Keeping Track – Financial Metrics that Matter

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30 year agency veteran

Agency owner of 23+ years

Owned Agency Management Institute since 2010

Work with 250+ agencies a year

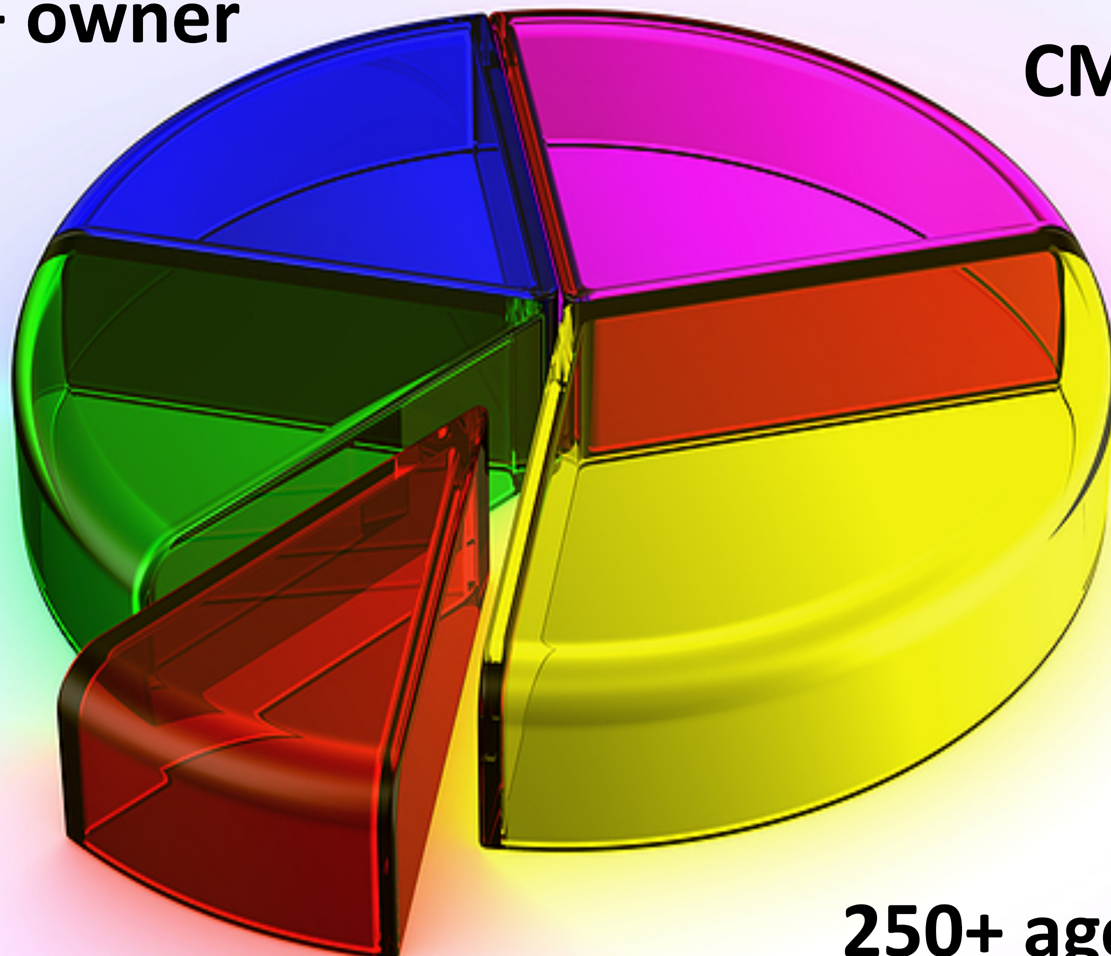
Published in AdAge, AdWeek, Forbes, Inc., Entrepreneur, Wall Street Journal, New York Times, Agency Post, Chicago Tribune and others

Meet AMI Agency Management Institute

- We serve several hundred agencies through workshops, coaching, consulting etc.
- Home of the AMI Owner Networks
- Home of the AMI Key Executive Networks
- No AMI agency lost to the recession
- Build a Better Agency podcast
- Online courses (New Biz and AE bootcamp)
- Everyone who coaches/helps – owns an agency today

30 years of agency life/23+ owner

Data from studies with CMOs/decision makers



250+ agencies every year with AMI

Working with many other agency consultants & experts

Your Key Takeaway

With huge risk should come huge rewards.
Do not deny yourself (or your employer) any reward that the business can deliver.

