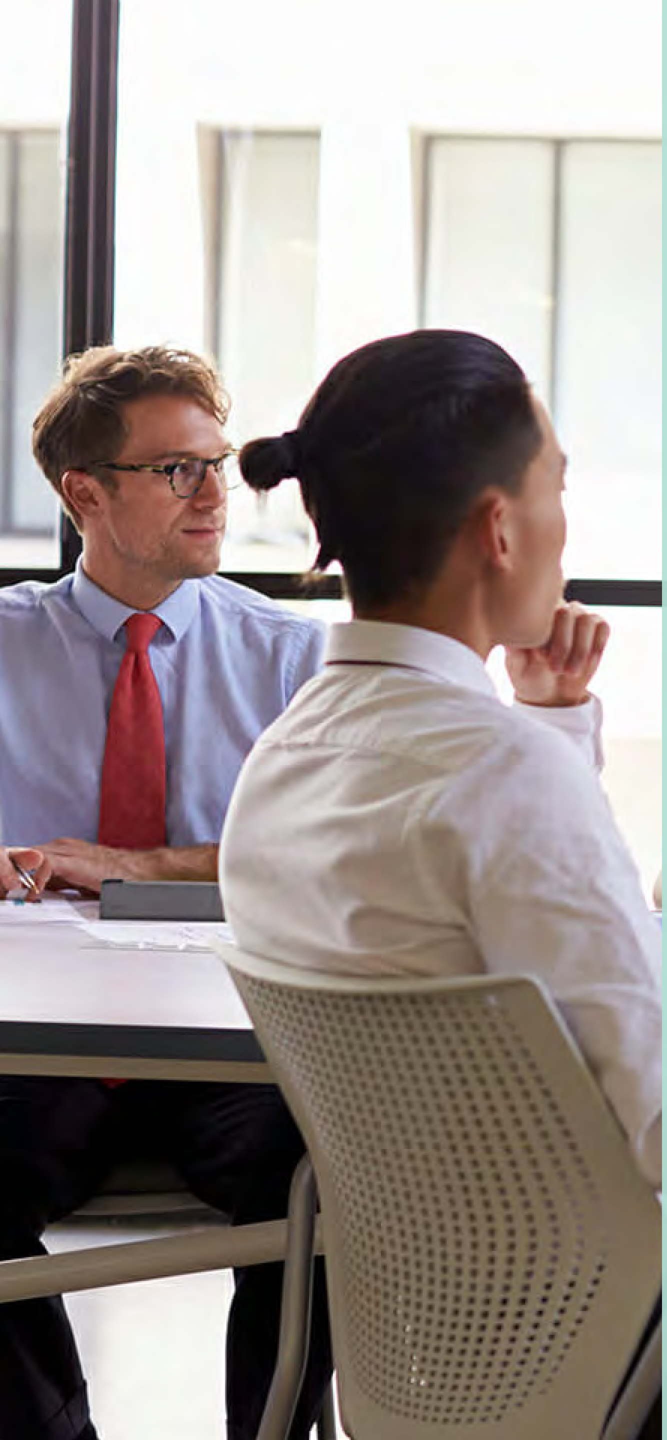

FIVE KEY STEPS

to make your agency more profitable and cash rich...

