught somewhere in the middle – not big enough to compete for top-tier projects, and not specialized enough to truly dominate a lucrative niche.

## 5 Mastering the Modern Technological Matrix Is a Challenge

Even if agencies choose to pursue niche areas, the range of technical specialities they need to master in order to get projects out the door is daunting. As [Paul Boag pointed out](#), many of these disciplines are not areas where agencies traditionally shine, and they often bring significant extra costs in their wake:

*Drop sysadmin like a bad habit. It's the kiss of death – dealing with security updates, patches, server administration. Salaries are high these days, and at the same time clients are demanding lower prices. That means the time you spend on sysadmin is hacking away at your profit margins. Server admin takes up so much time, and it's horrible when something goes down. You have to drop everything. And it's not just the 10 min to reboot a server that you're losing. It's very disrupting. You probably lose another hour going back to what you were doing.*

In a world where new JavaScript frameworks pop in and out of existence seemingly every week, there's a lot of value in identifying stable technology stacks to work with, and outsourcing non-core competencies. The combination of WordPress as a platform and dedicated hosting solutions such as [WP Engine](#) makes an awful lot of sense for agencies in this context.

## 6 The Wider World Is Gearing Up to Compete Aggressively

Digital agencies have existed in something of an isolated competitive universe to date. Though competition *within* each local market is naturally fierce, the industry has largely been spared a full-on competitive assault from the wider world. That's almost certainly set to change.

Pure development shops have long faced a significant competitive threat from overseas tech talent, as large firms chose to outsource globally throughout the 1990s and beyond. There's an excellent chance of that trend repeating itself with web agencies over the next decade.

Agencies have always known that there's no shortage of design and development talent worldwide. Many of them have taken advantage of that fact by using remote freelance teams to do much of the heavy lifting while they concentrated on dealing directly with clients. As the world becomes ever more joined-up, however, we can expect more and more international agencies to come directly after lucrative Western markets with all guns blazing.

This is a trend that's already well underway worldwide. Full-stack digital agencies across Eastern Europe in countries [such as the Czech Republic](#) are more than happy to pitch against their counterparts in London and Paris. Over in the Americas, there's no shortage of top-tier, English speaking agencies throughout South America who have their sights set on expansion into lucrative markets to the north.

To cut a long story short, if you're running an agency anywhere in the West, there's someone thinking very carefully about how to target your clients from elsewhere in the world.

## 7 Winter Could Be Coming Worldwide

Our final point is a wider one that amplifies each of the previous threats we've covered. At the time of writing, the worldwide economy is heading into potentially extremely choppy waters. Everywhere you look around the globe, there are major events taking place with the potential to spark a general slump.

Whether it's [political and economic instability across Europe](#), a [series of speculative bubbles](#) set to pop in China, or the ongoing [frothy tech environment](#) here at home, there are plenty of both short-term and long-term economic threats on the horizon.

Digital agencies are more exposed to these wider risks than most. Along with their cousins in the advertising industry, they're often first up against the wall with existing clients when times get tough.

Many in the industry have been arguing that tougher times have already made their presence felt. On the basis of an informal survey of digital design shop owners back in early 2014, [Greg Hoy pulled out a number of worrying trends](#), many of which we've already highlighted above:

*I'm fortunate to be able to draw insight and advice from a lot of my contemporaries who attended [Owner Camp](#), of which I'm a co-founder. I won't name names (that's against our rules) but I have permission to share this stuff. Some observations they've noted with respect to Q1 2014:*

- Prospective client budgets are 50–75% lower than years past.
- The sales cycle is taking months instead of weeks.
- Payments for existing projects have slowed significantly.
- Prospective clients are performing more work in-house (a vastly shared sentiment).
- Agencies are putting hiring on hold and freezing benefits.
- Agencies are relying more and more on one or two “anchor” clients.
- Large scale projects (\$250K+) are few and far between.

Against that type of backdrop, it wouldn't take much of a further disturbance in the wider economy to put many agencies in serious difficulty.

## How Agencies Can Get Ahead of the Game By Using WordPress

When reading through the list of threats above, it's obvious that digital agencies have to radically up their game across the board in order to stay viable. They must become significantly more agile, streamlined, and willing to work in genuine partnership with clients. The good news, as a recent wide-ranging [industry report from Design Bombs](#) makes clear, is that many firms are already actively embracing and working to overcome these challenges.

Making WordPress a core technical component across projects makes an awful lot of sense in the scenarios we've outlined. It gives agencies instant access to an inherently flexible framework that can be put to work on every scale of project. The core technology is also stable, secure, free, and under constant development.

The [arrival of the REST API](#) is also set to make WordPress finally play nicely with a wider programmatic world. This means integrations with existing and future client solutions will be more straightforward, and it opens the door to utilizing all the latest goodness from JavaScript frameworks and the like.

Put all that together, and you're looking at a tool that should be at the heart of agency development going forward. WordPress isn't going to magically solve the seven key threats that we've covered, but it will go a long way towards keeping firms agile, flexible, and bang up-to-date as they chart their own course.

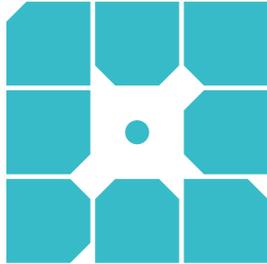
## Conclusion

Though the outlook may sound gloomy from the points we've covered, there's still a vibrant future available for digital agencies that are prepared to adapt to the times. Let's close things out with a brief recap of the main actions they'll need to take in order to do so:

1. Avoid disruption from below.
2. Learn how to work with in-house teams.
3. Attract and retain top talent.
4. Solve the niche/scaling conundrum.
5. Pick their technical battles and core competencies carefully.
6. Learn to compete on a truly global playing field.
7. Navigate potentially treacherous economic waters.

We'd love to get informed industry feedback on the issues raised in this white paper, and find out whether you're already taking advantage of WordPress as part of your approach to solving them. Please feel free to contact us directly with your thoughts and questions!

Are you a digital agency looking to overcome the challenges outlined in this white paper? WP Engine delivers a managed WordPress platform that agencies of all sizes can leverage to attract new clients and retain existing ones. [Learn more about WP Engine for agencies today.](#)



## **About WP Engine**

*WP Engine powers amazing digital experiences for websites and applications built on WordPress. The company's premium managed hosting platform provides the performance, reliability and security required by the biggest brands in the world, while remaining affordable and intuitive enough for smaller businesses and individuals. Companies of all sizes rely on WP Engine's award-winning customer service team to quickly solve technical problems and create a world-class customer experience. Founded in 2010, WP Engine is headquartered in Austin, Texas and has offices in San Francisco, California, San Antonio, Texas, and London, England.*

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