



SIX WAYS
to build a more
PROFITABLE AGENCY

Meeting the profitability challenge

Profitability. It's what all agencies are striving for, to increase earnings and reinvest in growing their agency.

The concept is simple: when revenues exceed costs, you're profitable. But the reality can be more complex. Simply chasing after revenue often doesn't lead to increased profits. You could just be pursuing top-line 'vanity figures'.

To effectively drive profit, you need to increase your margins.

Agencies are busy places, with lots of plates spinning. People, projects, pitches... profitability can be influenced by all of these, and more.

In this guide, we'll outline the **top six profit builders** you can use to drive your agency forward.





What's your agency's profit margin?

If you want to benchmark your agency's performance, % EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortisation) enables you to compare against your past performance or other agencies. EBITDA's also used as a key measure of your agency's valuation by financiers and acquirers looking to buy an agency.

Leading agency management consultants, *The Agency Works*, share the following benchmarks to highlight what good looks like:



PROFIT BUILDER 1

Stop overservicing

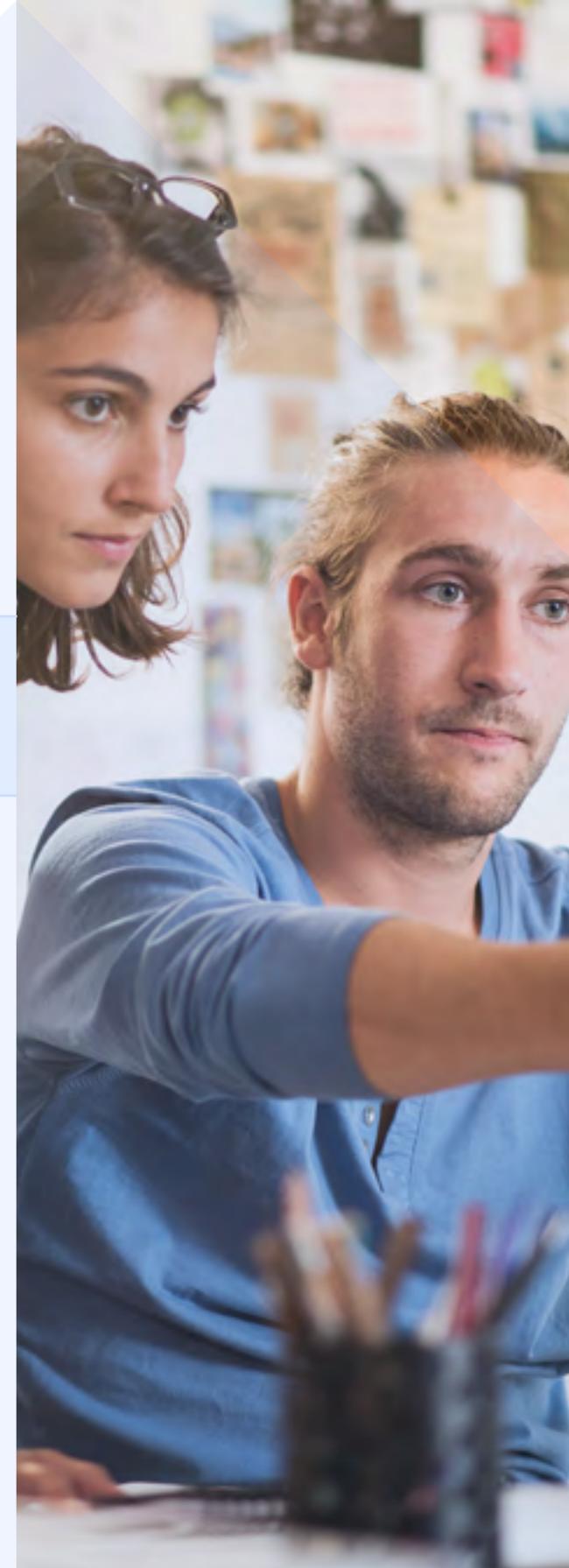
Overservicing essentially means you're delivering more work than you're being paid for on a project. Most agencies accept that this is par for the course. But once you start adding up an hour here and there, the numbers can become rather alarming.

If you overservice by 10%, you're effectively working for free for five weeks. Make it 15% and it's more like two months. And 25%... you're looking at an entire quarter. Clearly *not* the road to profitability.

