Mastering Profit Management

Agency Management Institute

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Build a Better AGENCY

Strategic Coach, Succession Advisor & Educator →

Parakeeto helps agencies measure & improve their profitability.

That's it

AMI elevates small to mid-sized agencies by teaching them how to make the work of running a profitable agency easier & more systemized.

That's it

Core Financial Metrics

Gross Billings are a vanity number and have no bearing on your profitability

AGI

The money you have to run your agency

Cost of Goods

Biggest area of confusion/error

- Printing
- Media
- Software you use for clients
- 1099/contractors
- Influencer fees
- Web hosting
- Travel/meals tied to clients
- Etc.

Overhead

Cost of doing business

- Rent
- Attorneys
- Professional development
- Car/Mileage
- Internet
- Client gifts
- Award entries
- Software (quickbooks, etc.)
- Equipment
- Credit card/bank fees
- Accountant
- Agency marketing
- Some travel
- Some meals
- Utilities
- Charitable donations
- Some subscriptions
- Association dues

The single most important KPI

AGI = 55/25/20

55% **25%** **20%**

What about your people?

Your generalist accountant will get this wrong

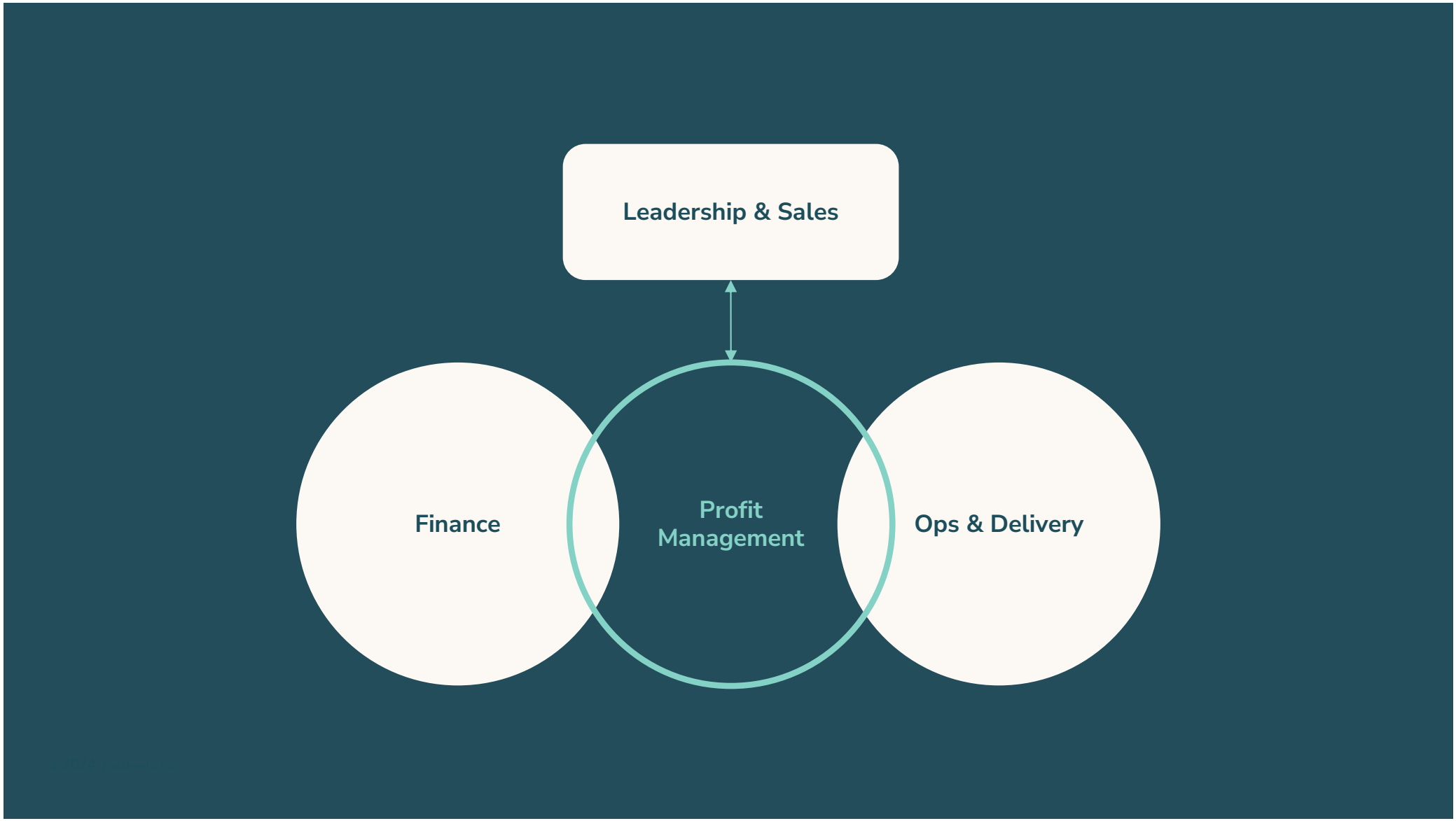
- All W2 & T4/T4A people – **AGI/People**
- Contractors in country – **GOGs**
- Contractors Intl – **COGs**
- Outsourced admin support – **AGI/overhead**
- FT employees who live in another country – **AGI/People**