The purpose of your agency is to serve you.

Do not become your agency's servant.

Your Key Takeaway, Part B

Winning the game is the owner and team making as much money as possible.

We want to make more and keep more of what we make.

We do that by understanding the rules of the game so we play skillfully and strategically.

Your Key Takeaway, Part C

What you measure matters.

It really is that simple.

What should we measure?

What should we measure?

- Time spent (everyone including you)
- Revenue growth
- AGI – salary, overhead and profit before taxes
- Months of cash on hand vs. total overhead
- Client mix/balance
- Client Profitability
- AGI/FTEs
- How long it takes to get paid
- Cash flow
- Write off/Write ups

*Department metrics should roll up into agency wide metrics

Revenue Growth

Key Performance Indicators

Net new revenue from EXISTING clients:

70%

Key Performance Indicators

New business prospects you're <u>actively pursuing</u>:

At least 10% of current AGI

AGI – salary, overhead and profit before taxes

Revenue: Defined

- The amount of money you bill the client for the work the agency has performed.
- 100% of your **REVENUE** includes:
  - Money payable to all vendors
  - Money available to operate your company … or AGI

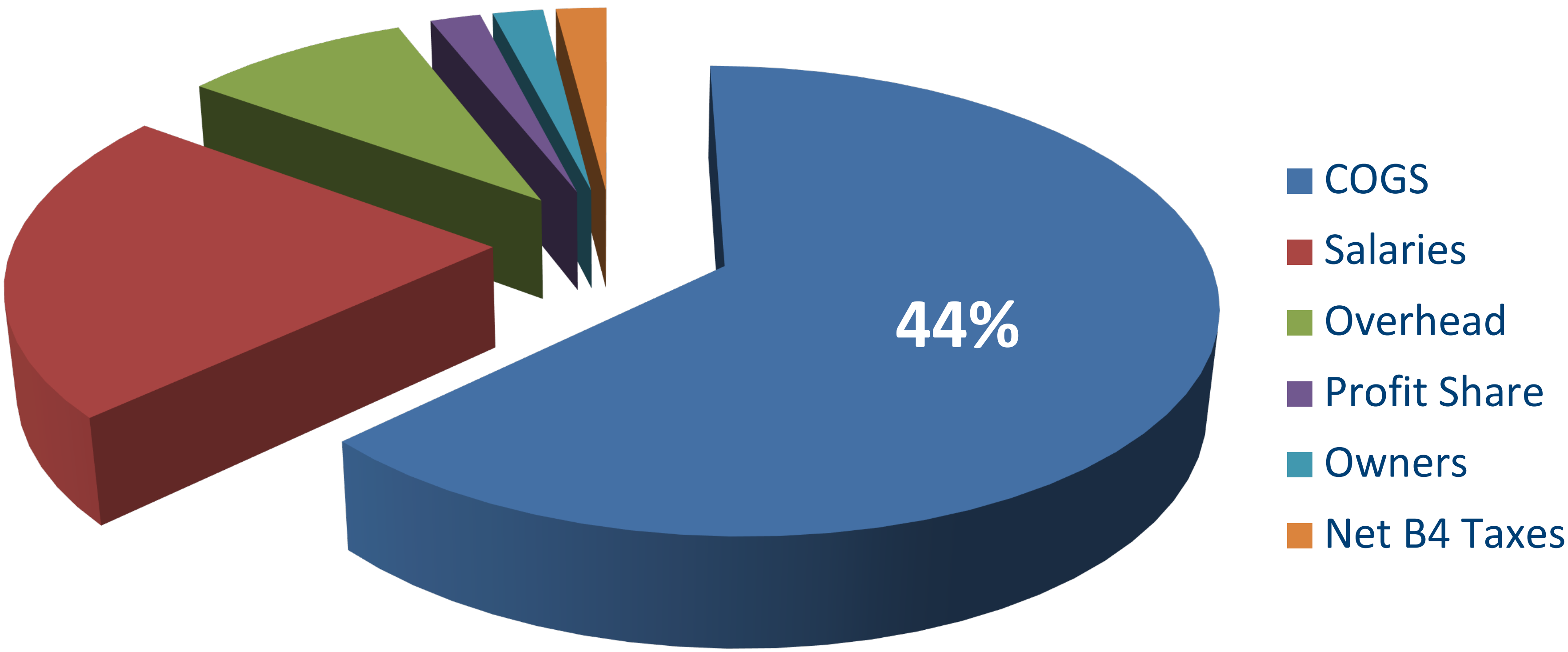
Revenue / Billings / Sales

Cost of Goods Sold

Adjusted Gross Income AGI

