

Profitability Management with Marcel Petitpas & Drew McLellan

Meeting Date: September 15, 2025, 11:46 am

Notes

Core Agency Financial Framework

- **Agency Management Institute's 55-25-20 rule established as fundamental profitability benchmark** with comprehensive methodology for sustainable agency operations (19:37)
 - **55% of Adjusted Gross Income allocated to people costs** including all W-2 employees and loaded salary calculations
 - **25% designated for overhead expenses** covering rent, professional development, legal fees, and non-client-specific business costs
 - **20% maintained as profit target** with strategic reinvestment plan: 25% team bonuses tied to KPIs, 25% owner distributions, 25% business reinvestment, 25% tax obligations
 - **Adjusted Gross Income calculation methodology:** Gross billings minus all cost of goods sold (media, client software, 1099 contractors, influencer fees)
 - **Critical distinction emphasized:** Gross billings are "vanity numbers" used by publications but have no bearing on actual profitability
- **Cost of goods classification system** providing clarity on expense categorization for accurate financial analysis (22:41)
 - **Variable costs include:** Print media, client-specific software subscriptions, 1099 contractor payments, web hosting, influencer fees
 - **Overhead costs include:** Office rent, legal/accounting services, professional development, administrative software
 - **Employee classification rules:** Full-time international employees treated as people costs despite different payment structures, administrative contractors (accounting, virtual assistants) classified as overhead

Advanced Profit Management Through Operations Integration

- **Parakeeto's delivery margin framework** offering deeper operational insights beyond traditional financial reporting (35:45)
 - **Delivery costs target under 50% of AGI** including payroll and expenses directly related to client work completion
 - **Overhead costs maintained under 30% of AGI** covering non-delivery payroll and business operation expenses

- **Framework requires detailed time allocation analysis** separating delivery-focused versus overhead-focused employee time
- **Additional complexity justified by actionable insights** into specific profitability drivers and operational inefficiencies
- **Three critical metrics for operational profit management** providing leading indicators for financial performance (41:03)
 - **Average cost per hour control** enabling strategic workforce optimization through better training, documentation, templates, and junior staff utilization
 - **Average billable rate optimization:** $AGI \div \text{Delivery Hours}$ formula applicable across all billing methods (hourly, flat fee, value-based, percentage of ad spend)
 - **Utilization rate measurement:** $\text{Delivery Hours} \div \text{Gross Capacity}$ identifying time inventory waste and capacity optimization opportunities
 - **"Kirkland brand delivery margin" calculation** using operations data for immediate profitability insights without waiting for accounting reports

Pricing Strategy and Estimation Methodology

- **Minimum hourly rate requirements** adjusted for current market conditions and employee cost inflation (49:34)
 - **\$175-200 per hour baseline** necessary for agency profitability in post-COVID economic environment
 - **PR firms justified at \$225-250 per hour** due to higher strategic value and outcome-based deliverables
 - **\$175,000 AGI requirement** to support one additional full-time employee hire with average \$96,000 loaded salary
 - **North American rate consistency** between US and Canadian markets with potential variations in other global regions
- **Project estimation accuracy improvement system** addressing universal estimation challenges in agency work (52:13)
 - **1.3 multiplier applied to all initial estimates** accounting for interruptions, sleep deprivation, Slack notifications, and personal distractions
 - **Estimation methodology acknowledgment:** All estimates inherently wrong despite best practices and historical data analysis
 - **Human factor integration:** Perfect conditions (uninterrupted work, full rest, no distractions) never exist in real agency environments
 - **Profit protection through realistic scoping** rather than padding estimates, ensuring actual cost coverage

Utilization Analysis and Capacity Planning

- **Comprehensive capacity calculation framework** for realistic resource planning and profitability optimization (53:35)

- **1,920 hours annual capacity per employee** based on 48 working weeks × 40 hours (accounting for 4 weeks vacation/holidays)
- **75% billable task allocation target** across all employees including non-billable staff (administrative costs covered by billable team productivity)
- **60% invoiceable hour conversion rate** representing realistic expectation for client billing from total available time
- **Industry reality check:** Most agencies achieve only 40% actual utilization when properly audited, leaving significant revenue on table
- **Resource allocation optimization strategies** maximizing revenue without expanding headcount (56:06)
 - **One non-billable employee per five FTE ratio** maintaining operational efficiency while preserving profitability
 - **Time inventory management approach** treating employee hours as perishable inventory requiring active optimization
 - **Operational issue identification:** Distinguishing between genuine capacity constraints versus process inefficiencies, unrealistic expectations, or poor project management

Revenue Optimization Through Strategic Client Management

- **Revenue replacement methodology** for profitable growth during high-utilization periods (1:03:33)
 - **Three R's implementation framework:** Recapture unbilled scope, Re-scope engagement parameters, Replace unprofitable clients
 - **Client profitability analysis process:** Average billable rate calculation identifying lowest-performing client relationships
 - **Leverage utilization pressure** to negotiate better terms rather than automatically expanding team size
 - **Strategic client portfolio optimization:** Replace legacy low-rate clients with new clients at current market rates and fresh scope boundaries
- **Profitability transformation case studies** demonstrating operational leverage without cost expansion (45:40)
 - **Baseline scenario:** 100,000 hour capacity team with 50% utilization earning \$5M AGI, \$500K profit (10%)
 - **Utilization improvement:** Same team at 60% utilization generating \$6M AGI, \$1.5M profit (25%)
 - **Rate optimization:** Maintaining 60% utilization while improving average billable rate to \$125 achieving \$7.5M AGI, \$3M profit (40%)
 - **Compound impact demonstration:** Six-fold profit increase (\$500K to \$3M) through operational improvements without cost increases

Implementation Resources and Next Steps

- **Free resource ecosystem** providing comprehensive implementation support for framework adoption (1:05:43)
 - **Parakeeto toolkit access** at parakeeto.com/toolkit offering detailed courses, tools, cheat sheets for advanced profit management
 - **AMI resource library** including sample P&L templates, workshop discounts, and webinar replay access
 - **Sample P&L template provision** enabling immediate implementation of 55-25-20 framework without complex accounting changes
 - **Video replay availability** within 1-2 days for reference and team sharing

Action items

Drew McLellan

- Edit webinar video and publish by tomorrow with follow-up email to all registrants (03:59)
- Add sample P&L template to free resources page for attendees (01:09:26)

Marcel Petitpas

- Provide detailed average cost per hour calculation resources in chat and toolkit (59:59)
- Share additional resources for implementing operations-based profit management (34:24)

All Attendees

- Access free toolkit at parakeeto.com/toolkit for deeper implementation resources (01:05:43)
- Check AMI resources page for webinar replay and additional tools (01:06:03)