Do I pay tax on all that?

And if I don't – does that affect valuation?

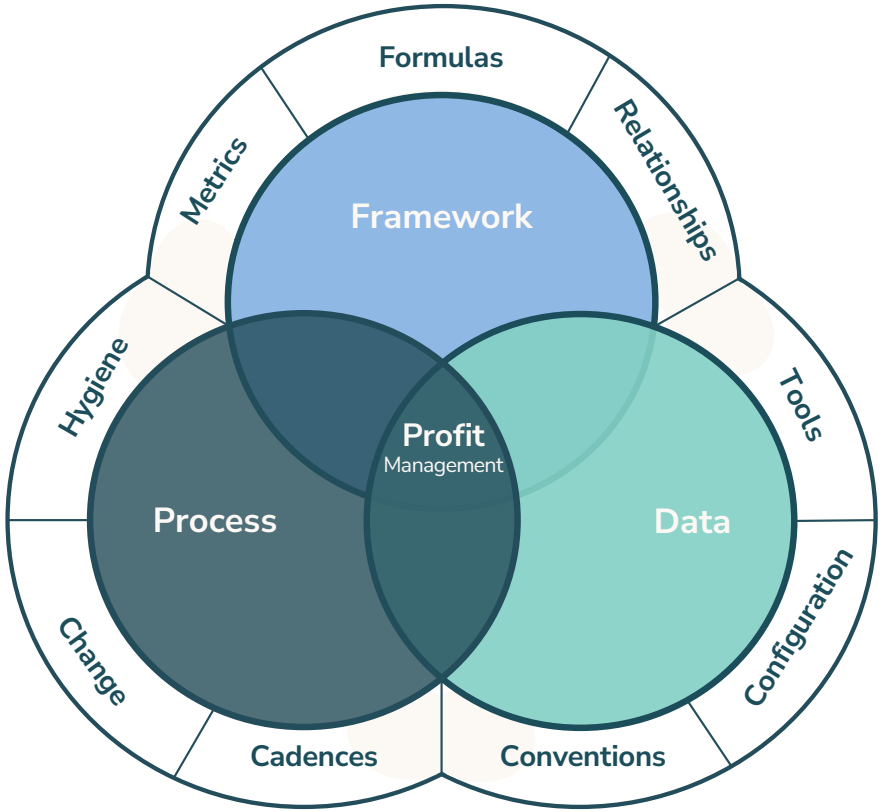
20% EBITA doesn't mean you pay taxes on that number.
You want to earn it, so you can invest it!

