

The Three Immutable Forces Of Agency Profitability









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The host of the



The
**Agency
Profit**
Podcast

Head Strategic Coach @



**Parakeeto helps agencies
measure & improve their
profitability.**

That's it.

As seen on:



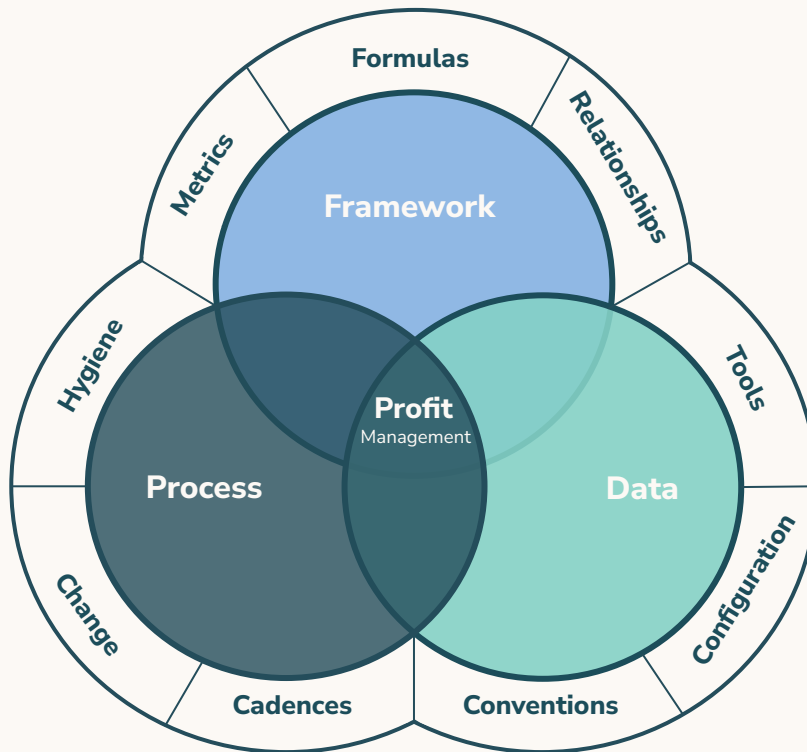
teamwork.