- Margin % will vary from company to company and is dependent on the type of work the company performs.
- Used to be 30-37%. Today, closer to 55-60%.
- Graphic Design Firm 55% to 75%
- Public Relations Firm 75% to 90%
- Advertising Agencies 35% to 55%
- Marketing Agencies 45% to 70%
- Digital Agencies 75% to 90%

Distribution of Agency Billing Dollars



The average agency keeps 56 cents on the dollar

How do agencies spend their money (AGI)?

The Ideal

55%
salary, benefits

25%
overhead

20%
profits

The Average

63%
salary, benefits

27%
overhead

10%
profits

Key Performance Indicators

Payroll* + overhead should not be greater than:

80%

*Including your salary of at least $120K (max out social security and fall within Irs guidelines for your position)

Key Performance Indicators

EBIT or earnings before income taxes

20%

AGI/FTEs

FTE Benchmarks: AGI per FTE

Goal is $150,000
in AGI
per FTE

Danger Zone

$130,000 is acceptable.

Anything near $100,000 is danger zone

FTE Benchmarks: AGI per FTE

$1,500,000 AGI = 10 FTEs

This is probably the most violated financial metric in the agency business

Months of cash vs. total overhead

Cash on hand

- Cash on hand = checking, savings, petty cash & investments
- Take your annual TOTAL overhead (salaries and overhead) and divide by 12
- Goal = 2+ months of cash on hand
- If you have one client that's more than 25% of your AGI – adjust up to 4+ months

How quickly do you get paid?