Simple strategies you can implement now to change the future of your agency

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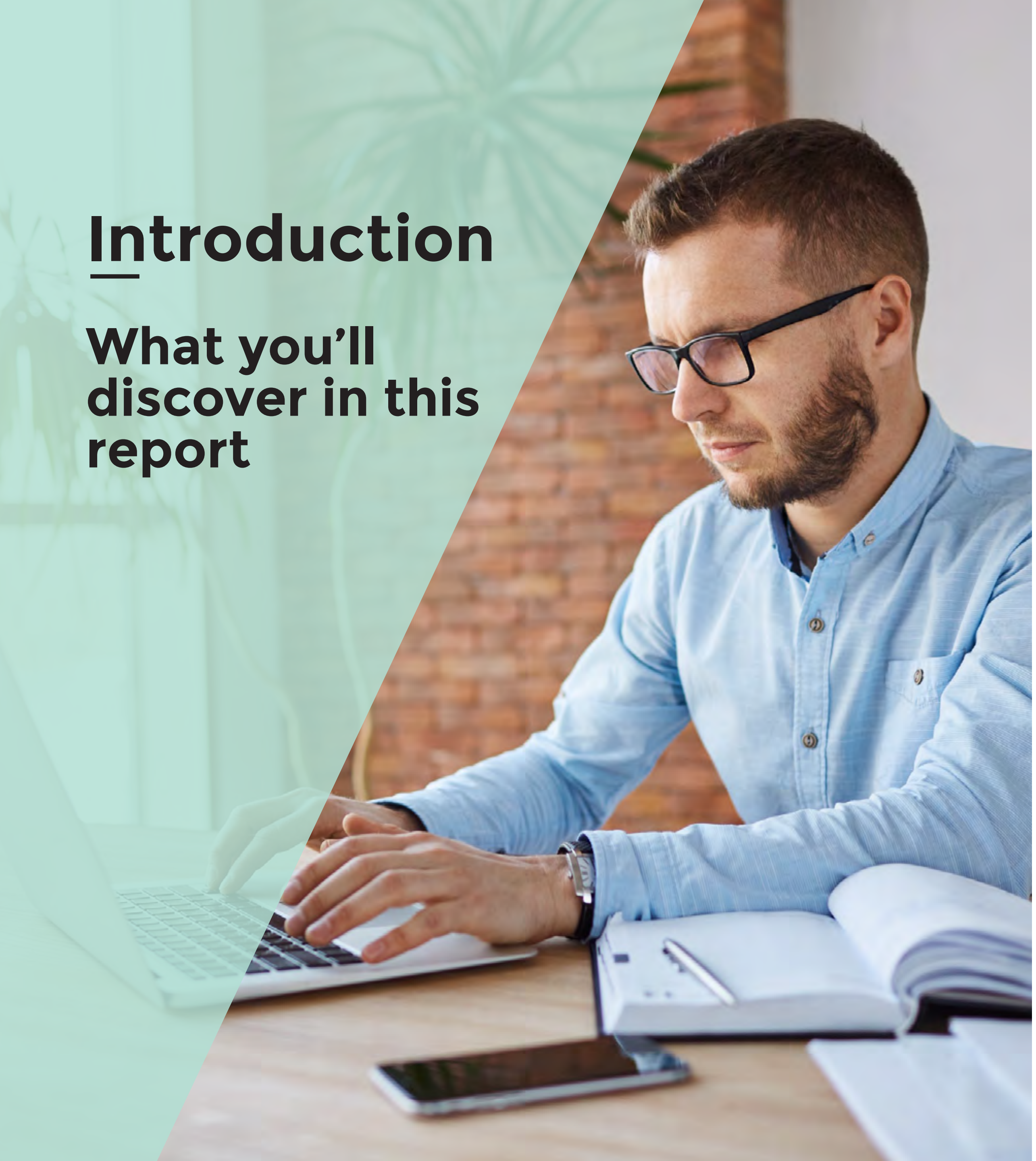


Introduction

What you'll discover in this report

The digital agency world is both exciting and tough in equal measures. You started your business with the aim of helping your clients through your creativity, industry know-how and expertise. But as your agency has grown, you've had to take responsibility for all the other areas of your business.

You probably don't have an in-house financial controller or director or might even be doing the bookkeeping yourself! Therefore all important financial responsibilities lie with you. This is a very big commitment and any financial decisions you make has a direct impact on the future of your agency.

We have seen so many agencies making sizable amounts of revenue but really struggle to meet good profit margins and cash is always a headache. When all your hard work is not resulting in good profits you are likely to face three options:

- You reduce the quality of your service to keep the work in budget. This will result in low customer satisfaction and less recurring revenue.
- You personally work longer hours to reduce staff cost or keep up with work. This will impact your personal life and work life balance and therefore reduced family/social time.
- You settle for less money as a result of poor profit margins and therefore impacting the quality of your life and the future you had hoped for.

Fortunately, there are some simple strategies you can implement straight away in your agency to start the journey to a more profitable and cash rich business. This report will explore these five key steps to help take your agency to the next level.