toggl



The Ingredients

Profitability Management™

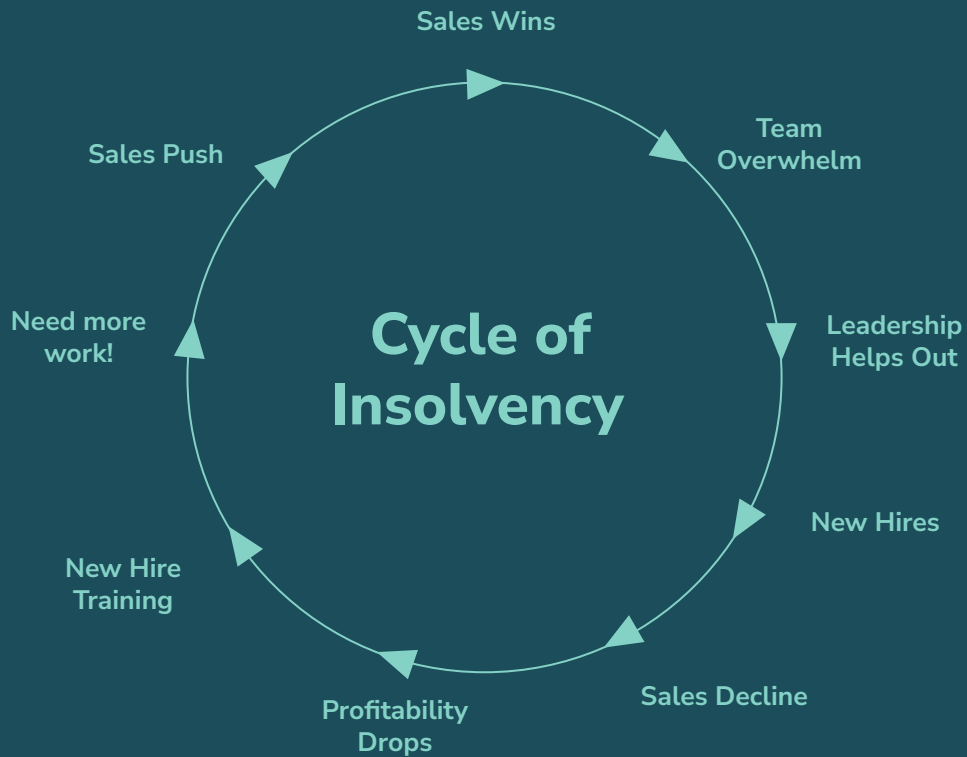


The Three Immutable Forces Of Agency Profitability

Hal & Joanne

Very Good Development Agency





Look familiar?

The Agency Model

Very Good Development Agency

Capacity	Delivery Costs	Overhead
100,000	\$3.3M	\$1.5M

Net Profit: \$200k (4%)

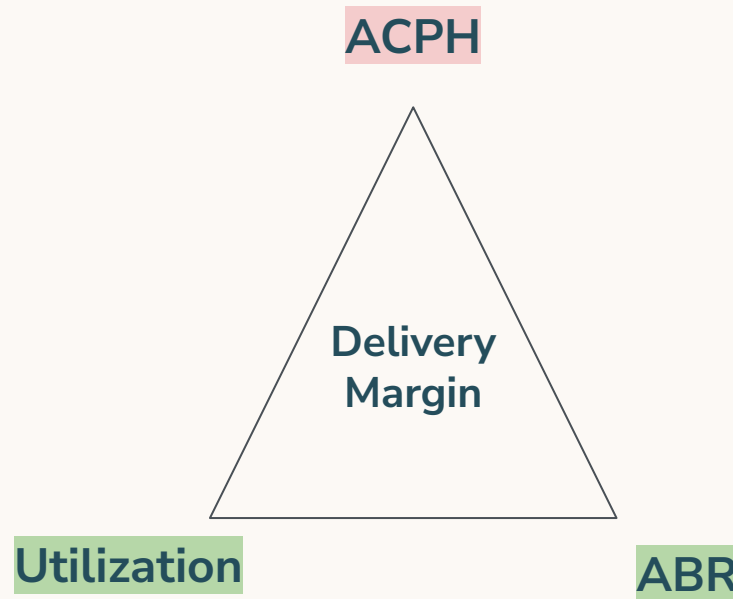
Why aren't we more profitable?

Delivery Margin Levers

Three Levers

To Increase Delivery Margin

$$\frac{\text{Delivery Margin}}{\text{AGI} - \text{Delivery Costs}} = \text{AGI}$$



ACPH (Average Cost per Hour)

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

$$\frac{\text{Delivery Margin}}{\text{AGI} - \text{Delivery Costs}} = \text{AGI}$$

