



7 reasons
your Digital Agency
isn't as profitable
as it should be...
and what to do about it

**accountancy
extra+**



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Introduction

You didn't start your agency to do numbers. I'm sure you started it because you wanted to express your creativity and help other people achieve their goals, in terms of marketing. But financials cause a lot of the issues in your agency, and that's especially true as an agency starts to grow and develop. Having enough profit and enough cash to meet payroll at the end of the month, and being able to support your own lifestyle needs, can become really difficult.

In the past, you've probably looked to your accountant for help, and you'll likely have found that help to be limited. There are two main reasons for this. The first is that accountants aren't focused on

business improvement. They're focused on compliance work, such as making sure your accounts and tax returns are filed on time, and your payroll is done. The second is that your accountant is unlikely to be a specialist in what you do, so they don't really understand the agency world. Accountants are generalists, so the advice they can give you is limited – they'll tell you to increase sales, put up prices, cut costs, and chase your customers harder to get paid.

I don't dispute that these are all truisms if you want to improve cash flow and increase profits; however, none of those suggestions are particularly helpful when you're trying to run an agency.



I'd always seen that accountants were very good at keeping score for HMRC and Companies House, but weren't very good at getting on the field with their clients, working alongside them, helping them grow their businesses, helping them improve their profits, helping them strengthen their cash flow, and helping them plan for the future, rather than just playing the cards they were dealt.

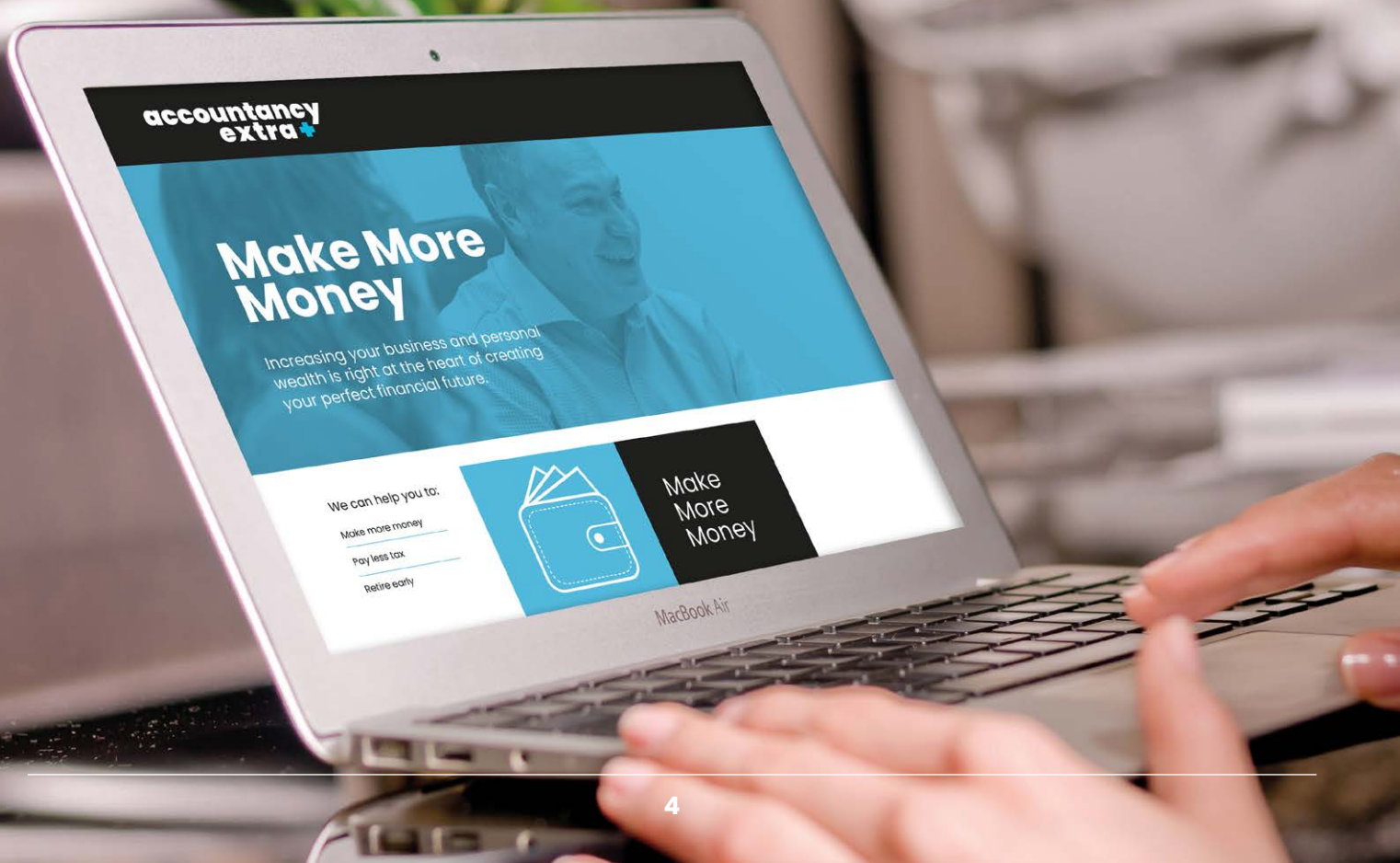
Those were the primary drivers behind setting up Accountancy Extra.

