How to make money out of an marketing agency

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WLP

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Do what you like and not alone!

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- Make sure you enjoy what you do!
  - If you hate it find something else

- Do not work without help!
  - Get a mentor! It works!

- Ideally get a group of you (3-6)
  - You can play to your strengths.

- If not get help to do that stuff that you do not enjoy
  - e.g. such as Accounts, collecting debts, compliance.

- Some "Experienced" people have knowledge
  - They have probably already made the mistakes and learned from them.

Get some cornerstones

- See Beermat Entrepreneur - Mike Southon
  - http://www.mikesouthon.com/

- Need a mentor and 4 cornerstones.
  - Sales
  - Accounts
  - Technical
  - Operations

- They can be occasional or part of the team!

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Beware it changes

The business changes from:

- Between 12 and 20

- Between 20 and 30

- About 50

- Above 125 -150

- You will make steps and can rarely afford to take on the first person.

- If you do not put in the extra people and systems slightly before it is necessary you will not grow!

- Be very cautious employing people.
  - If possible treat it like a marriage / partnership
  - Getting married after the first date?

Customers v profits

- You need satisfied customers who pay enough and you are efficient enough to make the profit you want and need.

- Measure customers satisfaction.
  - On a scale of 1-10 how likely are you to recommend us to a business friend or colleague "the question"
  - Nett promoter score
  - And do they?

- And
- Profits
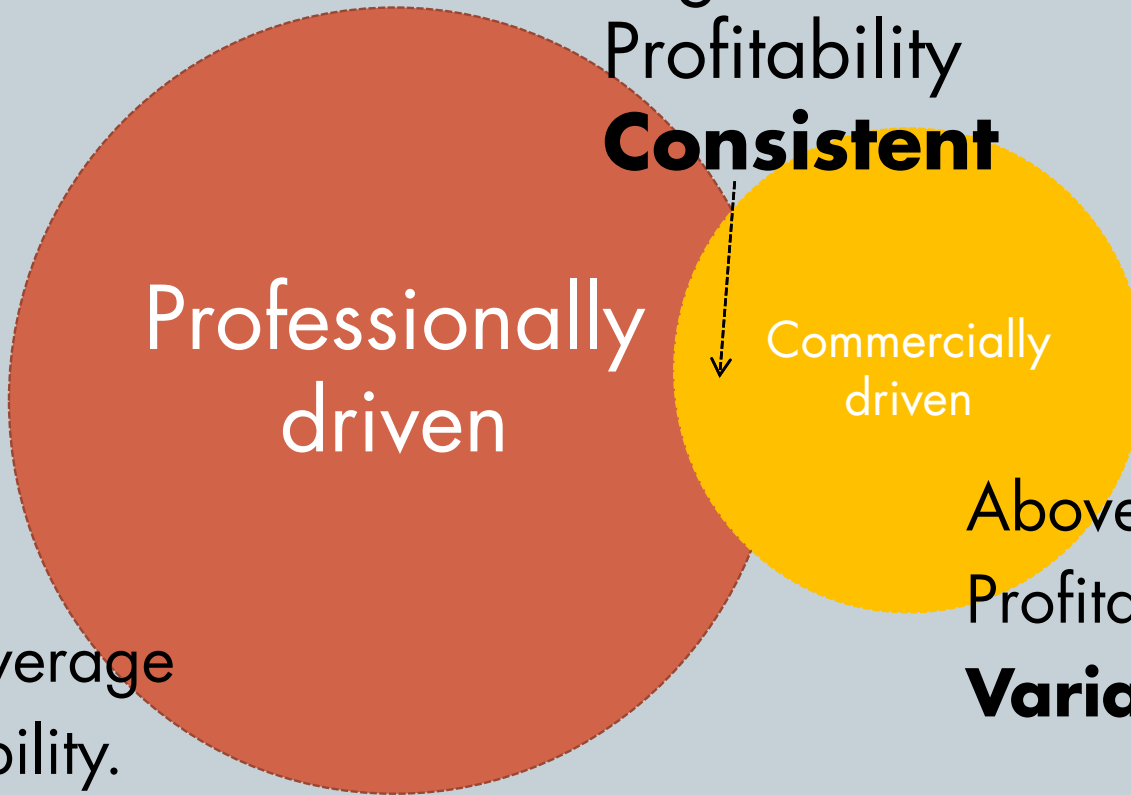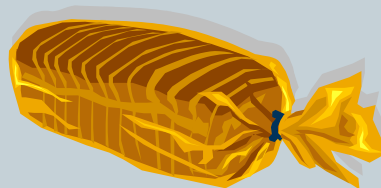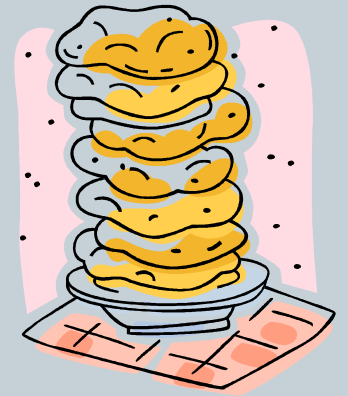
The 'Profitability Game'