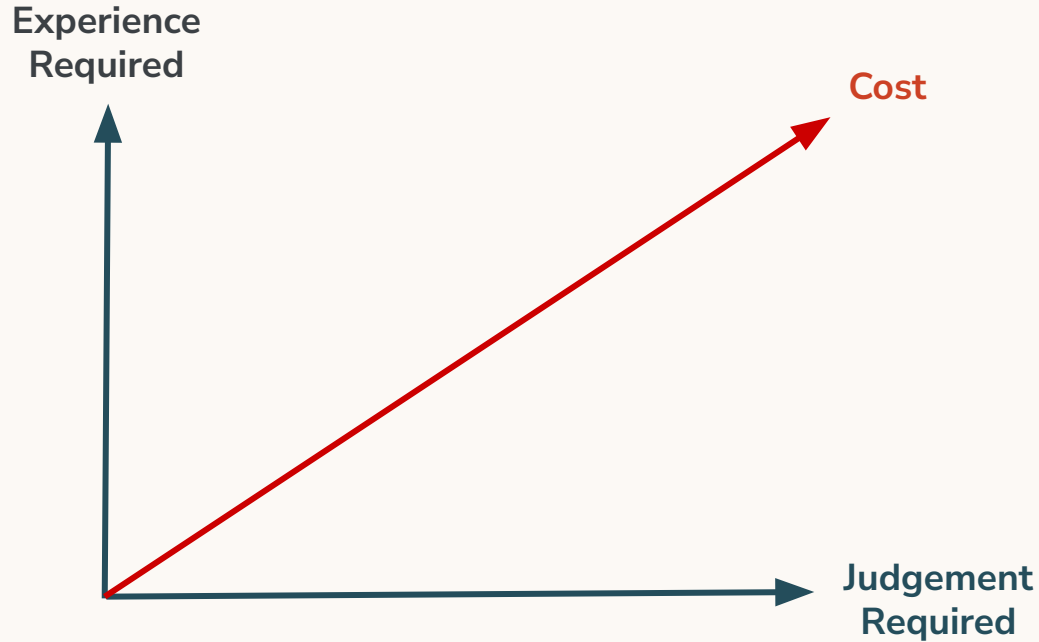
$$\frac{\text{ACPH}}{\text{Payroll}} = \text{Capacity}$$

ACPH (Average Cost per Hour)

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

ACPH (Average Cost per Hour)



ACPH

Improvement Tactics

ACPH

Payroll

Capacity

Improvement Tactics:

- Process & Systems
- Templates
- Documentation
- Training
- Technology
- Etc.

Exercise:

How would you decrease ACPH in your firm?

Applied Scenario

Very Good Development Agency

Capacity	Delivery Costs	Overhead
100,000	\$3.3M	\$1.5M

Net Profit: \$200k (4%)

Applied Scenario

Very Good Development Agency

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

Net Profit: \$500k (10%)

Applied Scenario

Very Good Development Agency

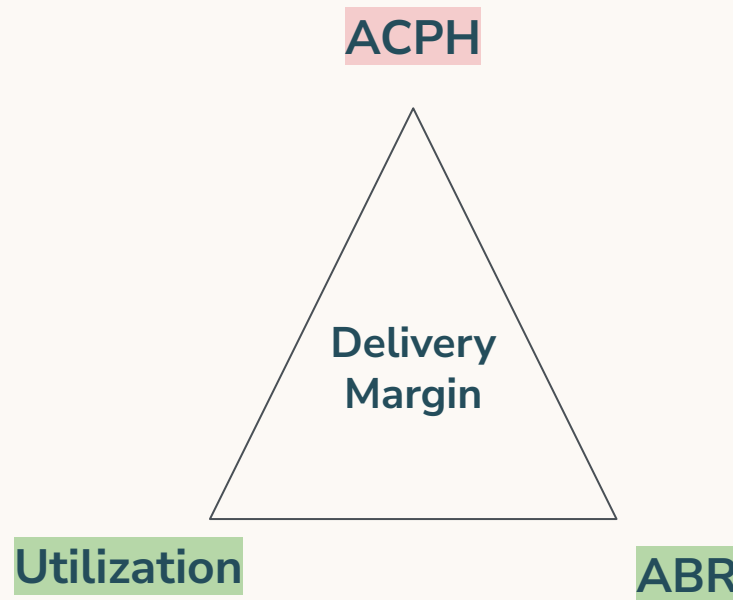
Capacity	Delivery Costs	Overhead
100,000	\$3M	\$1,5M

Utilization	ABR	AGI	Delivery Margin	Profit
50%	\$100	\$5M	\$2M / 40%	\$500k / 10%

Three Levers

To Increase Delivery Margin

$$\frac{\text{Delivery Margin}}{\text{AGI} - \text{Delivery Costs}} = \text{AGI}$$



Utilization

How much of our payroll is resold at a profit?

Delivery Margin

AGI - **Delivery Costs**

AGI

Utilization

Delivery Hours

Capacity

Utilization

How Efficiently are we Deploying Capacity?