Five key steps to make your agency more profitable and cash rich

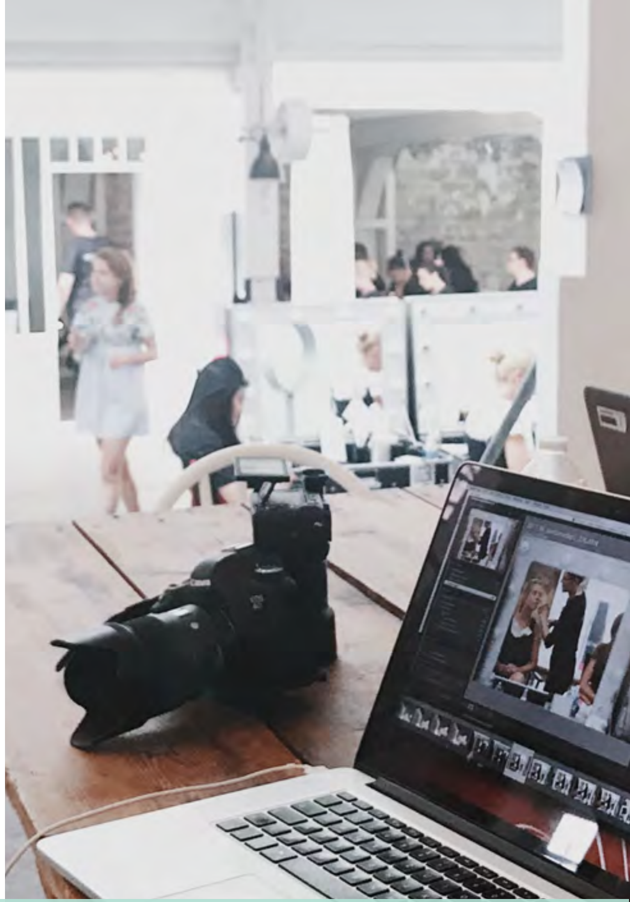
01 Pricing for maximum profits

How do you put a price on your creativity?

Deciding on how much to charge clients isn't an easy process, specifically for digital agencies. The traditional method of charging by the hour is no longer feasible. Clients want to see that the money they spend with you gives them results; they are not interested in the time it actually takes, and quite frankly, neither should you. It's the output that should be valued, not the time.

You need to charge your worth. There are a lot of agencies that don't charge a premium price with the fear of losing the prospect, but in fact, your premium price is in most cases an indication of the value you provide. If the client thinks it is too expensive, it's either because they are price shopping (stay away from those kinds of clients), or you haven't articulated your value proposition clearly enough.

There is no market price for agency services and no one-size fits all. All agencies are different and your pricing strategy should be determined based on your business goals. However, the example below illustrates what your minimum starting fees should be:



ABC Ltd

Aims for a 20% profit margin
They have total costs (2 staff costs plus overheads) of £80k
Utilisation rate per employee 70%
220 working days in the year

Based on the above information, ABC's target revenue is £100k and they have 308 billable days in the business. This results in a minimum day rate of £325 which they should be charging to achieve their 20% profit margin.

That isn't to say that you should be charging the £325 day-rate per employee, but it's a base fee to take into account in order to achieve your targeted profit margin.

Useful Resource

Click here if you want a template spreadsheet for the calculation (explained in detail), where you can plug in your numbers to calculate the minimum day rate. This will also show you how you can maximise your profits with the current resources you have.

02 Know what impacts your profitability

Profit is probably the main reason why you are in business. It's really frustrating to see that you are working really hard and long hours, bringing in a sizable amount of revenue but only to see that there isn't much profit left at the end of the year.

It's definitely not wise to surprise yourself with the profit figure at the end of the year. You need to be tracking it on an ongoing basis; monthly, or at the very least, quarterly. You need to have an analysis of the profitability of all areas of your business; profit per staff member, profitability of each service line etc. That way, you can get rid of less profitable areas or look into assisting your staff members to become more efficient and increase capacity.

