

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



BY ELIZABETH MARCHANT, GROUP CEO OF RECOGNITION PR, OUTSOURCE, WRITE AWAY COMMUNICATION AND FULL-TIME WOMAN

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

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

The success factor for a creative agency combines exceptional client service with outstanding business impact and agency profit.

## The five common profit loss areas

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

The true focus for a creative agency must be a combination of exceptional client service that delivers outstanding business impact while also driving profit for the agency.

### 1 Under and over-servicing

Regardless of whether you're 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 for 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

Imagine this... an inspired and productive creative team who loves coming to work. Happy clients who rave about you and refer you to others. A smooth running, profitable agency that doesn't keep you up at night.

All of this is possible when you're able to make the right decisions for your agency. The challenge? You can't make these right decisions if you don't have the right information. *And that's where Function Point comes in.*

More than just project management software, Function Point is an all-in-one agency management solution integrating everything you need to manage your workflow, projects, operations and financials in just one place. Best of all, built-in business intelligence reporting takes away the guesswork and gives you the information & insight you need to make better decisions for thriving teams, happy clients, and agency growth.

- **CRM & Estimating:** Gather deep insights into your sales pipeline and ensure that projects are properly budgeted and accurately billed.
- **Project Management:** Empower your project managers with a suite of tools designed to keep projects on schedule and under budget.
- **Team Collaboration:** No more wondering if an email was sent or an invoice was paid. With all your communications in one place, everyone knows what's happening.
- **Resource & Time Management:** Optimize your team's resources, view projects heading your way, and plan future workloads.
- **Agency Financials:** Never miss an expense or timesheet again (yes - Function Point integrates with QuickBooks to prevent double entry and keep records clean & organized).
- **Business Intelligence Reporting:** Real-time insights offer complete visibility into core aspects of your agency - you know what's going on in your business, whether it's over-serving or under-pricing, and have the information you need to increase profits and run your agency more efficiently.

Since 1997, Function Point has helped hundreds of agencies just like yours streamline operations, improve profitability and make the right decisions to thrive and scale.

**Are you ready to discover what's possible for your agency?  
Book a free demo & workflow evaluation today:**

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