What causes overservicing, and how can you stop it?

1. Scope creep. Clients often have a habit of changing or expanding the brief. Rather than simply passing this on, project managers need to look to the original estimate and decide if the changes can be absorbed in this, or if you need more time. They then need to update the estimate and make the client aware — this keeps everything transparent, the client can make an informed decision about the extra costs, and you stay on budget.

2. Over-enthusiasm. Obviously this is not a bad thing in itself, but it can be when it starts impacting your profits. If a creative gets so into a project they spend longer on it, you end up with a disparity between time allocated and time spent. Regularly monitoring time spent helps you pick up this issue as you go along, rather than at the end.



3. Using the wrong team members. Having the right skill-base across your agency and allocating the right team members to the right project tasks is also key. If you give parts of a project to someone without the right skills or experience, it's inevitable they'll take longer to complete it than someone who has — and they won't necessarily get it right. Equally, you don't want a skilled, high-fee earner spending their time on something a junior could handle.

5, Not tracking time. It can be easy for everyone to get so immersed in a job they forget to keep track of their time. But this can really mess with budgets and, in turn, profits. You want to encourage your teams to be passionate and productive, but they also need to take accountability for their role in the wider running of the agency.

PROFIT TIP: Don't work for free in secret

Sometimes you'll make the commercial decision to do some work for free — and there are often very valid reasons for this. But don't keep it quiet. Tell your client what the real estimate is and how this is different to what you'll be charging. This is great for strengthening your relationship, a reward for their loyalty in choosing to keep working with you, and means they'll likely keep doing so for future projects.



PROFIT BUILDER 2

Charge correctly

Lack of confidence in pricing can be a major problem for some agencies. And undervaluing the worth their services bring to clients can stop profitability in its tracks.

You can avoid undercharging by:

- **Clearly defining the job scope** and what will affect the time spent.
- **Looking at similar past projects** to establish time and expertise needed.
- **Estimating costs** to deliver different project scopes: actual hours x hourly rate per level of expertise for each task + project management + account management + direction, etc.
- **Setting cost + pricing.** This depends on your expertise and experience. For example, if you offer a niche service, you can charge more for the value the client receives. Of if you're working with bigger clients with more complex projects, it stands to reason they'll be used to higher pricing.
- **Tracking recovery** to make sure you've set your pricing at a profitable level.

PROFIT TIP: Assess your clients

If you want to grow your agency, you need bigger and better new clients. Make an annual process to analyse your clients by profitability and establish who your bottom 10% are. Then you can start making sure your estimates for them are higher, to match the services you're providing.