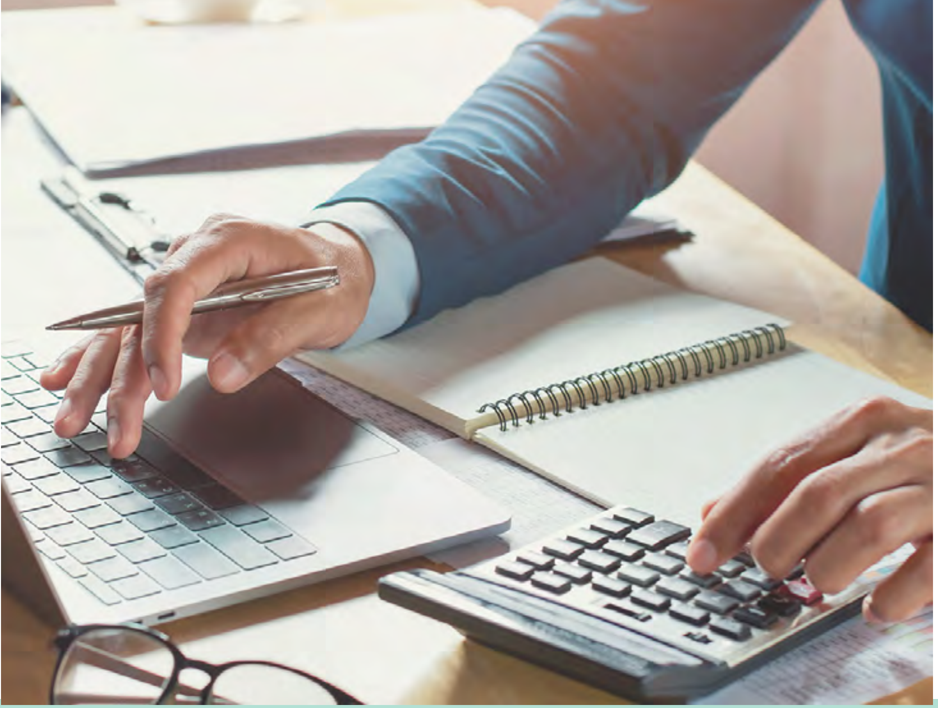
There are also subtle things that can drag your profitability down significantly. You need to be very conscious about the factors below:

The two things that directly impact your profitability are revenue and costs. Higher revenue and less costs equates to more profit. *Refer to point 1 above* on how to price your services to maximise your revenue. Make sure you are not overspending with costs; that you are paying staff market rate and research before you commit to high overheads (you should be auditing your costs yearly so that you aren't overpaying for any costs).

Discounts - although they may seem innocent in nature, it really demoralises agencies and has a significant impact on your profit figure. A 10% price decrease (for a given scenario) can have a 50% profit decrease on the project! Discounts are a no no, and if the price isn't in your prospects budget, then look into cutting back some services to align it to their budget.

Scope creep - 10 minutes there and 5 minutes here can really add up to significant amounts of unbilled revenue for the year. Make sure all staff are trained to identify scope creep and ensure it's documented and charged to the client.

Not increasing price - prices should be increased, at a minimum, in line with inflation every year. Most agencies are guilty of not increasing prices when they need to, even when their clients aren't price sensitive. Increasing price is the easiest and quickest way to add to your profit margin.



03 Cash is king, so treat it like one!

Cash flow is a big area. I'm sure you have heard that profit doesn't equal cash but what does that actually mean?

You may be making very healthy profits but if you have very little cash left at the end of each month, you won't be able to pay your staff, your suppliers and the tax man. Inevitably, your profitable business and all the hard work will go down the drain. In fact, 60% of small businesses do not survive their first 5 years of trading because of poor cash management!

It is best practice to have at least three months of overheads as surplus cash in your bank account and Covid-19 has proved the significance of this.

Fortunately, there are simple steps you can take to make sure you are on top of your cash balance every month and stop your bank balance becoming your worst nightmare.

1. **Deposits -** Take a significant proportion of the project cost up front, if a customer is genuinely interested in working with you, they will not see this as an issue.
2. **Payment terms -** offering payment terms in excess of 14 days puts you at risk of costs becoming due before your customers pay you. Many companies are now collecting cash through direct debit, which guarantees automatic payments.
3. **Credit control -** make sure you chase outstanding debt frequently. At a minimum, make use of your cloud accounting software to send reminders to clients when invoices become due.
4. **Future planning -** cash flow forecasting should be implemented at least quarterly so you know well in advance when you will have cash shortages and plan accordingly.
5. **Overdrafts -** have an overdraft agreement in place for any worst case scenarios.
6. **Tax incentives -** Make sure you conduct a pre year end tax planning exercise with your accountant to reduce your tax bill and boost your cash balance at the same time. Things to consider are R&D claims, trivial benefits, spouse shares, pension schemes and personal tax review of the directors.