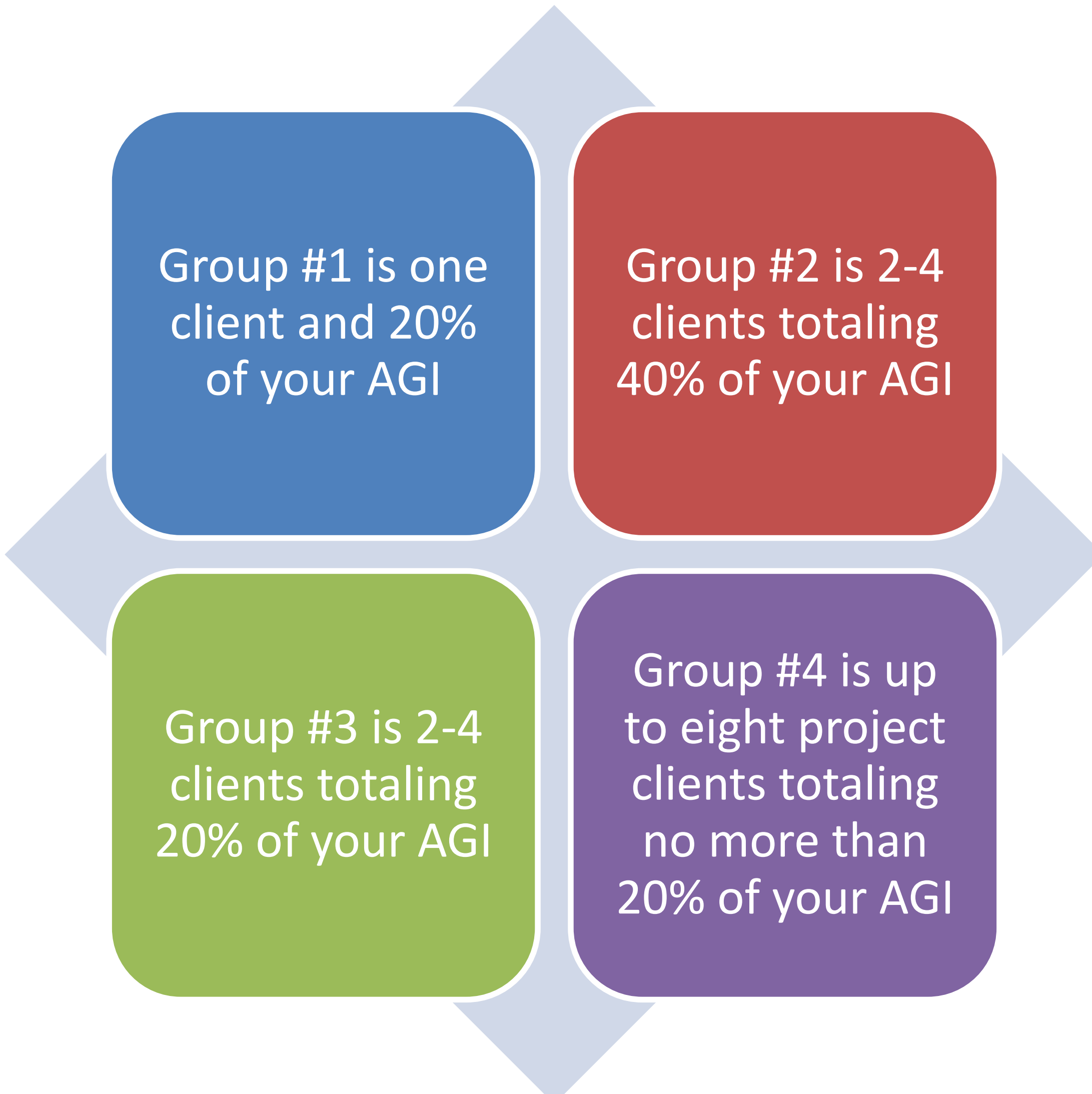
How quickly do you get paid?

Less than 1MM Revenue = 32.7 days
1-3MM Revenues = 44.7 days
4-10MM Revenue = 51.6

Healthy = less than 45 days

Client Mix/Balance

The Ideal = Balance



	Top Clients	Worst Clients
Most profitable work	Grow and more!	Can they be transformed?
Least profitable work	Shift or fire within X days	Shift or fire within fewer days

How much do you write off?

If every agency stopped writing time off and got paid for the work they actually did – we'd all be driving Jags.

How much do you write off?

\# of employees
x 1920*
\# of available hours

* 48 weeks/year at 40 hours per week

How many hours is available to bill?

$$
\begin{array}{r}
10 \\
\underline{\times\ 1920} \\
19{,}200
\end{array}
$$

19,200 Total possible hours

Example – 10 employees

Finding the percentage of billable hours

$$\frac{\text{\# of hours billed to clients}}{\text{Total \# of hours available}} \times \frac{???}{100}$$