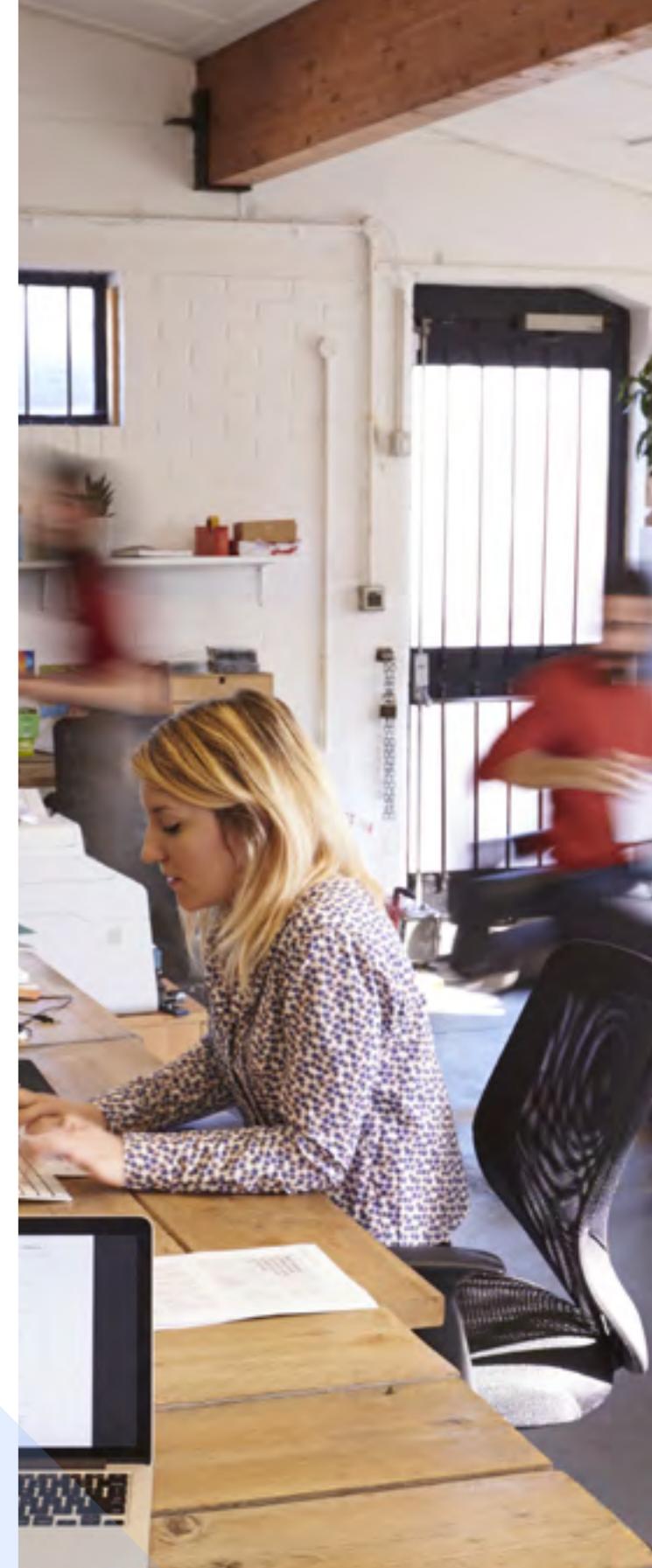
PROFIT BUILDER 3

Understand where you're making money (and where you're not)

If you want to increase your profitability, you need to know what's making you money. And, perhaps more importantly, what's not. This can help you decide which work to take on or reject. For example, if you make all your profits from SEO and none from web design, you could decide to only take on web projects that included SEO.

To find which clients, projects and services are the most profitable, you need to calculate the gross profit by client, project or service.

To do this, you need to analyse the revenue by client/project/service vs the cost (time and expenses) spent on the client/project/service.





First, work out the cost of each chargeable member of your team.

The easiest method is:

$$\frac{\text{Cost per hour} = \text{Salary} + \text{Employer NIC} + \text{Employer pension} + \text{Share of overheads}}{\text{Workable hours per year}}$$

Then you need to look at where their time has been spent, tracking time against clients, projects, type of work. You can do simple analysis by department without timesheets i.e. revenue for department vs cost of department calculations. But for more detailed understanding you will need accurate timesheets.

You can then calculate the gross profit (revenue - direct expenses - cost to deliver) by client, project, service etc. *

PROFIT TIP: Analyse your data

You can use spreadsheets to analyse data, or Synergist's integrated agency management software can do it automatically.

