

Five areas where creative agencies lose profit and how to prevent it



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While most owners of creative agencies would love to focus their energies on the creative work, the reality is that if you aren't watching your numbers you won't get ahead.

Obviously finances aren't necessarily a natural strength for creative types but most agency owners understand that profitability is key to survival.

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The five common profit loss areas

Many creative agencies find themselves stumbling unintentionally through five common business scenarios that drain hard-earned profits.

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1 Under and over-servicing

Regardless of whether you are retainer or time and material based, time is money for every creative agency and there is a sweet spot to strike between under-servicing and over-servicing clients. Under-servicing clients means your agency may be seen as disengaged, reactive or prioritizing work for other clients. When you're not impressing your clients by being proactive and staying engaged in their business, it is hard to take offence when they decide not to renew your retainer.

Over-servicing clients can be equally challenging. When you do too much work for clients you either have to charge the client more or absorb the cost of the additional work yourself. Clients often don't want to pay extra but, when you absorb the cost, it sets an expectation with clients that can be difficult to break. Over-servicing also comes at an opportunity cost – when you are over-servicing one client it's likely you are under-servicing another, or you are over staffed.

Under-servicing and over-servicing are both familiar aspects of creative agency life. Occasional instances are tolerable but ongoing patterns will drain profits. The secret to finding the sweet spot between under and over-servicing is effective time management and real-time reporting to track how time is used.

2 Capacity management

Effectively managing capacity, or utilization, across your agency team is critical to sustain profitability. Capacity management is a delicate four-way balance to strike between:

1. client demand for services,
2. time available within the agency team to support the demand,
3. the cost to the agency of delivering those services and
4. the fees paid by the client for those services.

Low capacity teams are problems for creative agencies because teams with extra time on their hands are a cost to the agency. Similarly, teams that are over-capacity are also challenging. There is burnout risk and over-capacity teams generally need to work longer hours or hire extra (expensive) contractors to keep pace with client demand.

Creative agencies need systems to monitor the number of hours an employee has available to work each day and the number of hours they actually work to deliver client services.

3 Cost tracking and charging

Creative agencies frequently incur costs on behalf of clients, which are budgeted elements of the job or project. All too quickly, those costs can mount up and spiral beyond what was forecast due to them coming in from a range of sources. To preserve profitability, it's critical for creative agencies to have systems that let staff accurately quote on client projects, track actual costs against estimates, identify out-of-pocket expenses early, gain insights to where time is being utilized and be able to invoice quickly and easily.

4 Client turnover

The world's most successful, profitable agencies have a laser focus on client retention. DDB was once infamously reported as having a '98 or 99 per cent' retention rate year-over-year. Why the focus on

retention? Because finding new clients is expensive and takes time. Time, money and agency resources are taken offline to build a target database, run lead generation campaigns, prepare pitches and, if all goes well, onboard new clients. Agencies that have healthy relationships with their existing clients build up a better understanding of their client's business, which helps improve deliverables and identify opportunities to build more work. Agencies that burn through their client database each year invariably find themselves losing profits.

5 Staff turnover

Staff turnover is a harsh reality of agency life, which significantly impacts agency profitability. Hiring and onboarding new staff to replace team members is expensive and time-consuming. There are tangible costs to managing staff turnover, including severance payments and recruitment fees. There are intangible costs too, including lost productivity, training time, lost customers, loss of focus on the strategic vision of the agency and sometimes low morale across the remaining team.

Agencies that recruit and retain good teams are almost always more successful and profitable than their competitors.

There are many ingredients to the recipe for retaining employees. The more important ingredients include managing capacity so you don't burn people out, engaging employees through nurturing a healthy culture that engenders trust, rewarding effort and outcomes, supporting teams with training and introducing tools and processes to help teams do their jobs more easily.

What creative agencies can do to avoid profit loss

The biggest improvement creative agencies can make to secure profitability is to use agency management software to run their business operations. Function Point offers a cloud-based agency management software as an all-in-one solution that helps transform losses into profits.



About Function Point software

Function Point has agency management software with easy-to-use sophisticated time management tools for creative agencies. Timesheets integrated with job types, costs and margin give agencies actionable insights to proactively manage profit by understanding client servicing trends, accurately mapping time to cost and providing a history of past work to reference when quoting new projects.

The built-in work calendar features four simple steps to calculate, or edit, utilization rates for every employee. A resource allocation view lets agencies identify over-allocation in real-time and easily re-allocate tasks to team members with spare capacity. With Function Point's agency management software, your days of under or over-utilization will soon be over.

Function Point's best-in-class QuickBooks® integration as part of the agency management solution also provides complete, straightforward accounting with fast, easy invoice preparation, expense management and payment tracking. No more losing track of costs or inaccurately charging clients.

Business intelligence capabilities that turn data into actionable insights are core to keeping creative agencies profitable. Function Point's business intelligence solution within the agency management software pulls data from across your agency and converts it into real-time visual dashboards to help you understand just about every factor influencing profitability in your business. With 26 pre-built reports to choose from, or the option to customize your own views, Function Point delivers the insights you need to understand your client accounts inside and out and spot challenges, opportunities and trends at the earliest possible moment.

Function Point's agency management software is flexible, powerful and secure to help creative agency teams do their jobs more easily.

Getting started

Explore how your creative agency can start turning losses into profits with agency management software by contacting Function Point to request a demo.