



THE AGENCY WORKS



AGENCY  
**FOOD**

**November 2014**

# WELCOME TO **AGENCY FOOD**

Earlier this year at The Agency Works HQ we launched Agency Food - a new quarterly barometer for agency heads to feed in their views on how their agencies operate and in return benefit from the collective feedback. Anonymously, of course!

The Agency Works team supports more than 450 agencies across the country covering all creative sector disciplines – from digital and social to design, PR and integrated marketing. By asking them to participate in our Agency Food barometer we are able to understand current challenges, opportunities, trends and issues and share the results with our clients and networks.

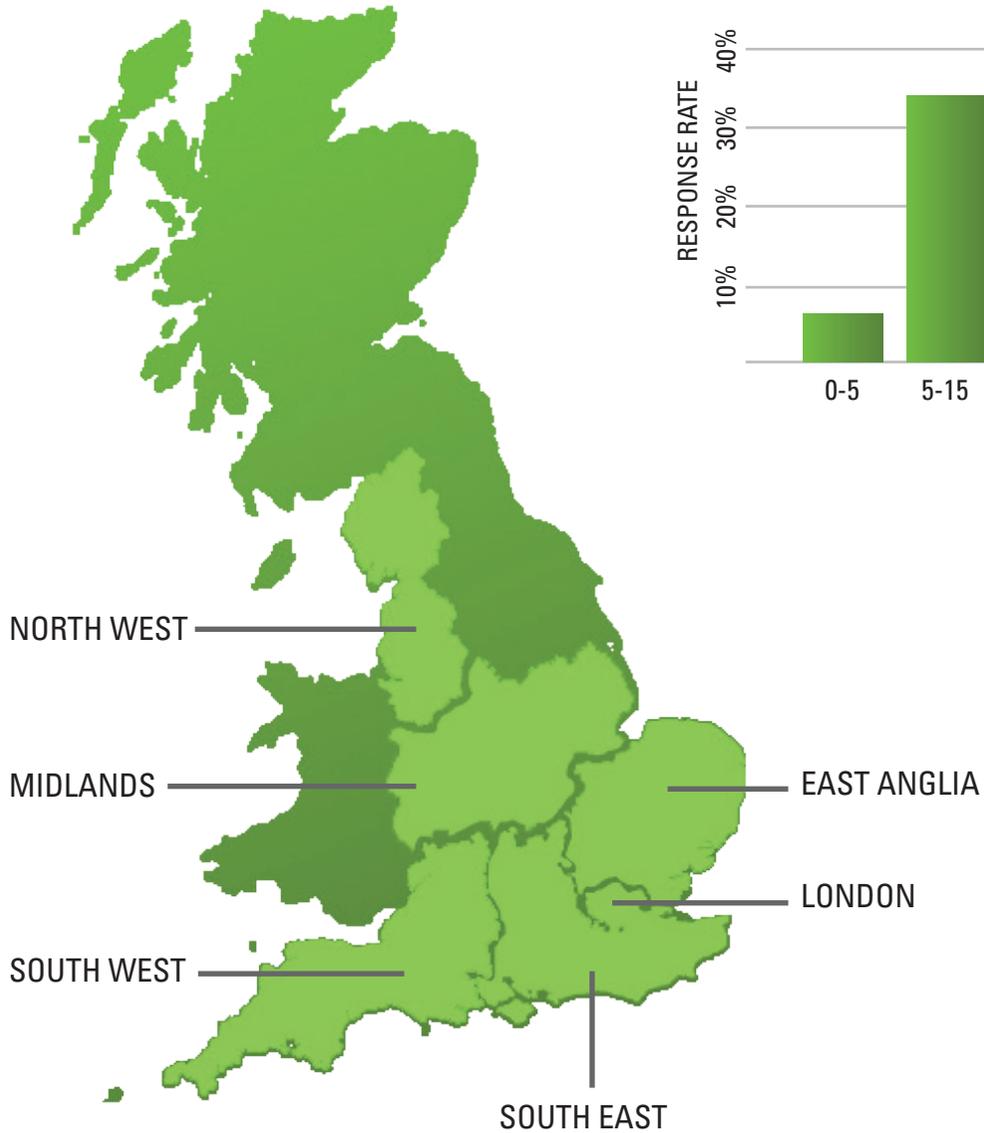
We hope you find our report summary interesting reading. A full set of responses can be found at the back of this document.