**Thanks to our friends at [The Agency Works](#) for the calculations!*

PROFIT BUILDER 4

Stop wasting time

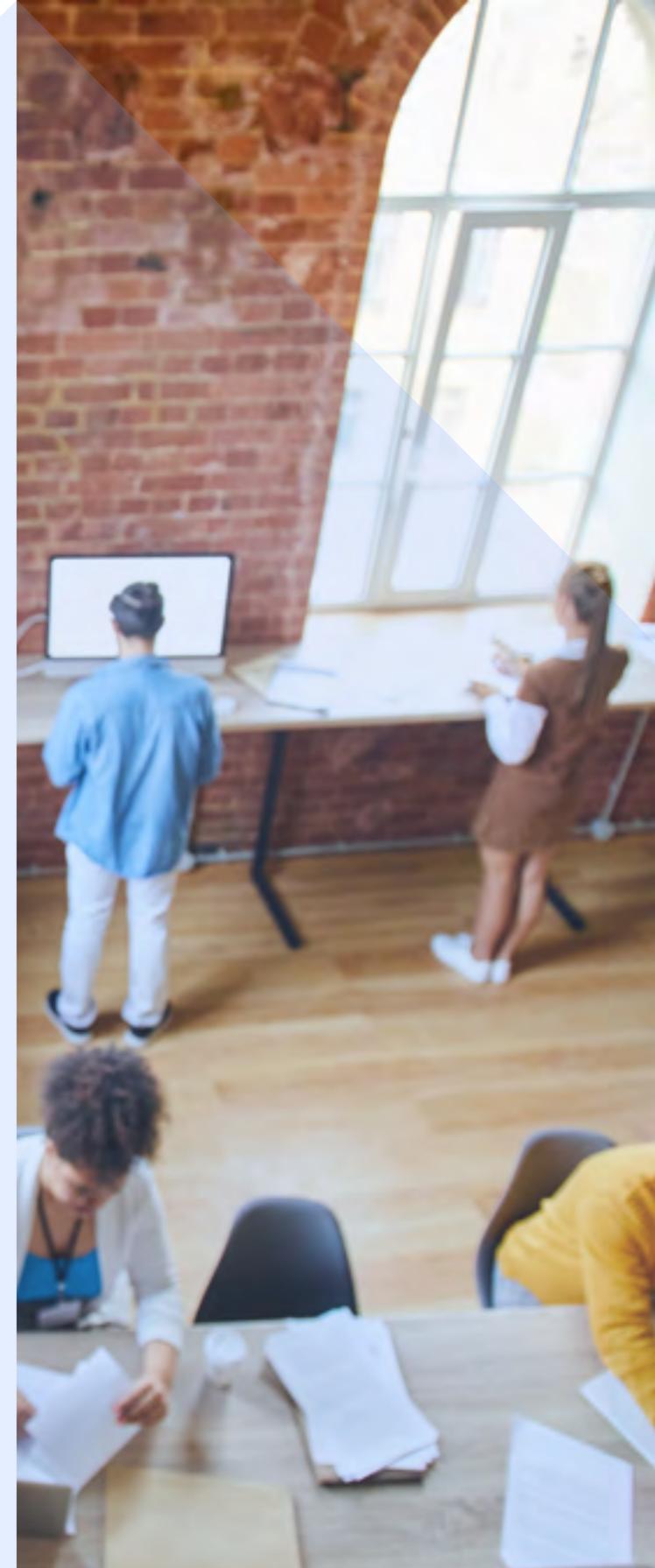
Whether you're a new business or a veteran agency, there's always room for operational improvement. By fine-tuning your processes, you can help your agency run more smoothly while boosting its profitability. And making good use of your team's time is one of the best ways to achieve this. Here are three of the top time-savers:

Make sure you have a clear brief before starting a project

A confusing brief can lead to things being missed, the work taking much longer than expected or, worse, the wrong work being delivered. Agree the brief beforehand with the client and make sure it's fully understood internally. The team needs to be clear on what they're agreeing to and understand the requirements. Regular progress reviews, both internally and with the client, can also help to keep things on track.

Devise standard operating procedures

Stop reinventing the wheel. Document processes, create templates and guidelines, streamline collaboration and implement effective post-project reviews. The more automated your management systems, the more efficient your agency will be. And the less time you'll spend micromanaging and firefighting common issues. Yes, you'll need to spend time upfront developing these practices. But ultimately, you'll optimise your team's activities and save time and resources.



Use a single management system

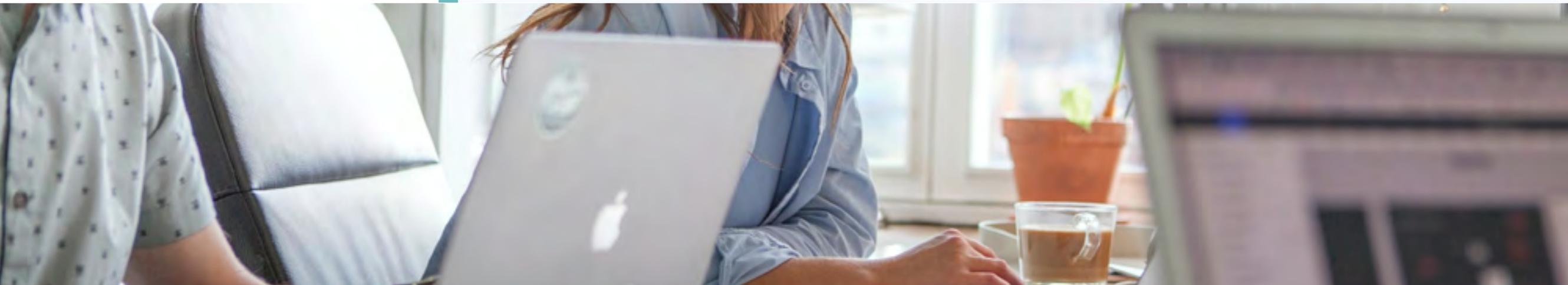
Data such as estimates, quotes, costs, schedules, timesheets, financials and KPIs can often end up being spread across multiple systems, which can slow down your day-to-day operations. The exact opposite of why you use them.