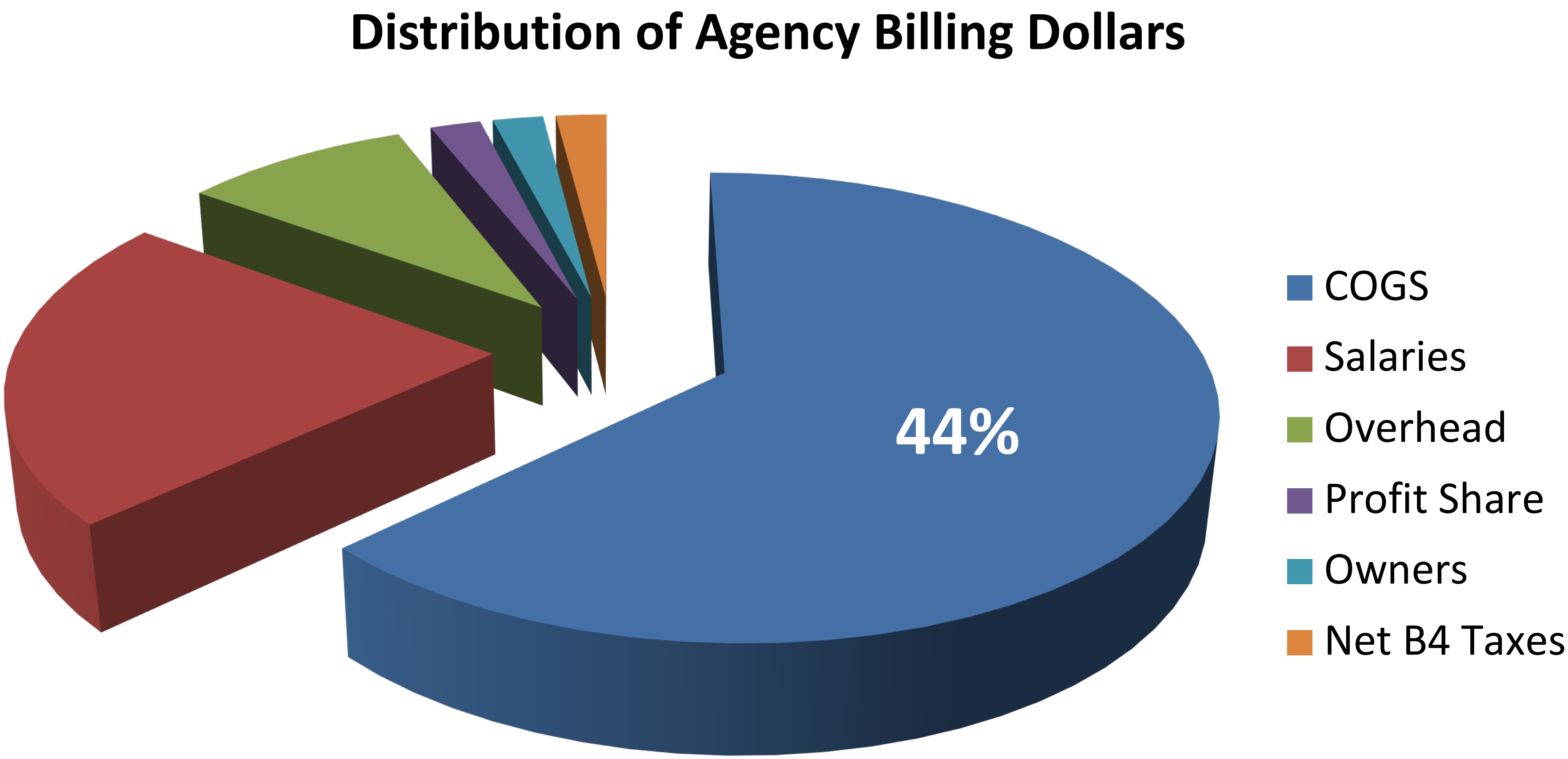
So if you had 10 employees

$$\frac{8{,}750}{19{,}200} \times \frac{45.57\%}{100}$$

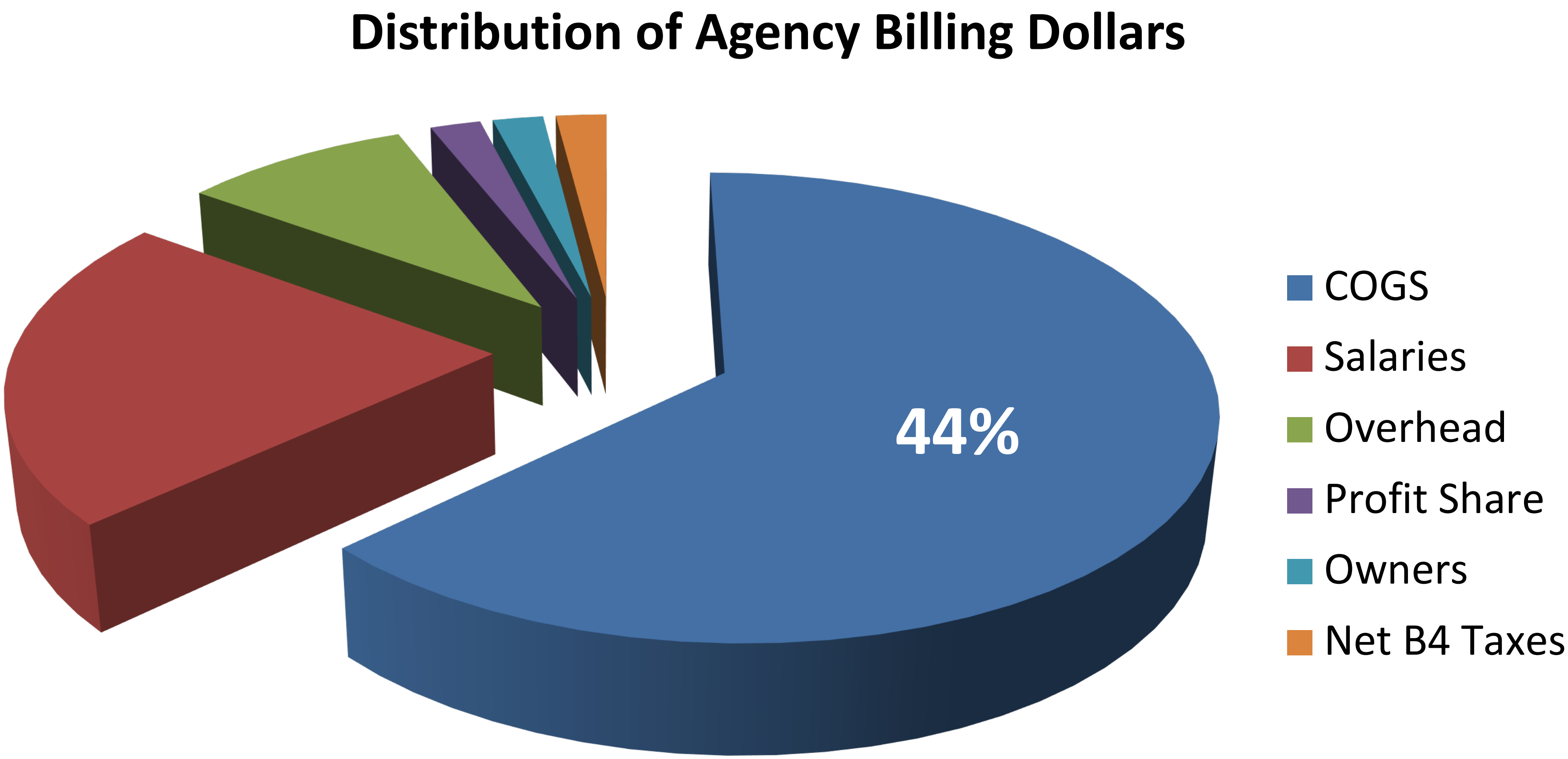
How much do you write off?

Goal should be 65%+ of <u>all available</u> hours are actually billed to a client.

Reality for most agencies – 40% or less.

