



Is your agency running profitably??

The top 50 run agencies achieve the following ratios:

Salaries are no more than 50-55% of total Gross Profit.

Overheads are no more than 25% of Total Gross Profit

Net Profit is therefore between 20 & 25%

However be aware of the following. Yes your agency may only have Staff costs of 50% of GP but if the staff are working more than their contracted hours then the ratio will be false!

E.G if you had 10 staff and the contracted hrs was 40 hrs per week but they all worked 60 hrs then your agency would be getting 200 hours per week free.

If you had to employ staff to cover that 200 hrs then on a contracted 40 hrs per week you would need an additional 5 resources, which would then increase the 50% ratio.

Is your agency profitable because the staff work extra hours for nothing just to get the job done?

Many agencies are only profitable because the staff are prepared to work overtime for free! What would happen if the staff could no longer work those hours would your business make a profit?

A good measure is to take an average charge rate and multiply that by a utilised hours rate by the number of people who are time charged. So in our example above...

10 people in the company that are fee earners

40 Hours worked in a week

80% utilised (80-85% is the utilisation rate that agencies should look for in chargeable resource)

£100 per hour

Then your agency should be billing per week:

$40 \times 80\% = 32\text{hrs}$

$32 \times 10 \text{ resources} = 320 \text{ hrs}$

$320\text{hrs} @ 100/\text{hour} = \text{£}32000 \text{ per week}$



Are you staff working their contracted hours but your business is not achieving the right level of billing?

Why??

Timesheets!

If your business billed 1 more hour per week you could make another £45000 on the bottom line

If an agency does not implement a time recording ethos then product (hours) will be given away for free. *Is that good business?* We know that you want to offer a great service but do you really know how long your team are working on projects? Based on the above calculation if your agency was able to sell 1 more hour per week per person then you would experience the following increase to the bottom line:

1hr x 100 x 10 = £1000 x 45 weeks per year (utilisation rate) = a staggering £45000 on the bottom line

Based on the 20% margin that would be the equivalent of adding £180K to the sales figure in a year. All for selling 1 more hr per person per week

For the above to happen then your agency needs a robust **job costing system** and an organisation who understands the challenges agencies face.

The secret to having a chance of passing on costs is to accurately estimate the number of hours that it will take to deliver the clients brief. Timesheets must then be recorded on a daily basis to ensure that your agency is monitoring the progress of the job against the original (or revised) estimate.

Your Agency should review the actual to estimated hours at least weekly and put in place standard review points (25%, 50%, 75%) if a job is at 50% of actual versus estimated time then the job should be 50% through the deliverable of the brief if not then there are only 3 reasons:

- 1. Incorrect estimate to begin with (Was the brief understood?)*
- 2. Too much time being spent on the job (The agency likes the job / Client?)*
- 3. The client is changing the brief*

If your Client is changing the brief then communication should be opened up early to have the maximum chance of selling more of the hours that the agency is charging. It is this method that achieves the extra chargeable hours per week.



Does your company manipulate the estimated hours in order to achieve the commercial selling price?

A common mistake that an Agency will make is to manipulate the estimated hours in order to achieve the commercial selling price.

E.g

Estimated 10 hrs x £100 = £10000 Selling Price

Reduce to 8hrs x £100 = £800 Selling Price (Price the client will accept)

If that method exists then it is impossible to:

- A) Allocate work efficiently in the studio
- B) Manage the job to the correct estimated hrs
- C) Look at studio efficiency

If your Agency wishes to apply a commercial factor in order to win the work this is ok, but it must not be reflected in the estimate

An Estimate must be accurate and the key management focus.

If your Agency follows the above process then it is possible to increase the bottom line profitability.

The key is for your agency to sell more of what it is already doing and not always try to increase the turnover with new work. That can ultimately lead to extra costs and a reduction in your gross and net margins.

There are many systems out in the market place but when you choose one just make it suits your business here are a few tips to put you on the right track.

1. In links with your accounting system in order to get your invoices out quickly helping cash flow
2. It does everything so that you are not swapping from one system to another as this frustrates creative MAKE IT EASY.
3. It give you excellent management reports this is an essential tool for growing a business
4. Get the staffs buy in by using a system that will give you good support for a least the first year. (don't always believe the sales man he is not bother about you once he has sold you the product)



Express Systems
Creative Systems For Creative People

We believe that we offer the creative sector good systems that help agencies grow. We have been dealing in the media industry for many years and are staff all have an agency back ground which helps you when you are trying to get us to understand your business. We are different from our competitors as we a consultancy company that will match your system to your business rather than a other way round. We have a team who will hold your hand through the process and make sure ALL the staff understand and know how to get the most out of our systems.

Good Luck
Express Systems