This report has been specifically written for small agencies that turn over between £250,000 and £2 million, and it's built using our Creative Extra programme, which we work through with our agency customers to help them achieve their personal and business goals.

What You'll Discover

In this report, you'll discover the following:

- ✓ The financial reality for smaller agencies (the results ain't pretty).
- ✓ The seven key reasons your agency isn't profitable.
- ✓ How to control the flow of cash through your agency.
- ✓ How and why choosing the right finance function for your agency will pay dividends in the long run.





The Reality for Most Small Agencies.

Whilst there are a small number of agencies that make extremely good profits, grow to having over 100 people working for them, and then sell for multi-million-pound figures, the reality is most agencies stay under 15 people and just scrape together enough to make a living. Cash flow is always tight, and there's only ever just enough money to make payroll at the end of the month.

Not making enough money is the cause of almost every major problem many agency owners face. That's because it inevitably leads to one or more of the three types of harmful compromises, those being:

1. Financial compromises. The agency owner settles for earning less as a result

of not making enough profit, which means that they and their family's financial security and prospects are compromised.

2. Personal compromises. The agency owner attempts to rectify things by working longer hours and doing more of the work personally, rather than paying others to do it. This compromises and harms their work/life balance, and the time they're able to spend with their family; it perhaps even compromises their health.

3. Service compromises. The agency owner cuts corners on service and creativity in order to keep projects within budget, compromising and harming the interests of their clients.



Stop! Before Carrying on Reading, Where Do You Want to Be?

In meetings, I constantly ask agency owners about the future and where they want to go, and it's a reality that most don't know. At best, they'll have a rough idea, but there's no real clear direction, vision, or plan. They'll often say they want a bit more time, or a bit more money, but they don't know how much or what that looks like. So, before working through the rest of this report, I'd suggest that you take time to consider your personal numbers.

Numbers such as:

- ✓ How many hours a week do you want to work?

- ✓ What do you want to do during those working hours?
- ✓ How much money do you want to take home at the end of each month to give your family the financial freedom that they deserve?
- ✓ What do you want the final value of your agency to be? How much do you want to sell it for, and how will that impact on your retirement?

If you've worked through all those numbers, allow me to ask you a couple of questions. What difference would nailing those numbers make to your future? And how would it make you feel?





Seven Key Reasons Your Agency Isn't as Profitable as it Should Be.



There are all sorts of issues that can affect the profitability of a business, but experience has taught me that there are seven key reasons that commonly spring up. Let's take a look at those now.

Key Reason 1: You don't know the output of your team.