- Small consultancy
- 10 people – all client facing
- £1m income
- £520k staff costs
- £350k other costs
- £130k PBT
- Average hourly rate - £100

How many billed hours per person per week?

Billed hours calculation

- £1m income
- Divided by 10 staff = £100k ea
- Divided by £100 ph = 1000 hrs
- Divided by 45 weeks

22 billed hrs pp pw

The 'Profitability Game'

- Small consultancy
- 10 people – all client facing
- £1m income
- £520k staff costs
- £350k other costs
- ..??? PBT
- Average hourly rate - £100
- If 25 billed hrs pp pw
- £100*25*45*10 = £1,125,000
- 23% Margin

Profits doubled!

Well that's the theory!

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- Small consultancy
- 10 people – all client facing
- £1m income
- £520k staff costs
- £350k other costs
- ??? PBT
- Average hourly rate - £100
- If 30 billed hrs pp pw
- £480k+…….35% margin
- £1.35m income

Even better!

- But we don't sell bread and cakes…?

- We sell

TIME

Important timesheet definitions

- Billable Time
  - ALL time spent on client work
- New Business
  - Time spent on defined new business activity
- Investment Time
  - Unbilled time spent on existing account to secure/grow the business
- Training
  - On and off the job
- ..Internal Management
  - Business and non-billable people management
- Internal Admin.
  - Non-billable internal work

Other important definitions

- Billed Time
  - The billable time you're actually paid for
- Planned write-off
  - The time you've agreed up-front to give for free (…or discounted off rate card)
- Unplanned write-off
  - The billable time you're NOT paid for (…over-servicing!)

In practice…?

- Typical week (we think!)
- Billable client time   - 27 hrs   - 21 hrs
- New biz   - 6 hrs   - 5 hrs
- Investment time   - 2 hrs   - 3 hrs
- Training   - 2 hrs   - 2 hrs
- Internal management   - 4 hrs   - 4 hrs
- Internal admin   - 3 hrs   - 9 hrs
- **TOTAL**   **-44 hrs**

What's Going on here

and here ?

So what's going on?

- Over-servicing/write-off!
- 'Optimistic' classification of time
- 'Natural' desire to 'please'
- Internal Admin –everything else
- Lack of understanding of what is what
- Little monitoring/guidance

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- Billable client time   - 27   hrs
- New biz   -   2.5 hrs
- Investment time   -   2.5 hrs
- Training   -   1.5 hr
- Internal management   -   1.5 hrs
- Internal admin   -   2.5 hrs
- **TOTAL   - 37.5 hrs**

Setting 'norms'