Things start to get fragmented and you end up with several versions of the truth.

Bringing your operations together into a single management system can help you work more productively and efficiently. One system can take you through a project end-to-end, from quoting to booking to timesheets to billing. All the information and project details are in one place, accessible to everyone working on the job.

PROFIT TIP: Remember, small savings add up

In an agency of 20 people, based on an average of £90 an hour, you can increase profitability by £190K simply by recovering an extra **15 minutes per day per person**.





PROFIT BUILDER 5

Sell the right hours

It's easy — and incredibly tempting — to say yes to every job that comes your way. But if you're not careful, you can end up with an overworked team who simply can't deliver quality work. Equally, you don't want to be so choosy that people spending longer on a project than you've accounted for, simply because they have nothing else to do.

It all comes down to selling the right hours. Which means getting to grips with what your true capacity is across each service.

First, you need to calculate capacity by department. For example, imagine you have a design team with 10 people working an average 40-hour week with a 75% utilisation rate. That's 300 chargeable hours a week. And a digital team with five people working an average 40-hour week with a 70% utilisation rate has 140 chargeable hours a week.

Next, you need to turn that into revenue targets. For example, say you had an average blended hourly rate of £100 per hour.

That's **£30,000** of design work and **£14,000** of digital work needed each week. *That's what you need to sell each week.*

The secret to optimising your utilisation is to carry out weekly reviews

A month-end report will simply tell you people were underutilised. You need to get to grips with what you've sold or allocated already. This will tell you where you have capacity and what time and resources you need to sell. But spotting capacity early on means you can take action. If there's not enough work, are there any projects you can push through or opportunities you can pursue?

PROFIT TIP: Calculate your salary spend

The Agency Works, growth expert Jason Neale suggests you aim for salary costs at 55% of gross profit.



Retain and develop great people

Every agency leader knows their people are their biggest asset. However, the reality is lifespan in an agency is usually two to four years. Unless you're giving people the chance to move up, their only opportunity for promotion is to move on.

Not only are you losing great talent, you're having to cover costs for rehiring and retraining, which ultimately harms profit. And the time to get from new hire to full productivity can take over a year. Even the best of candidates can't step into a role and instantly fly.

So don't wait until someone leaves to start upskilling your staff. Develop a growth/needs chart for your agency and for each department, and look at what training you can offer so you're continually improving your current workforce. Remember, it's always better to develop from within.

Competitive salaries and regular pay reviews also help you keep good people. Once someone hits a ceiling, they might look elsewhere. They have nowhere else to go with you. So don't let it reach that point. To grow your business, always make the next role for each person visible to them. Create bandings for salary, linked to experience, responsibilities and performance. Let your teams — and individuals — know exactly what they need to do to progress, and what they can expect from the next step in their career.

PROFIT TIP: Be a place people want to work

People who work at agencies are often enticed by more than just salary and benefits. They also want to work for a company they're proud to represent, so create an open, enjoyable culture where people want to work.

The path to greater profitability

As we've seen, there are plenty of hurdles for agencies to navigate on their profitability journey. But the six steps we've outlined are a great way to build and grow your business.

Agency life is fast paced, crackling with energy and bustle. In fact, some have described it as working in 'busy chaos'. And as an agency grows, with information stuck in people's heads or spread across multiple systems, it's easy to lose control, waste time and, ultimately, harm profits.

Your agency needs clear visibility of which areas are the most profitable and how well you're using capacity. If you don't have these, it's time to invest in them.

An integrated agency management system like Synergist brings together everything you need to manage your profits, people, clients and finances. Saving you time, making information clear and accessible, and giving you the real-time data you need to power your agency's performance... and your profitability.

Check it out here: www.synergist.co.uk