Your team is the number one asset that your agency has. It's also the biggest cost that your agency has. How efficiently your people are working, and what level of output they're creating, is vital to your understanding of the profitability of your agency. It's very easy to just keep adding additional team members as workload increases. However, are those new team members profitable? Are you getting as much out of each team member as

you should be? Are the processes in the agency efficient, so they allow them to do their very best work? Or, as the team gets larger and larger, is there an element of social loafing creeping into your team?

Knowing your team's output numbers, how productive they are, and how much of their time they spend on client work, will enable you to understand exactly how well your team members are performing. To start with, I'd recommend doing a really simple exercise. Take last year's revenue, excluding print, and divide it by the number of available hours that your team had to work in that year. That will give you your overall hourly recovery rate on your team for the year. How does that stack up against your hourly card rate? I bet it's much lower, isn't it?

Key Reason 2: Scope creep.

Scope creep is the enemy of every agency. Clients ask for a particular project to be done, and then will often extend the brief that's been given to include extras, changes, etc. If you accommodate these changes without creating a change order and billing for them, you're probably leaving tens of thousands of pounds on the table every single year.

There are some simple ways to control scope creep, such as building very well-defined terms of business, very well-defined briefing documents, and by training every member of your team to spot those scope creep opportunities and to make sure that they're billed for.

Key Reason 3: Freebies.

Freebies are a little bit different to scope creep, as they don't always relate to the existing project. For example, a client may pop in and say, "Can you just do X, Y, Z for me?" And you know it'll only take you 10, 15 minutes to do it, so you just do it and don't bill the client. Problem with this is, you end up doing a lot of it, and when you total up how many of those small amends and small freebies that you've given away over the year, again, you're leaving tens of

thousands of pounds on the table.

An agency we know will do freebies because they want to keep the client relationship going; let's face it, it's nice to be nice, and being nice builds goodwill and loyalty. However, they limit a freebie to anything that can be done within 15 minutes. If it's gonna take more than 15 minutes, the client gets a bill.

Key Reason 4: Discounts.

Have you ever been in a pitch or in a client meeting and been told, "We love your work, but what can you do on price?" Asking for a discount is really demoralizing to an agency, and really devalues the work that they do, especially if you give in and let them have the discount. There are several ways that you can avoid giving away discounts, and instead, stick to your guns regarding price. One of the key ways of stopping discounters is to answer them, "Okay, if this project is over the budget you have available, how about we take something out to bring it back down in line with the budget that you've got?" That way, you're not discounting work, you're actually doing less work so as to fit their budget. And it's a whole lot better than giving in, then resenting any work you put in that is effectively unpaid!





Key Reason 5: You don't price what you're worth.

There is no market price for agency services. I've met agencies who charge £30 an hour, I've met agencies who charge £200 an hour. Do they do anything fundamentally different? I hear a lot of smaller agencies dismiss the higher-charging agencies and say, "Well, they have to charge more, because they've got huge overheads," or, "... they've got more account managers," or, "... they've got an admin team."

However, pricing doesn't come down to the size of your cost base. It comes down to knowing your worth and charging based on that. It can often be off-putting to larger customers if they see an agency that's too cheap. They wonder what's wrong with you, why you're not able to charge the same as some of the higher-priced agencies that they've previously worked with. So, the key lesson here is, make sure you always price what you're worth. If you're finding that you're getting a lot of rejections, and that your potential clients are saying "no" based on price, then find some other potential clients – because they are out there and they're happy paying higher rates, it's just you're fishing in the wrong ponds.