- 25% taxes (smart strategy means you can lower this)
- 25% team bonus
- 25% owner bonus/dividends
- 25% reinvestment into the agency, pass thrus, defined benefits program



The Ingredients

Profitability Management™



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The Agency Model

How Services Make a Profit

AGI	-	Delivery Cost	-	Overhead	=	Profit
$1,00,000		$400,000		$300,000		$300,000
		40%		30%		30%

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Delivery Margin Levers

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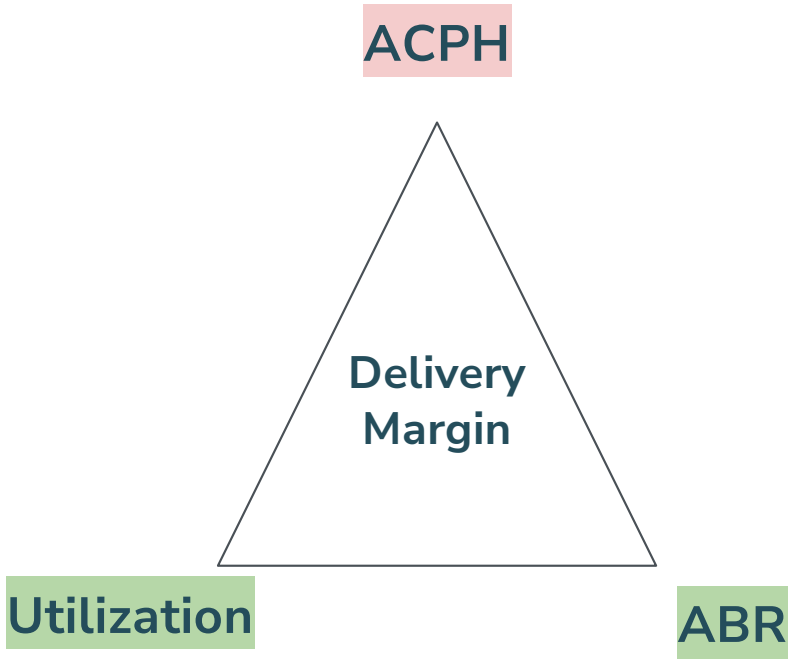
Three Levers

To Increase Delivery Margin

Delivery Margin

$$\frac{\textit{AGI} - \textit{Delivery Costs}}{\textit{AGI}}$$



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ACPH

How much does our labour cost on a per-unit basis?

Delivery Margin

$$\frac{AGI - Delivery\ Costs}{AGI}$$

ACPH

$$\frac{Payroll}{Capacity}$$

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ACPH

Example

Project	Total Comp	Capacity	ACPH	Target ABR
Strategist	$120,000	2080	$57.69	$192.30
Intern	$55,000	2080	$26.44	$88.13
Total	**$175,000**	**4160**	**$42.06**	**$140.20**

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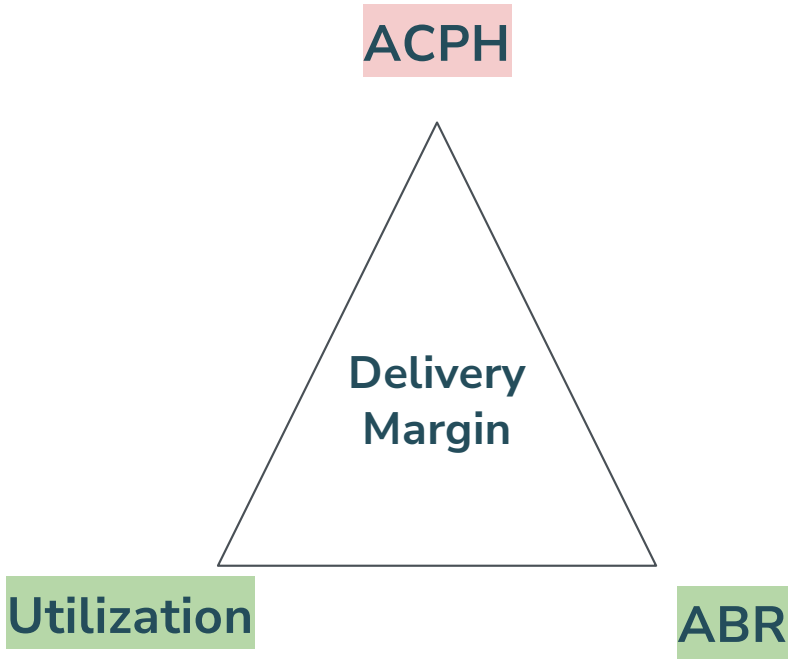
Three Levers

To Increase Delivery Margin

Delivery Margin

$$\frac{\textit{AGI} - \textit{Delivery Costs}}{\textit{AGI}}$$



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ABR

How Profitable Are we?