Useful Resource

Cash flow forecasting is crucial for any business as it keeps you on track with survival. **Click here** if you would like a copy of a cash flow forecast template to give you a kick start.

04 Track your performance on an ongoing basis

Successful agencies keep track of their Key Performance Indicators (KPIs) and report on them on a monthly basis. There are many KPI's an agency can report on, and although there are industry averages, every agency is unique and different. You need to implement and track the right KPIs for your business to help you achieve your business goals.

Here are useful KPIs you can implement in your agency, but avoid analysis paralysis. Track the ones that are relevant to your business' definition of Key Performance Indicators.

1. **Revenue per head -** net revenue (revenue less procurement costs borne on behalf of clients) divided by the number of staff. This is a good indicator of employee productivity and efficiency.

2. **Revenue growth -** this is the percentage of revenue growth year on year. This should be more than inflation but should be targeted at the 20% range.

3. **Net profit margin -** net profit divided by your net revenue. This shows what percentage of your revenue generated is actual profit and top performing agencies generally achieve a 20%+ margin.

4. **Accounts receivable days -** receivables divided by revenue, times by the number of days in the year. This shows how long it takes for clients to pay you, after raising the invoice and the number one reason for cash flow issues. You would want to keep this below 30 days.

5. **Quick ratio -** current assets divided by current liabilities. This shows how well you can cover your current liabilities with your current assets and should be a minimum of 1:1. It's a very good indication of the liquidity of your business.

Other measures you may also want to consider are overhead analysis, capacity analysis, client profitability, service profitability, email sign up rate, lead conversion rate and lead sources. The list can go on based on the type of agency you run. You should be using the results from your KPIs to compare against your budget/ forecast and industry average to get meaningful analysis.

Useful Resource

Click here if you would like a template of all the above KPI calculations so you can start tracking your business performance.

“Anyone holding themselves accountable to nobody ought not to be trusted by anybody.” - Thomas Paine

05 Take accountability of success and failure

Being accountable simply means being responsible for decisions made, actions taken, and assignments completed. Accountability in the workplace leads to an increase in commitment to work and eliminates the time and effort you put in distracting activities and therefore a quicker route to successful performance.

Being the leader and owner of your business, you need to set the example and culture. You need to set goals and objectives for the business and take ownership of them. You need to show you are taking responsibility when your business doesn't achieve x% of growth or your profit margin isn't where you want it to be. You need to embed this into the culture of the business.

So how do you do this?

- Have weekly/monthly team meetings giving updates on the business as a whole and departmental performance.
- Share management accounts and KPI analysis results to give a picture of how the business is performing.
- If there are variances, explain why they are there and what the business will be doing to rectify them.
- Set goals and objectives for each staff member so their line manager can follow up on. When done right, accountability can increase your team members' skills and confidence.