Formula:

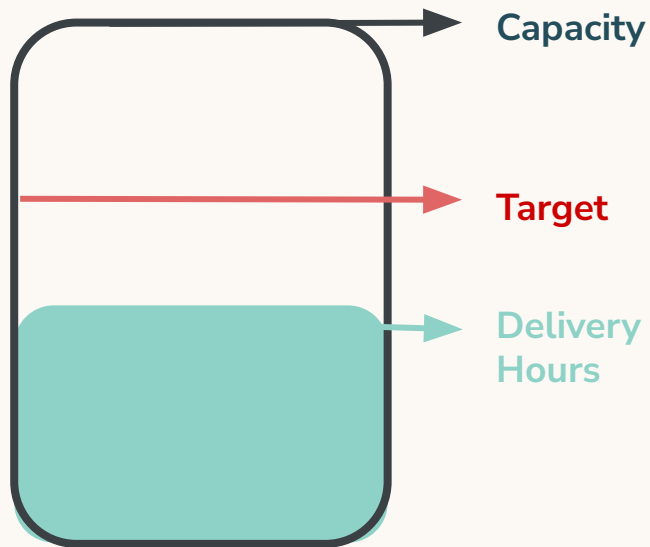
Delivery Hours

Capacity

Levers:

Lower Capacity ▼

Sell More Work ▲



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%

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%+

Utilization

Improvement Tactics

Formula:

Delivery Hours

Capacity

Improvement Tactics:

- **Increase Delivery Hours**
 - Sell more work
 - Restructure team & roles
- **Decrease Capacity**
 - Layoffs
 - Freelance/Contract Labor

Utilization

Improvement Tactics

Formula:

Delivery Hours

Capacity

Improvement Tactics:

- **Increase Delivery Hours**
 - Client Dilution
 - Forecasting
 - Load balancing
 - Dependencies & synchronicity
 - Slack Projects
- **Decrease Capacity**
 - Layoffs
 - Freelance/Contract Labor

Exercise:

How would you increase Utilization in your firm?

Applied Scenario

Very Good Development Agency

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

Net Profit: \$500k (10%)

Applied Scenario

Very Good Development Agency

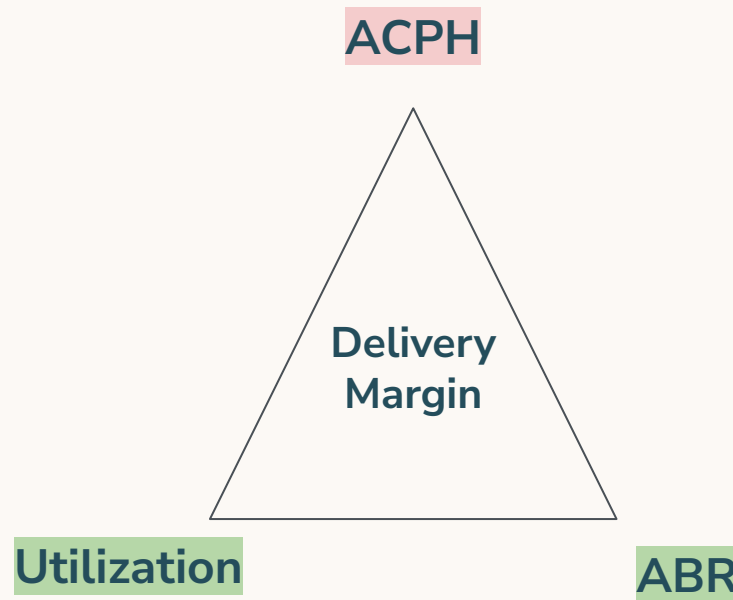
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100,000	\$3M	\$1,5M

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

Three Levers

To Increase Delivery Margin

$$\frac{\text{Delivery Margin}}{\text{AGI} - \text{Delivery Costs}} = \text{AGI}$$



ABR

How Profitable Are we?