Delivery Margin

$$\frac{AGI - Delivery\ Costs}{AGI}$$

ABR

$$\frac{AGI}{Delivery\ Hours}$$

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Earning Efficiency

Example

Project	Revenue	AGI	Hours	ABR
Website Build	$70,000	$50,000	500	**$100**
Brand Design	$20,000	$15,000	100	**$150**
Funnel Build	$30,000	$10,000	50	**$200**
Total	**$120,000**	**$75,000**	**650**	**$115**

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Earning Efficiency

ABR & ACPH to Direct Delivery Margin

ABR - Average Cost Per Hour

$$\frac{}{}$$

ABR

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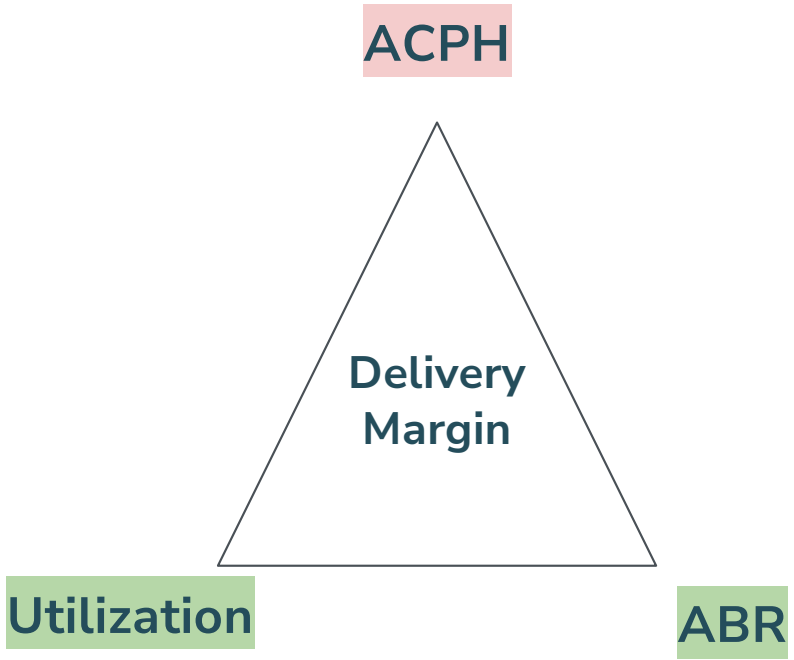
Three Levers

To Increase Delivery Margin

Delivery Margin

$$\frac{\textit{AGI} - \textit{Delivery Costs}}{\textit{AGI}}$$



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Utilization

How much of our payroll is resold at a profit?

Delivery Margin

$$\frac{AGI - Delivery\ Costs}{AGI}$$

Utilization

$$\frac{Delivery\ Hours}{Capacity}$$

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Utilization

How Efficiently are we Deploying Capacity?