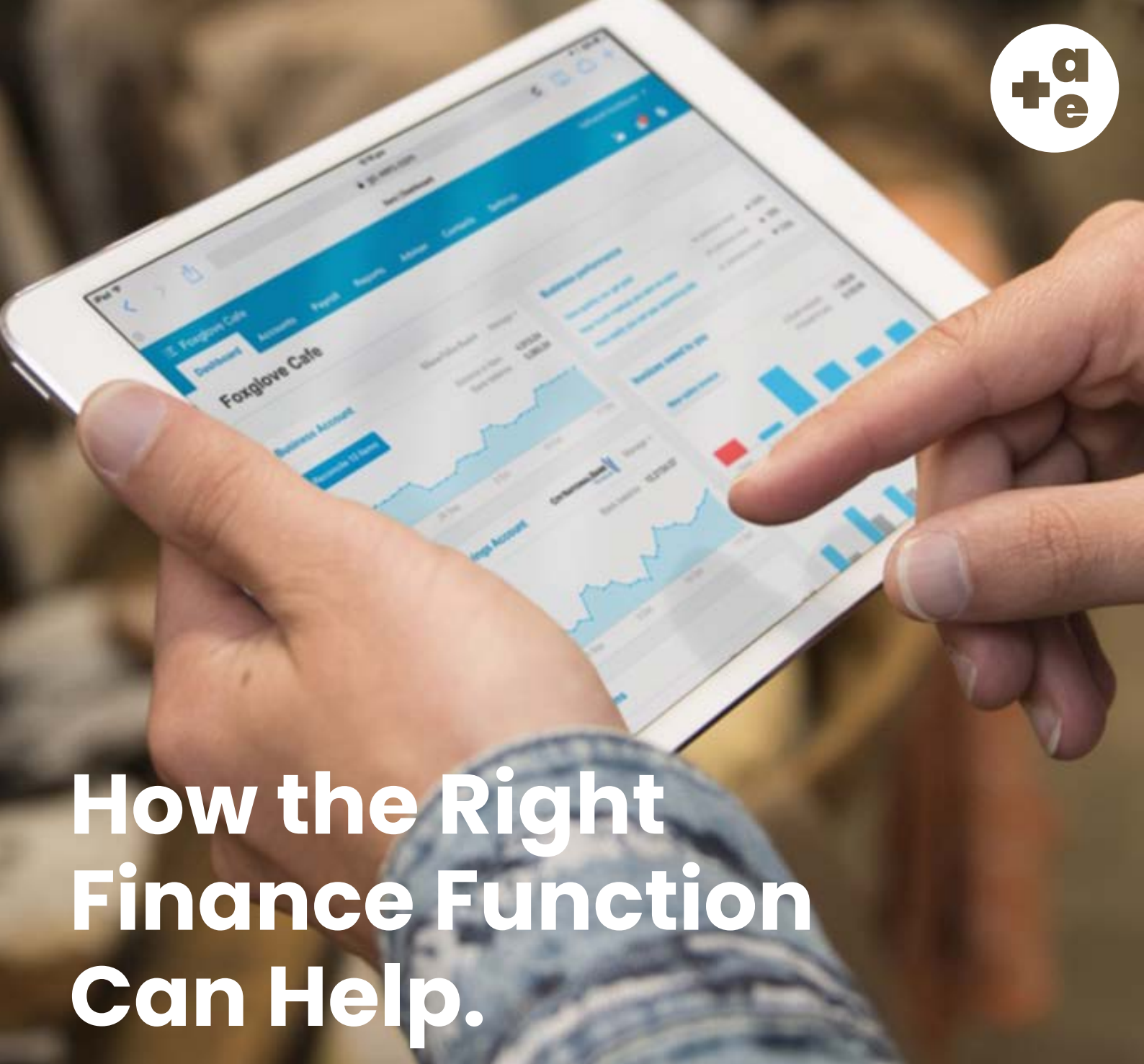
Key Reason 6: You don't know your profitable customers.

Many times, I've met agencies who have a showcase client who spends a lot of

money with them, and they do everything they can to keep that client happy. They bend over backwards in every possible way they can. However, whilst that client spends a lot of money with them and looks great for top line revenue, are they actually adding anything to the bottom line and to profit? If you've got a £100,000 client and the cost of servicing that client is £90,000, they're not really a very good client at all, even though they're spending lots and lots of money with you. Have a system in place where you not only analyse the turnover of each client, but also exactly how much work is done for that client, so you know how profitable they are for you.