Delivery Margin

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

ABR

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

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

ABR

Improvement Tactics

Formula:

AGI

Delivery Hours

Improvement Tactics:

- **Increase AGI**
 - Raise Prices
 - Change pricing model
- **Decrease Delivery Hours**
 - Improve efficiency
 - Process / templates / Systems / Technology etc.
- **Three R's**
 - Recapture, Rescope, Replace

Earning Efficiency

ABR & ACPH to Direct Delivery Margin

ABR - *Average Cost Per Hour*

ABR

Applied Scenario

Example

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

Applied Scenario

Example

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

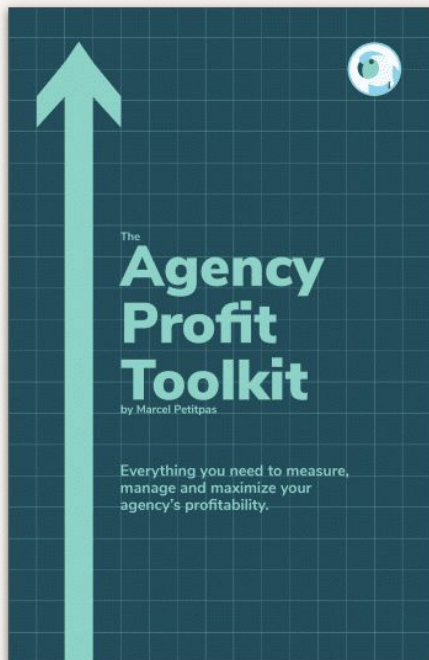
Utilization	ABR	AGI	Delivery Margin	Profit
50%	\$100	\$5M	\$2M / 40%	\$500k / 10%
60%	\$100	\$6M	\$3M / 50%	\$1.5M / 25%
60%	\$125	\$7.5M	\$4.5M / 60%	\$3M / 40%

Valuation Impact

Example

EBITDA	Multiple	Valuation	% Increase
\$200k	4x	\$800k	
\$500k	4x	\$2M	212%
\$1.5M	5x	\$9M	1025%
\$3M	6x	\$18M	2150%

Free Stuff

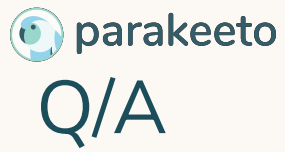


parakeeto.com/toolkit

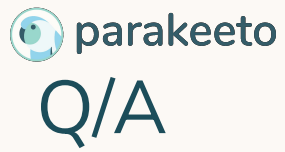
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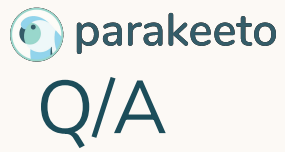




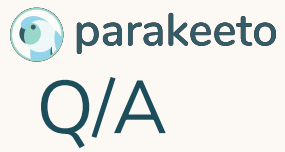












Agency Pricing Models

Scoping Accuracy

Scoping vs Pricing

Pricing

*What will they **pay**?*

Scoping

*What will this **cost** us?*

Core Financials

Metrics You Should See on Your P&L

- **Pass Through Expenses** - **Delivery Expenses**



Revenue



AGI
(Agency Gross
Income)

Target



Delivery
Profit

50%+
Delivery Margin



**Overhead
Spending**

20-30%



Operating
Profit

20% +

Direct Delivery Margin

How much money will we make?

Direct Delivery Margin

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

$$\text{AGI}$$

Delivery Margin

Example

Project Details

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

The Math:

$$\frac{\$10,000 - \$4,000}{\$10,000} = 60\% \text{ Direct Delivery Margin}$$

Delivery Margin

How much money will we make?

Delivery Margin Target

(Profit Target + Overhead Budget)

+ 10-20% Buffer

The Math:

$$\begin{array}{l} 30\% \text{ Profit} + 30\% \text{ Overhead} \\ + 15\% \text{ Buffer} \end{array} = \begin{array}{l} 75\% \\ \text{Direct Delivery} \\ \text{Margin} \end{array}$$

Target Price

How much money should I charge?