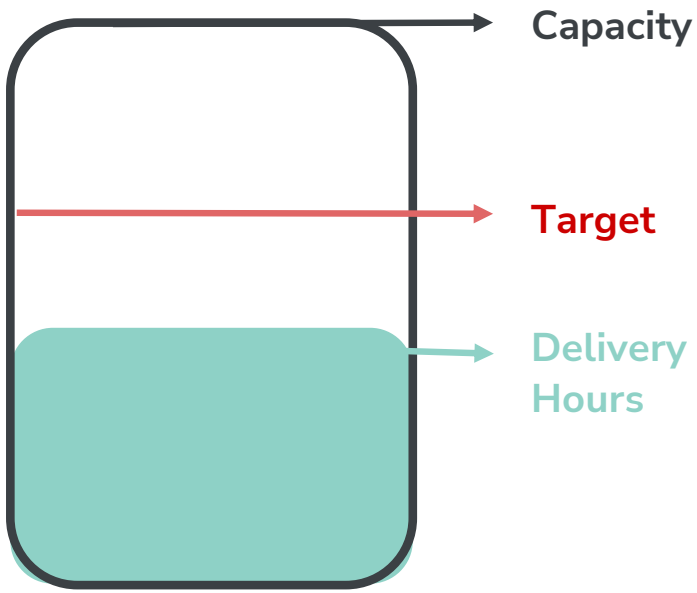
Formula:

$$\frac{\textit{Capacity}}{\textit{Delivery Hours}}$$

Levers:

Lower Capacity ⏬

Sell More Work ⏫



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Utilization

Example

Project	Capacity	Delivery Hours	Utilization
Brett	160	100	**62.5%**
Janine	160	120	**75%**
Rachelle	80	50	**62.5%**
Total	**400**	**270**	**67.5%**

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Utilization

Targets

Weekly Targets

Project	Target
Pure Producers	75%+
Delivery Managers	35%+
Other	0%+
Agency Wide	**65%+**

Net Annual Targets

Project	Target
Pure Producers	60%+
Delivery Managers	20%+
Other	0%+
Agency Wide	**50%+**

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The Agency Model

Example

Capacity	Delivery Costs	Overhead
100,000	$3M	$1.5M

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The Agency Model

Example

Capacity	Delivery Costs	Overhead
100,000	$3M	$1,5M

Utilization	ABR	AGI	Delivery Margin	Profit
50%	$100	$5M	$2M / 40%	$500k / 10%
60%	$100	$6M	$3M / 50%	$1.5M / 25%
60%	$125	$7.5M	$4.5M / 60%	$3M / 40%

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Valuation Impact

Example

EBITDA	Multiple	Valuation	% Increase
$500k	5x	$2.5M	
$1.5M	6x	$9M	260%
$3M	7x	$21M	740%

Pricing Hacks

We can’t get it right, when it’s wrong from the get go.

When we build our estimates – we have to start with the right number.

And even when we start with the right number, we have to accept that we’re still wrong.

Pricing Hacks/$175

Your hourly rate has to be $175-200/hour

And if you can't justify that... Maybe you're selling something you shouldn't be selling.

AND... You need $175,000 in AGI for every FTE (which means your average salary/FTE would be $96,250)

Pricing Hacks/Drew Hack

Our estimates are always wrong.

Apply the 1.3x multiplier to protect your profit.

Utilization/Opportunity Lost

* 48 weeks/year at 40 hours per week

Utilization/Opportunity Lost

10
x 1920
19,200 Total possible hours

Example – 10 employees

Utilization/Opportunity Lost

Goal:

75% - of all available hours are logged as billable time

60%+ of all available hours are billed to a client.

Reality for most agencies – 40% or less is billed to a client.

Note: Has to be ALL time, including non-billable team members. Typically, you can afford 1 non-billable person for every five FTEs.

Utilization/Opportunity Lost

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

45.57% @ $175 = $1,531,250
60% @ $175 = $2,016,000

Agency Pricing Models

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Scoping Accuracy

Scoping vs Pricing

Pricing	Scoping
*What will they **pay**?*	*What will this **cost** us?*

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Core Financials

Metrics You Should See on Your P&L

	- *Pass Through Expenses*		- *Delivery Expenses*		
						
Revenue		**AGI** (Agency Gross Income)		**Delivery Profit**	**Overhead Spending**	**Operating Profit**
		Target		50%+ Delivery Margin	20-30%	20% +

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Direct Delivery Margin

How much money will we make?