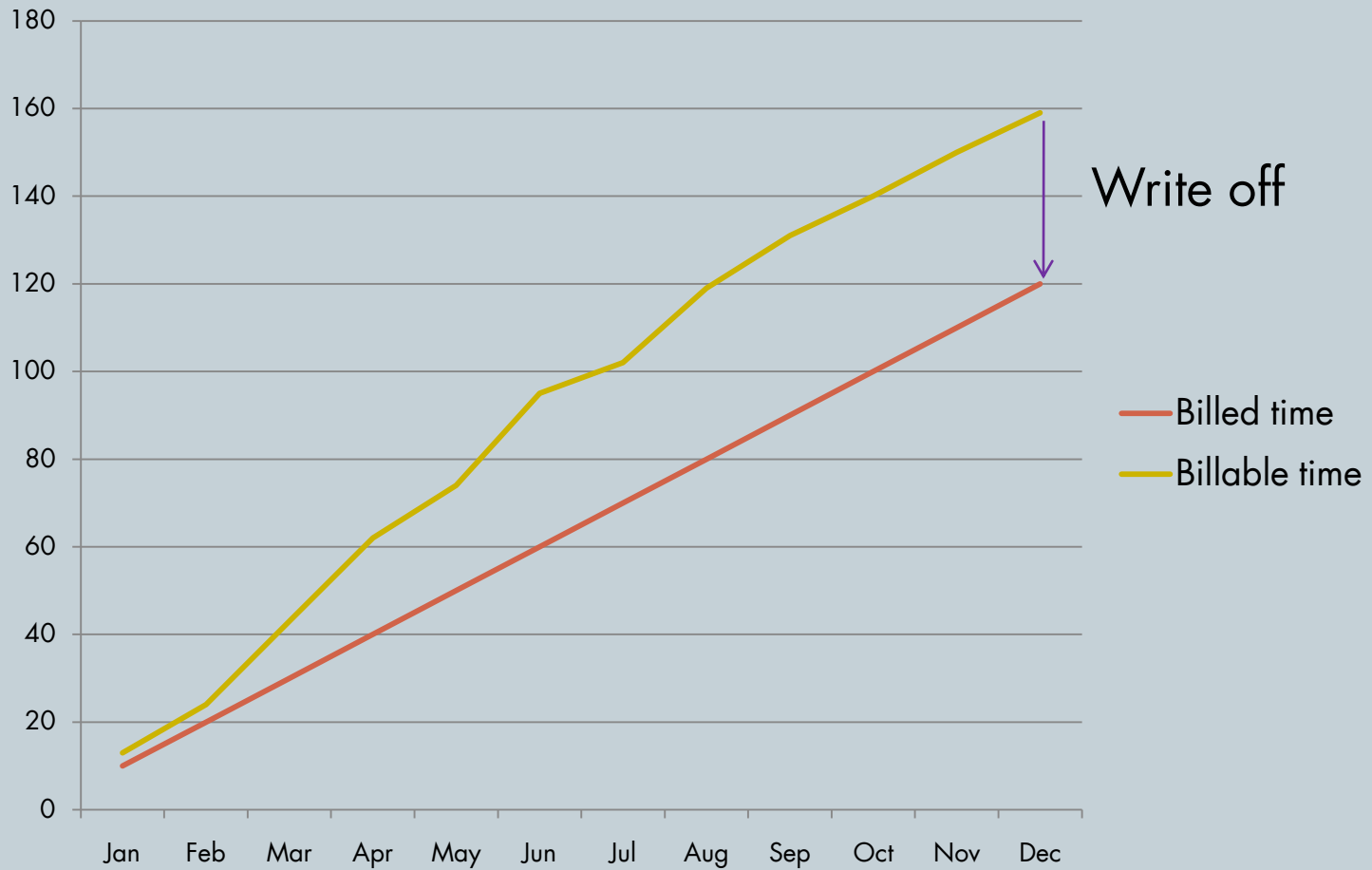|	Junior	Part/Dir
Billable:	32	20
New biz:	1	5
Investment:	0.5	3.5
Training:	1.5	1.5
Int. mgmt:	0.5	4
Int. admin:	2	3.5
TOTAL	**37.5**	**37.5hrs**

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- DON'T waste time analysing 'Admin'

- Simply give staff more billable work to do

- For every hour of extra billable work the 'Admin' will reduce by an hour

Typical cumulative time record

Killing unplanned write-off

- Accurate timesheet recording
- Better 'estimating' of time
- Clear expectations of time 'allowed'
- Keep cumulative time spent/paid for records
- Individual hourly rates not 'team' or 'day' rates
- Proper staff management
- Regular reconciliations/reviews
- Strong client negotiation

The Key Ratios –time related

- Actual billable hours vs norm (pp pw)
  - Week, month and ytd
  - Aim for >100%
- Staff utilisation %
  - Total billable hours : total hours recorded
  - Aim for 60 - 75%
- Future capacity %
  - Norm billable hours : forecast hours required
  - Aim for 100% +/-
- Billability %
  - Actual billed time : recorded billable time
  - Aim for >95%

The Key Ratios –time related

- ## Write-off %
  - 100 – billability % i e <5%

- ## Investment time
  - Time invested in retaining cash-cow clients and/or growing future stars/cash-cows
  - Target < 7.5% of total time

- ## New biz
  - Time invested in winning new accounts
  - Target < 10% of total time
  - Create time budget related to scale/desirability of opportunity

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- Profitability
  - Ratio of profit to income %
  - Aim for 15% – 30 %
- Staff cost : Income
  - Works with capacity forecast to highlight salary cost escalation
  - Aim for 50-55%

- Questions?

- I mentioned CMM Capability Maturity Model to test yourselves as mature IT organisations. For further info see http://en.wikipedia.org/wiki/Capability_Maturity_Model

- I also mentioned the BIS mentor scheme which appears still to be developed refer to:
- http://www.mentorsme.co.uk/
- http://www.bis.gov.uk/policies/economic-development/leps/lep-toolbox/helping-smes/mentoring