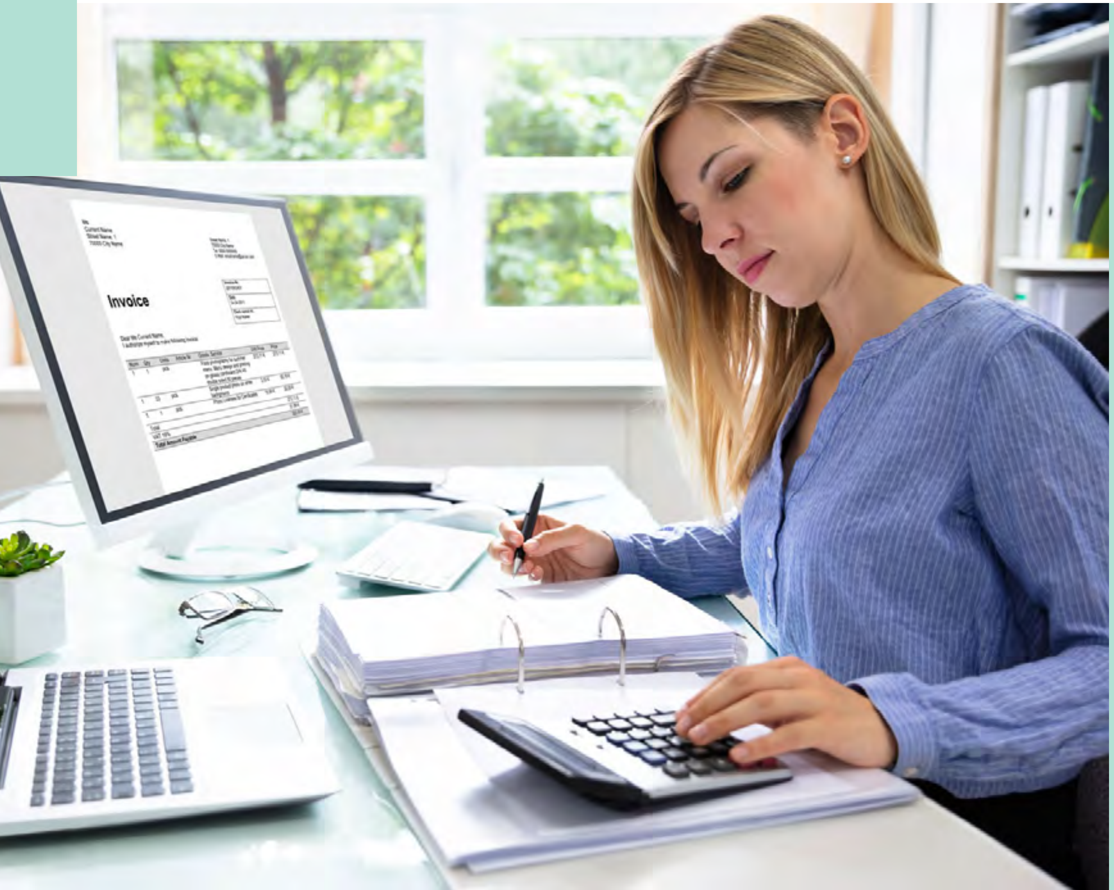
“The fact of the matter is that successful people are accountable.” -Brian P. Moran

How the right finance function can help

If you are in the early stages of business, you are probably handling the bookkeeping yourself, or have delegated it to a general admin person. For young companies, compliance work such as tax returns, payroll and annual accounts are commonly outsourced to an external accountant (who you probably only speak to at year end).

Finance is the backbone of your company, therefore all financial data you capture and record needs to be correct and completed by a professional accountant from the very beginning. It impacts so many decisions you make, from funding strategy to hiring decisions - everything that shapes the future of your business.

Compliance is compulsory and has to be done. Where a good accountant really adds value is in their ability to analyse your numbers and translate the findings in a way that helps management make meaningful decisions.



So how will a good finance function help your agency?

1. They will implement systems and processes so that you have access to your critical and important financial information with the touch of a button.
2. They will provide you with management accounts no later than 1 week after month end so that analysis of your monthly performance is fresh and relevant for any decision making.
3. They will actively monitor your KPIs and compare against budget and industry average but will acknowledge that your agency is unique and so will give an analysis on what the numbers mean to your business.
4. They will produce cash flow forecasts and implement sensitivity analysis so you know how to react if you have a cash shortage or sudden increase/decrease in business activity.
5. The efficiencies, tax and cost saving opportunities they identify will mean that the benefit of having a good finance function far outweighs the investment.

Having the right finance function will therefore result in higher profits, more cash and peace of mind so you can concentrate on what you're doing best; running your agency!

Take action now

There's no time like the present, and the real work starts now! Here are the key actions you can get started with on your journey to a more profitable and cash rich business:

01

Set out your personal and business goals and take accountability of them. Make sure you track them and take action as needed.

02

Analyse your pricing strategy. You want your pricing and brand to be premium to maximise profits.

03

Make sure you have KPIs implemented and tracked on an ongoing basis.

04

Cash is king, so treat it like one! Identify which of the cash flow issues mentioned are lacking in your business and put processes in place to fix them.

Take the shortcut

The reality is, you can't be an expert at everything. You didn't set up your agency to act as a HR, legal or finance director so don't stress in trying to be one now. Instead, invest in good external advisors so you can concentrate on taking your agency to the next level.