Direct Delivery Margin

$$\frac{AGI - Direct\ Delivery\ Costs}{AGI}$$

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Delivery Margin

Example

Project Details

Revenue	$15,000
Pass-Through	- $ 5,000
AGI	$ 10,000
Direct Delivery Cost	- $ 4,000

The Math:

$$\frac{\$10{,}000 - \$4{,}000}{\$10{,}000} = 60\%$$

Direct Delivery Margin

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Direct Delivery Margin

How much money will we make?

Direct Delivery Margin Target

(Profit Target +Overhead Budget)

+ 10-20% Buffer

The Math:

30% Profit +30% Overhead

+ 15% Buffer

= ***75%*** *Direct Delivery Margin*

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Target Price

How much money should I charge?

Target Price Formula

$$\left(\frac{\text{Direct Delivery Costs}}{1 - \text{Direct Delivery Margin Target}}\right) + \text{Pass-Through Expenses}$$

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Minimum Price

Example

Project Details

Direct Delivery Cost	$2,000
Pass-Through	$ 10,000
Margin Target	75%

The Math:

$$\left(\frac{\$2{,}000}{25\%} \right) + \$10{,}000 = \$18{,}000$$

Min Price

Markup

Example

Project Details

Revenue	$18,000
Pass-through	- $10,000
AGI	$8,000
Direct Delivery Cost	$2,000
Direct Delivery Profit	$6,000 (75%)

Price 1:

Flat Fee	$18,000

Price 2:

Ad Spend	$10,000
Markup	$2,000
Management Fee	$6,000

Price 3:

Estimate	$180 x 100hrs

Price 4:

Monthly Cost	$6,000
Duration	3 Months

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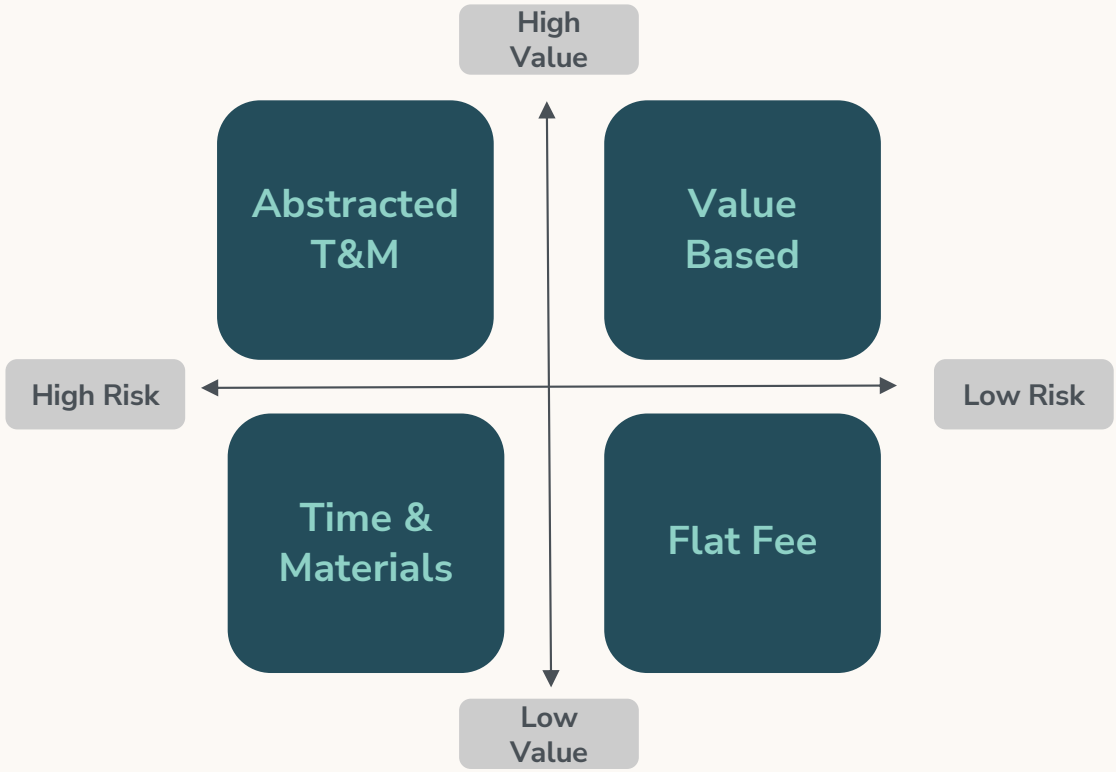
The Agency Pricing Quadrant™