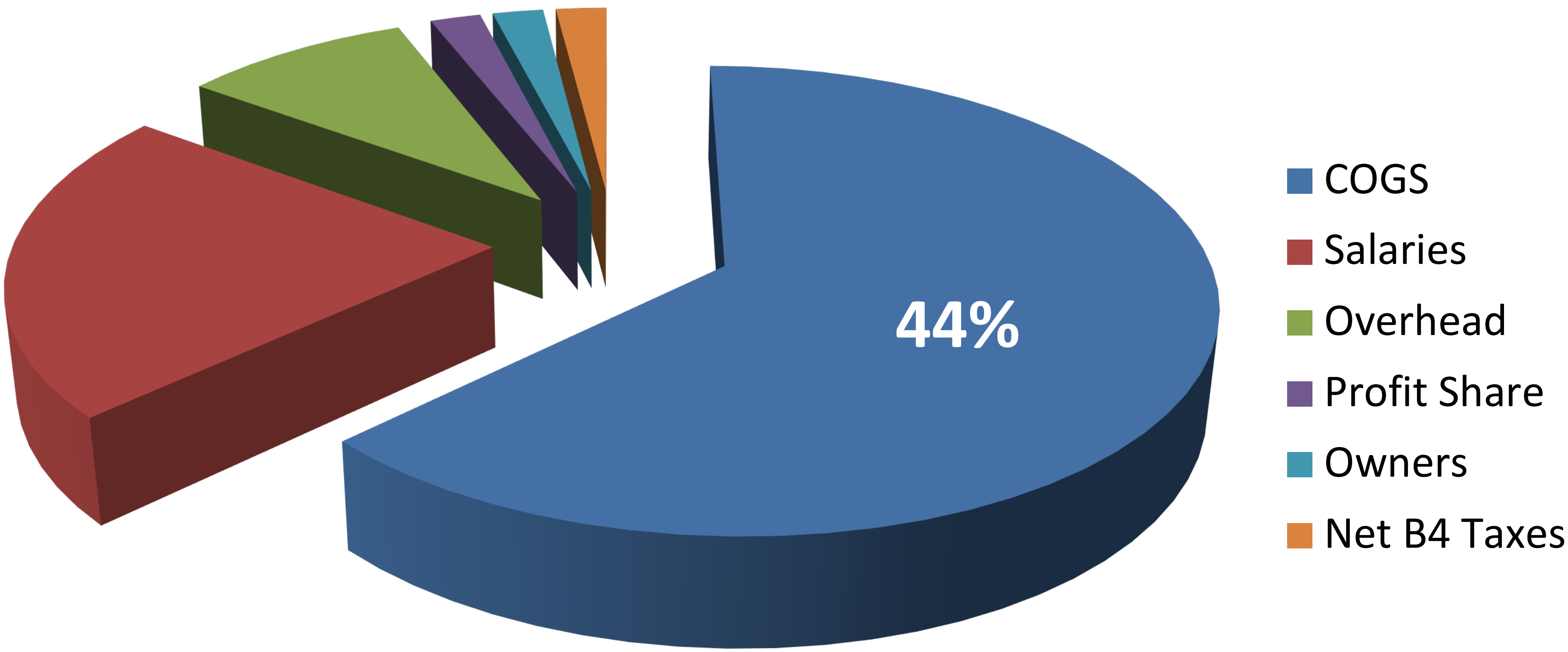


If you write off $5,000 on a job… how much more does the agency need to bill to replace that income?



Remember, you're operating on a 10% profit margin. So is the answer $50,000?

Distribution of Agency Billing Dollars



$89,285

How the math works out

$89,285 -- gross

$50,000 – AGI (56% of the gross)

$5,000 -- profit

The flip side…

$5,000 – additional profit

$50,000 – AGI it would have taken to earn it

$89,285 – gross to get to that AGI


Change Order
Original Contract
YAMAHA

Why include non-billable hours?

- Who is/isn't billable
- What would you do with the leadership's hours?
- You're measuring the efficiency of the agency as a whole – non-billable people allow billable people to stay billable
- Points out if you're overstaffed – maybe too many non-billable people?

What we didn’t cover

- How/why you can affect these numbers
- Biz dev ratios (how to get the right ones)
- Tax strategies and implications
- Staffing – salaries, bonuses, perks
- Employee satisfaction
- Client satisfaction
- Client spends (avg, most profitable, etc.)
- Employee & client retention
- So much more…

Money Matters Workshop

December 4th and 5th in Orlando

http://bit.ly/2iBA0dR or just go to AMI website and read more about it under training tab


Questions?