1. We'll analyse your systems and processes to identity cost and process efficiencies.
2. We'll help you identify which KPIs are relevant to your agency and track them on an ongoing basis and interpret what it actually means to your agency.
3. We'll go through a monthly goal setting exercise and give you guidance on how to achieve those goals.
4. We'll prepare management accounts with meaningful analysis no later than a week after month end so that the information is up to date and relevant for any decision making.
5. We'll prepare financial budgets and forecasts so you know exactly where your business is heading.
6. We'll perform tax planning exercises and analysis so you don't pay any more tax than you have to.
7. We'll take care of all your compliance work (annual accounts, tax/VAT returns, payroll etc) so you have peace of mind.

You know it's pretty costly to hire an inhouse qualified financial controller/director, but you also know the added value they can add to your business. By choosing an external qualified accountant, expert in your industry, you'll have your very own financial controller/director for the fraction of the price!

Contact us now to book your discovery call and find out how we can help you. We are looking forward to supporting you.

CLICK HERE TO BOOK YOUR DISCOVERY CALL NOW

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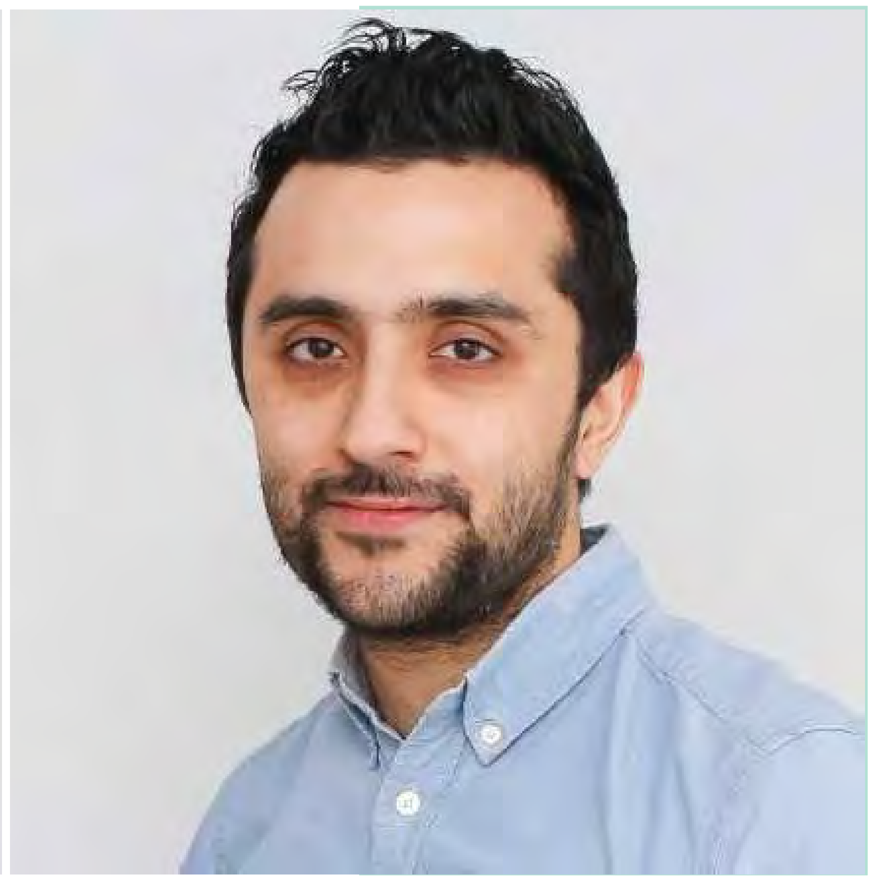

Who are we?

Hello, I'm the co-founder of SKO Accountants, specialists in providing compliance and advisory services to growing digital agencies.

Having worked with many of London's fastest growing businesses, I've seen first hand the disconnect between the owners expectations of an accountant and the offering from the current stock of accountancy practices. So, along with Sara (my business partner and wife), we have built an accountancy practice which allows agencies to work with accountants who truly understand them and can speak their language.

I qualified as a chartered accountant at BDO, working in the BDO drive department which acted as an outsourced finance function for growing small businesses. I have since worked for companies helping to build their processes, scale their business and secure investor funding. Sara qualified as a chartered accountant as an auditor at PwC, and went on to a senior role in Tesco's group reporting team.

Together, we have a unique blend of both startup and corporate experience to help agencies build a more profitable and cash rich business.

Kubilay Ozpalas