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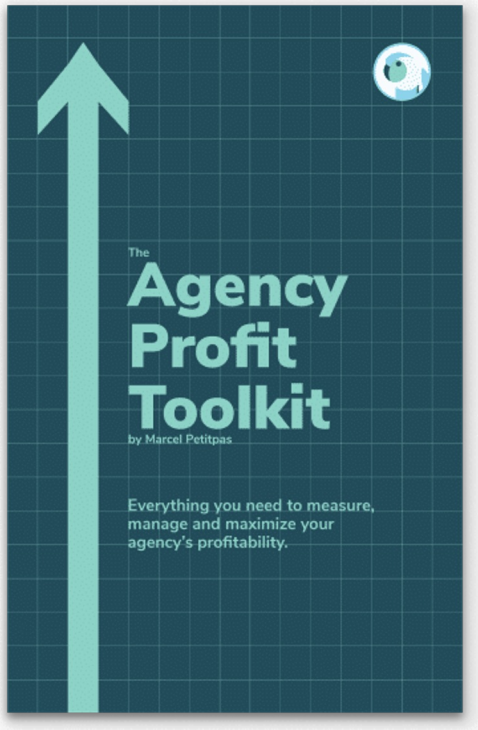
Free Stuff



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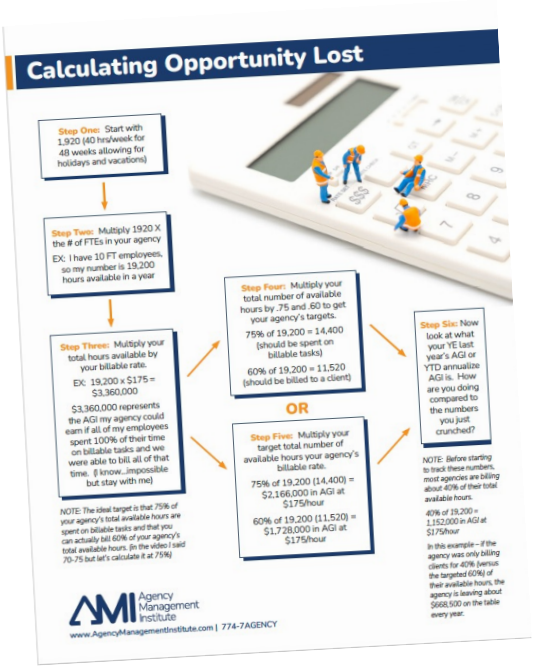
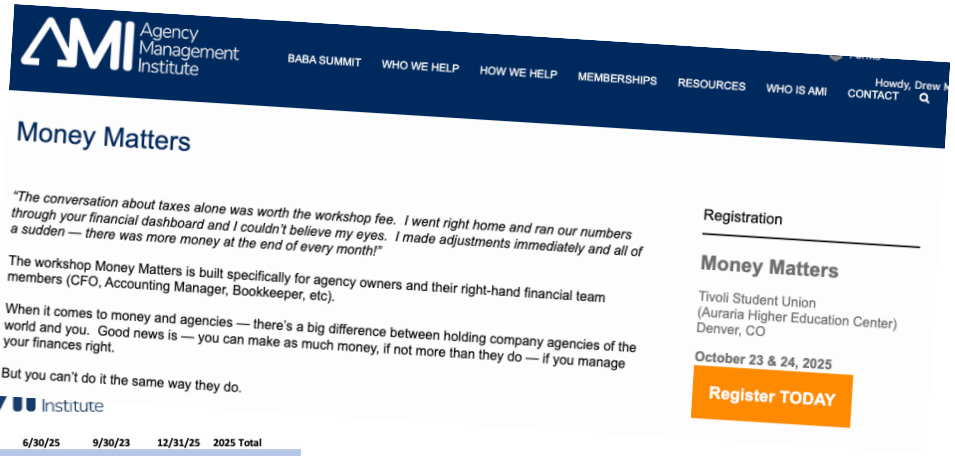
Free Stuff