Target Price Formula

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

Minimum Price

Example

Project Details

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
Delivery Cost	\$2,000
Delivery Profit	\$6,000 (75%)

Price 1:

Flat Fee	\$18,000
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Price 2:

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

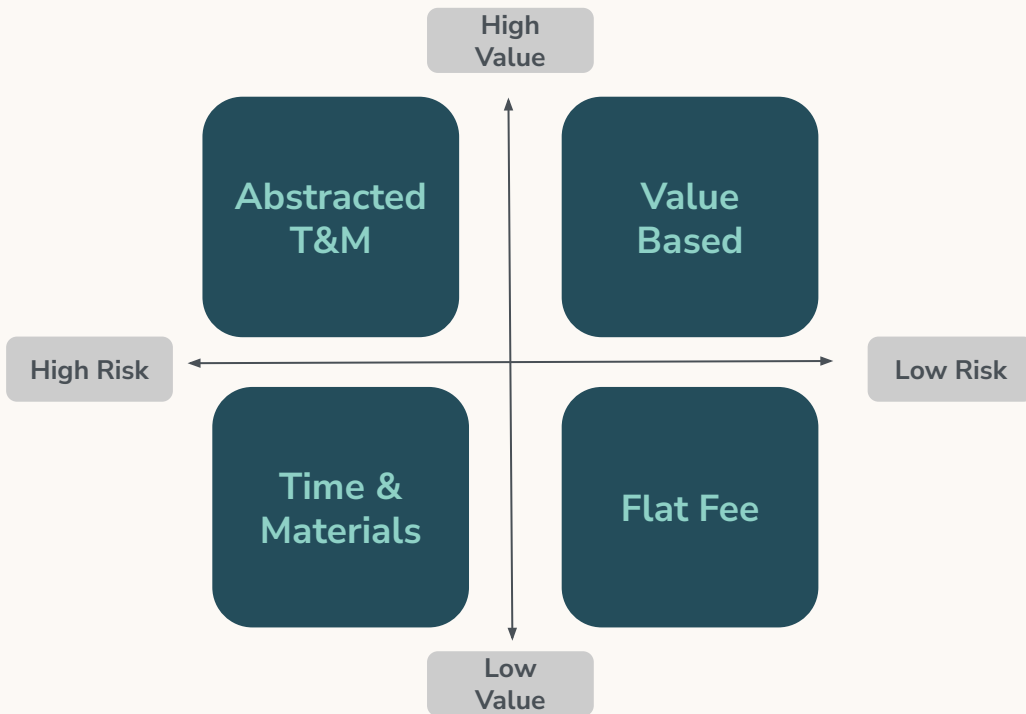
Price 3:

Estimate	\$180 x 100hrs
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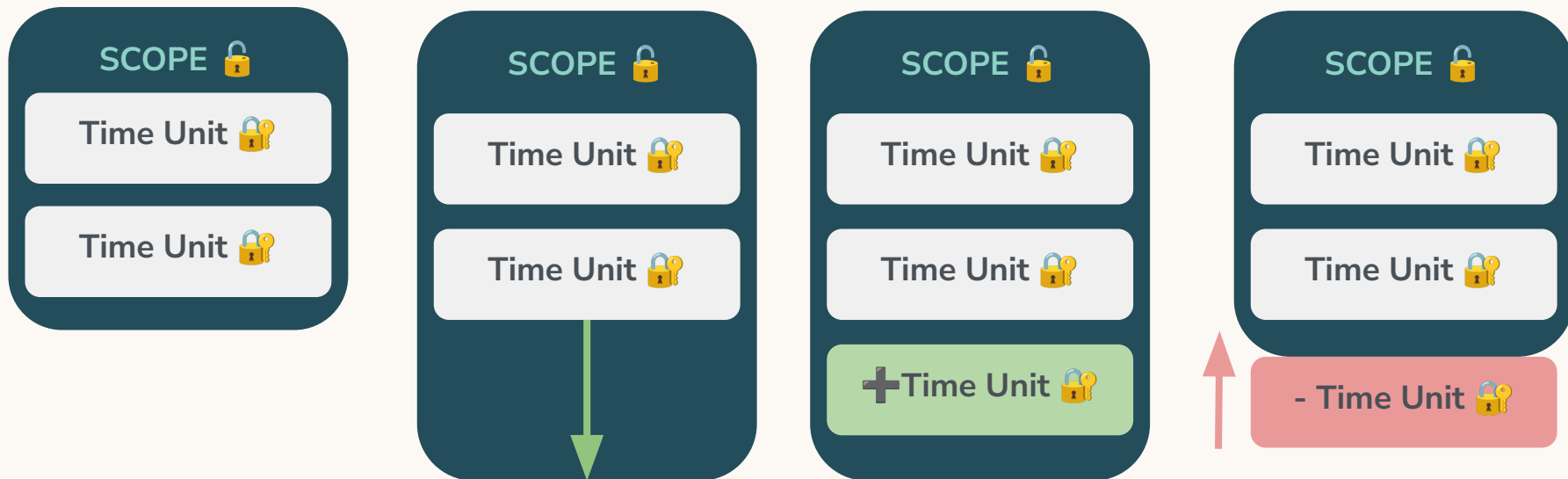
Price 4:

Monthly Cost	\$6,000
Duration	3 Months

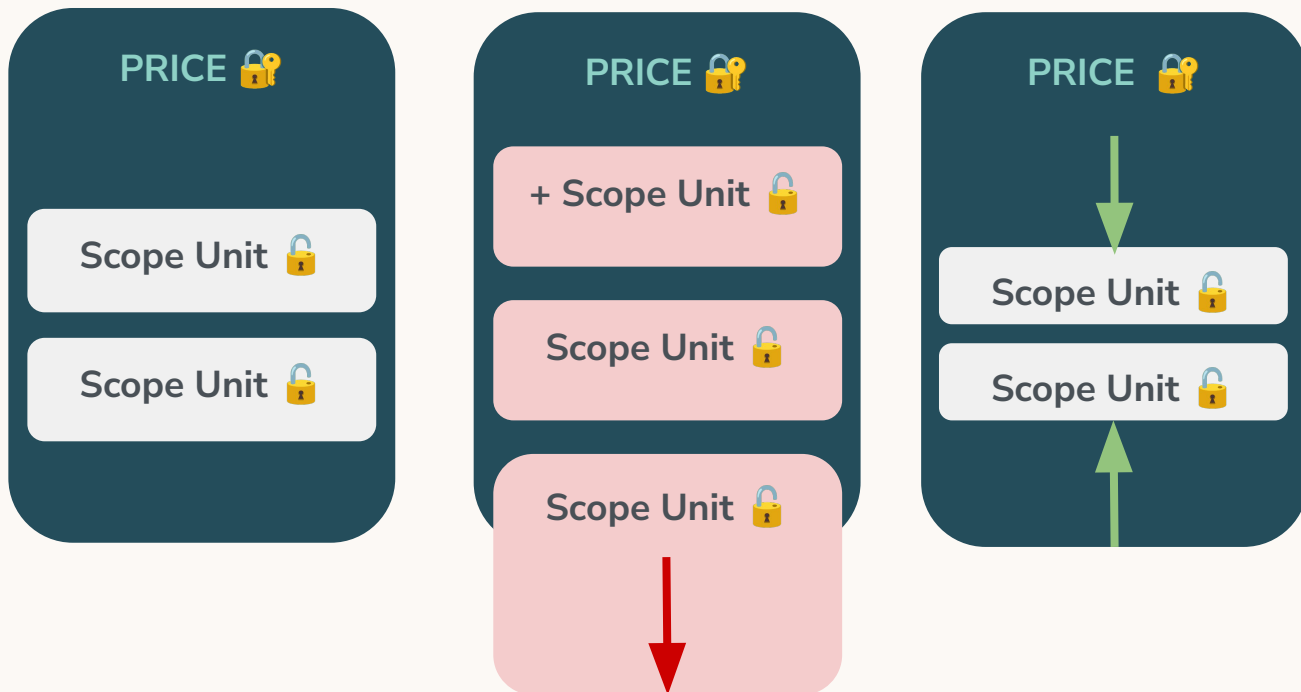
The Agency Pricing Quadrant™



Contract Mechanics - T&M Pricing



Contract Mechanics - Flat Pricing



Contract Mechanics Summary

Pricing Model

T&M or Abstracted

Flat or Value

Pricing Anchor

Time Units

Scope Units

Scope Management

Proactive

Preventative

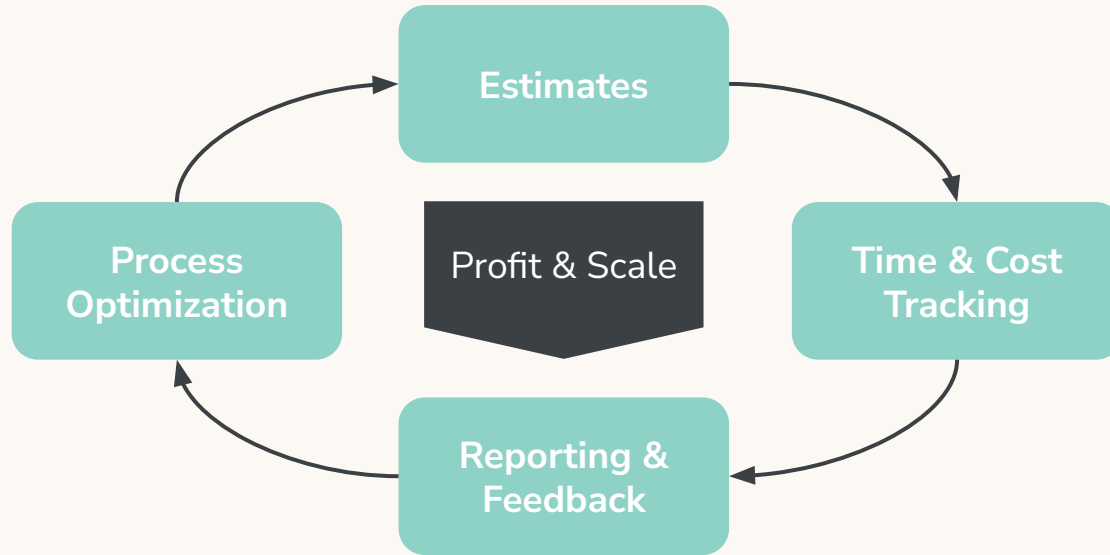
Ops Priorities

Utilization & Write-Off Time

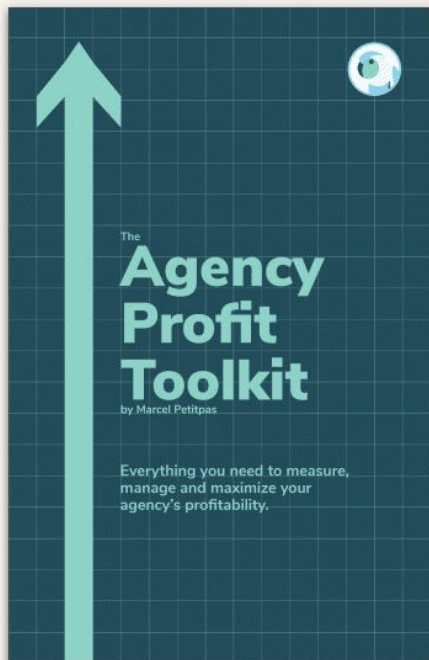
Average Billable Rate *then*
Utilization

Agency Profitability Flywheel

Agency Profitability Flywheel



Free Stuff



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Free Beta Access - Model



parakeeto.com/ModelBeta

Simple Agency Model Exercise



parakeeto.com/MYOB