Key Reason 7: Over-reliance on key customers.

How many times do you see an agency going out of business because one of their key clients took their services elsewhere? This can happen through no fault of your own. The client could be bought out by another company, or something as simple as a change in marketing director can mean that services are withdrawn from your agency. If you have more than 25% of your revenue sitting with any one client, you're potentially over-reliant on that client, and therefore at risk. If that client leaves, for whatever reason, you could be in a situation where you're facing redundancies or possibly going out of business altogether. Spread that risk.



How the Right Finance Function Can Help.

You've probably got a bit of a mix and match in your finance function at the moment. You might handle your bookkeeping yourself, or delegate it to an admin person. Your credit control, again, might either be done by you or by an admin person. You've probably got your external accountant doing the compliance work, such as the payroll, filing the annual accounts and tax returns, and maybe the VAT, too.

The first thing to understand is that bookkeeping is not an admin task. It's a

highly skilled job. It's a job that gets the foundations right for your business, and without the foundations of the finance function being right, everything else will fail.

Using a great accounting tool, such as Xero, will help, but it won't solve all the issues. Your bookkeeper needs to know how to input accurate information into your accounting system, and also how to get meaningful information back out of that system. By having that function in place and working correctly, you'll find everything else will become far easier.



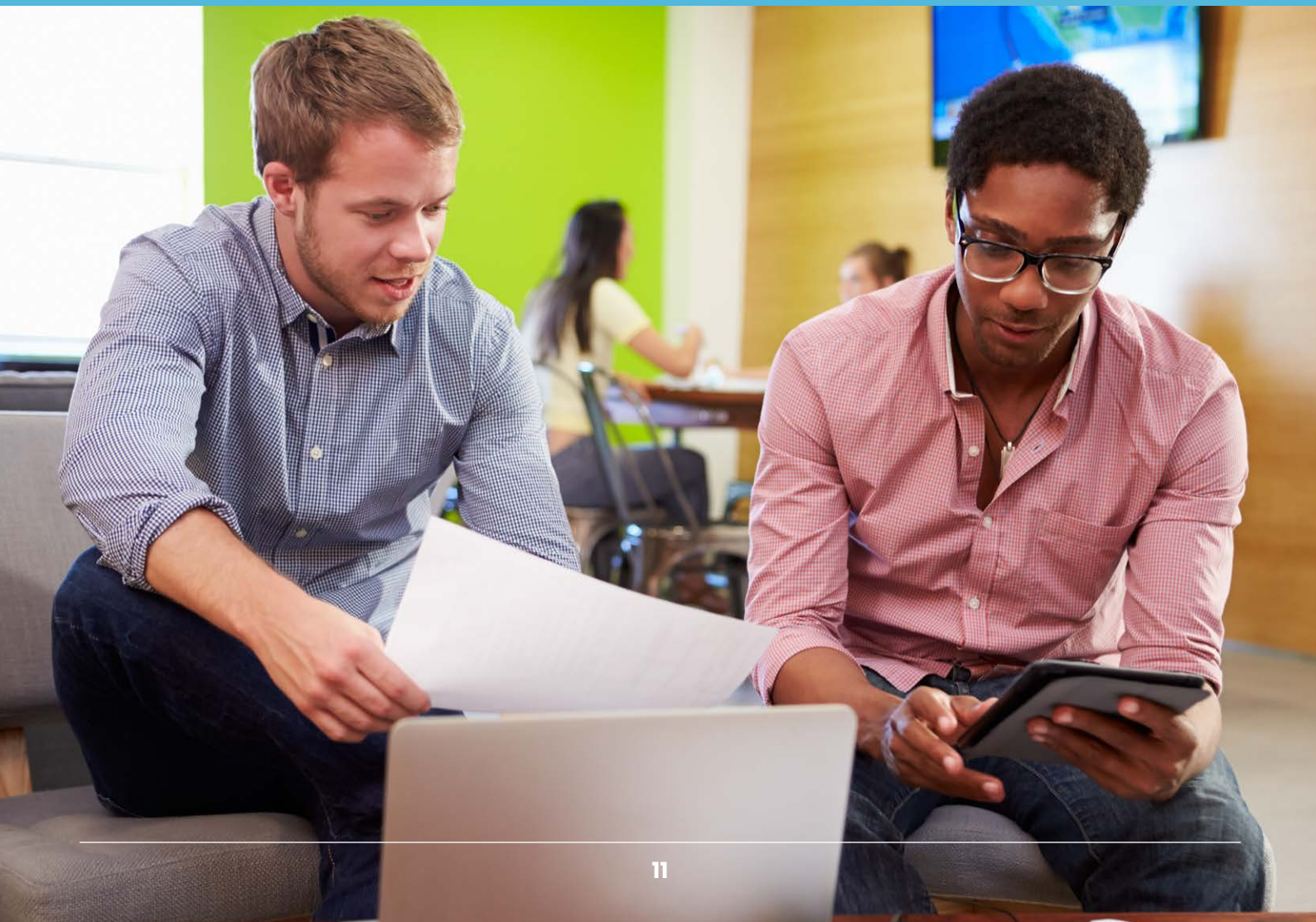
So, how will the right finance function help your agency? I've identified five main ways:

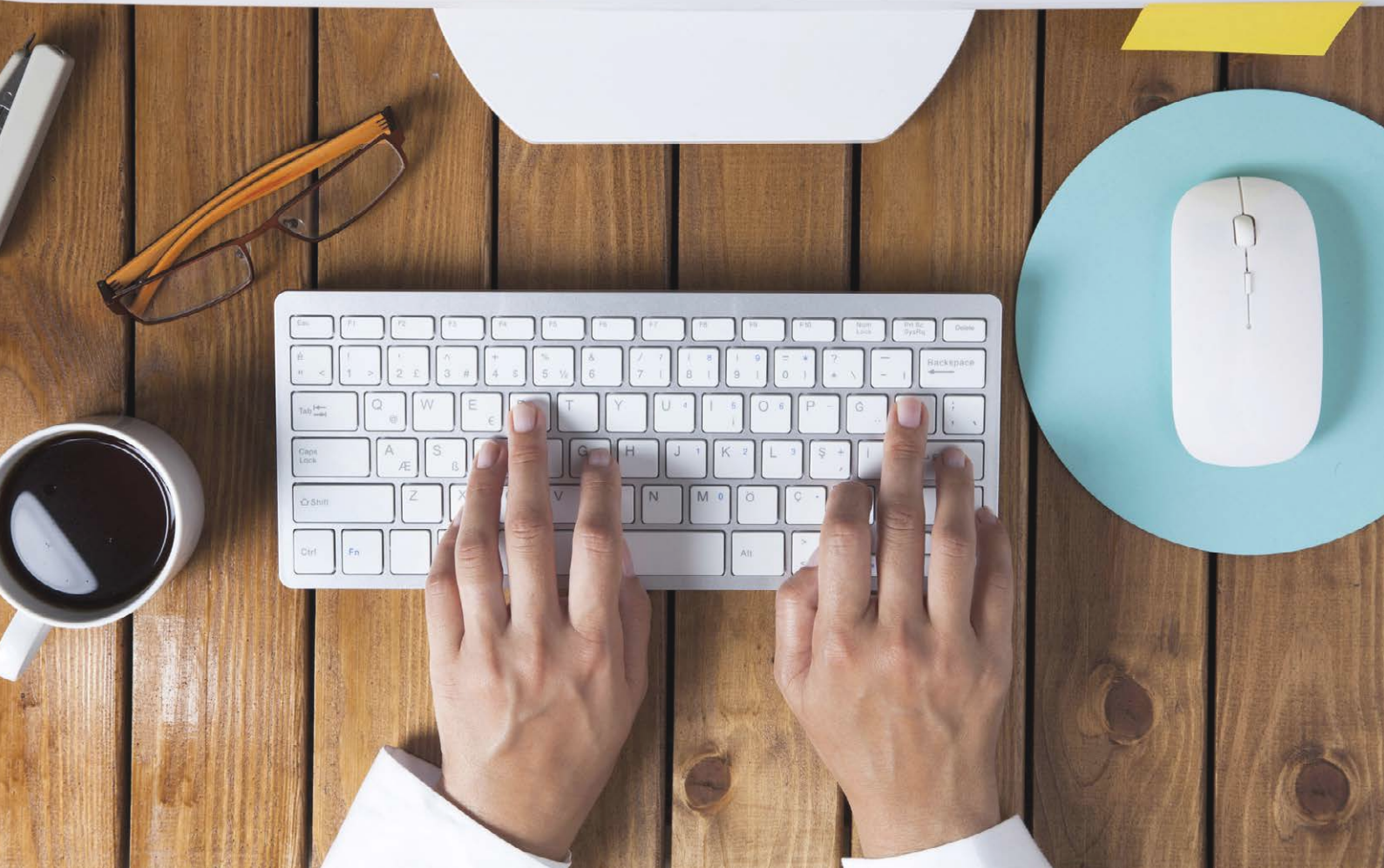
1. They'll understand the goals of you and of your agency, and help you put a plan together to achieve those goals.
2. They'll implement measurement systems that will enable you to have a finger on the pulse of the key six to eight measures in the business that will see it succeed.
3. Instead of just preparing your accounts, they'll be able to compare your business performance against others in your industry, and tell you whether your recovery rates, your pricing, and your margins are all as they should be.
4. They'll provide management reporting in English, not accounting jargon, so you receive not just numbers that you understand, but supporting