Agency Quarterly Dashboard
ABC Agency

All information on this tab pulls from "Data Entry"
Do not enter data on this tab

Institute

Metric	Target	3/31/25	6/30/25	9/30/23	12/31/25	2025 Total
People Expense as % of AGI	*55-60%*					
Overhead Expense as % of AGI	*20-25%*					
Net Income as % of AGI	*15-25%*					
Value to Owner as % of AGI	*35%+*					
AGI Per FTE	*$175,000/year*					
Salary Cost per FTE						
AGI as % of Sales						
Current Ratio	*2+*					
Working Capital Ratio	*1+*					
Days in AR	*Lower is better*					
Months Cash on Hand	*2+*					
Debt to Equity	*1.5 of less*					
Debt to Working Capital	*1.5 or less*					
Return on Equity	*Higher is better*					
Effective Hourly Rate	*At or above target*					
Target Hourly Rate		$ -	$ -	$ -	$ -	$
Realization	*>80%*					
Hours Written Off	*Lower is better*					-
Revenue / Billings		-	-	-	-	-
Cost of Goods / Services		-	-	-	-	-
AGI		-	-	-	-	-
People Exp		-	-	-	-	-
Overhead		-	-	-	-	-
Total People and Overhead		-	-	-	-	-
Net Income		-	-	-	-	-

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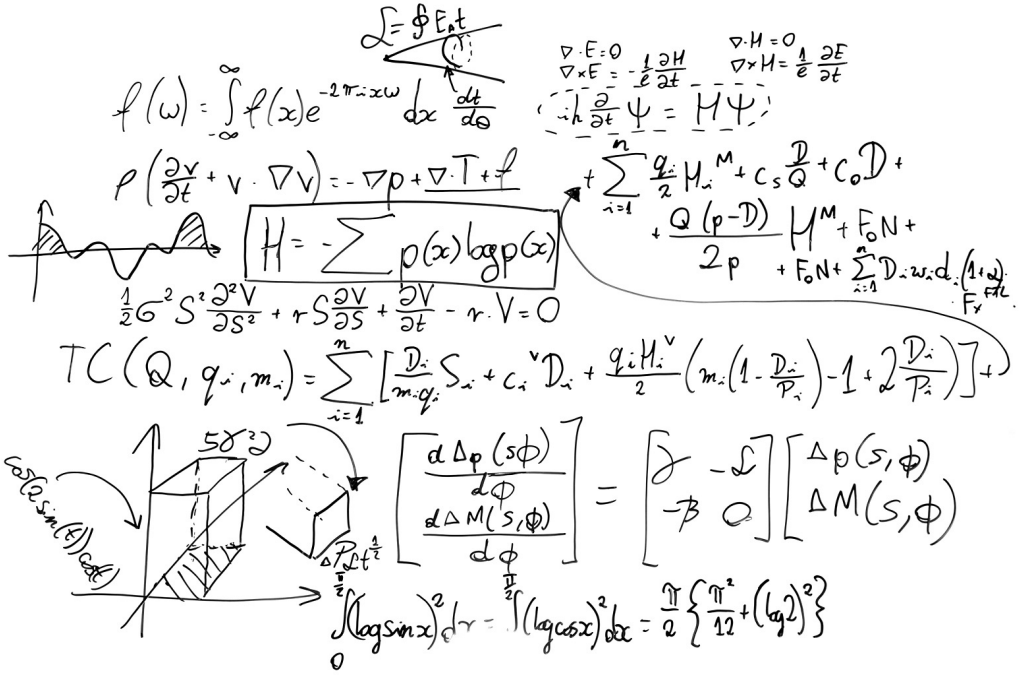
Questions?



Recording, links to free stuff, contact info
etc. will be emailed out this week!

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