explanations as to what those numbers mean, and you get it and can act on it.

5. They'll act as your sounding board. They'll know exactly what you're going through, they'll understand your pains, and be able to help you overcome those challenges.

As a result of having the right finance function in your agency, you'll find that all your bills are paid on time, you're putting money aside for taxes as they become due, and that you've got a highly profitable agency – with an early warning system, should anything start to deviate from the norm. You can relax, knowing that it's all taken care of, and start to look at reducing the three compromises.





Where to Start?

So, you now need an action plan, and you need to get on with it. Here are five key actions to get you started:

- 1.** Work out what you really want. Review the section on where you want to be – the numbers you looked at earlier – and use that information to work out what your goals really are.
- 2.** Calculate your overall hourly rate.
- 3.** Work out which of the seven profit leaks are affecting your agency.
- 4.** Identify whether you have the internal resources to start improving that overall hourly rate, and look at the key drivers behind it.
- 5.** Just crack on and do it! If you wait until you feel you have enough time to devote to this kind of overhaul, you'll still be in the same place this time next year. Carve out the time, because that relatively small investment now will pay you back handsomely in the near future – and it will keep on paying back.



Or, you could take a shortcut & give us a call.

We can help you build a more profitable and successful agency using our Creative Extra process:

- 1.** We'll start by helping you define your financial goals and creating a plan.
- 2.** We'll then install robust financial systems, including Xero, to make sure you've got the basics covered and that the core financial information is spot on.
- 3.** We'll help you create your financial scorecard. This is the document you'll use each month to manage your agencies financial position and spot problems, before they happen.
- 4.** If needed, we can supply the day to day outsourced finance support your agency needs. Stop doing the VAT on a weekend or worrying because your customers haven't been invoiced. We'll take care of it all for you.
- 5.** We'll produce you monthly accurate financial information. You'll always have your finger on the pulse of exactly where the agency is at.
- 6.** We'll meet regularly and review progress with you. You now have your very own Finance Director.
- 7.** We'll take care of all those compliance jobs for you – preparing & filing your accounts, doing payroll and submitting tax returns. All done, on time, every time – no sweat.

Book an initial introduction call into our Founders diary and let's see what we can do to help your agency

<https://calendly.com/stuart-1/30-minute-call-skype/03-15-2018>

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