Thank you for participating

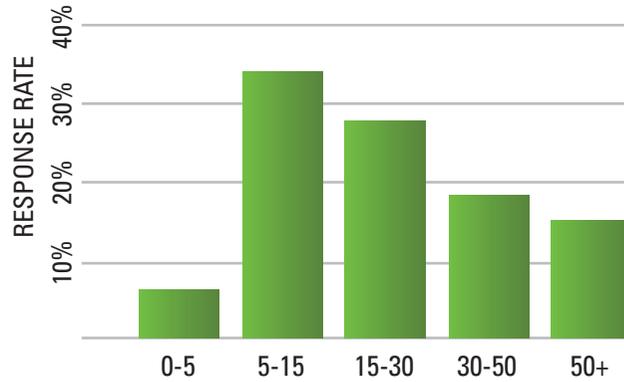


**Jay Neale, Co-Founder**  
The Agency Works

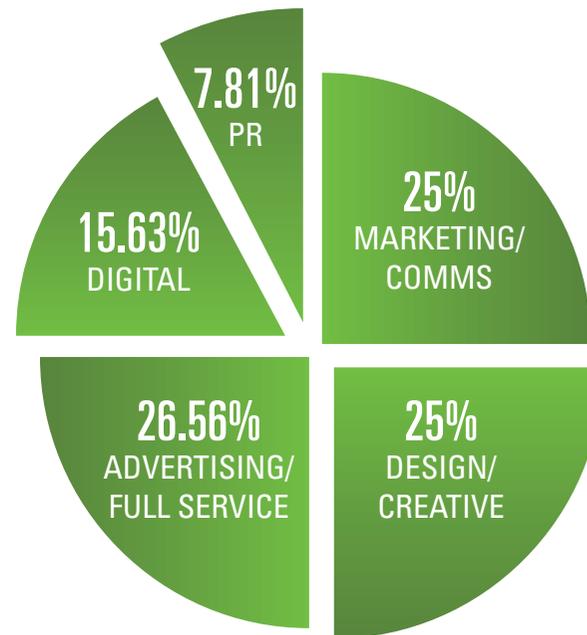
# WE SPOKE TO...



EMPLOYEES

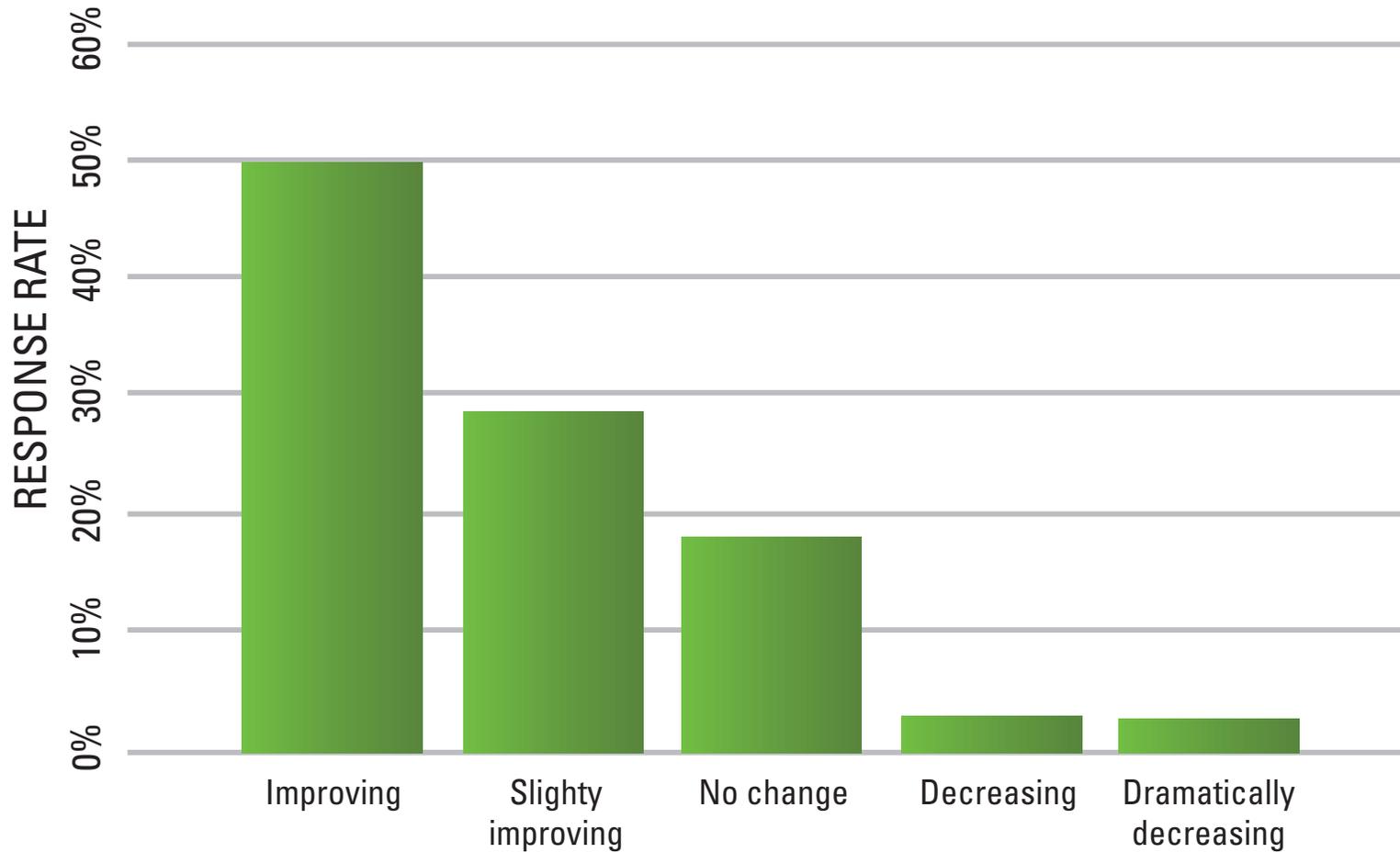


TURNOVER



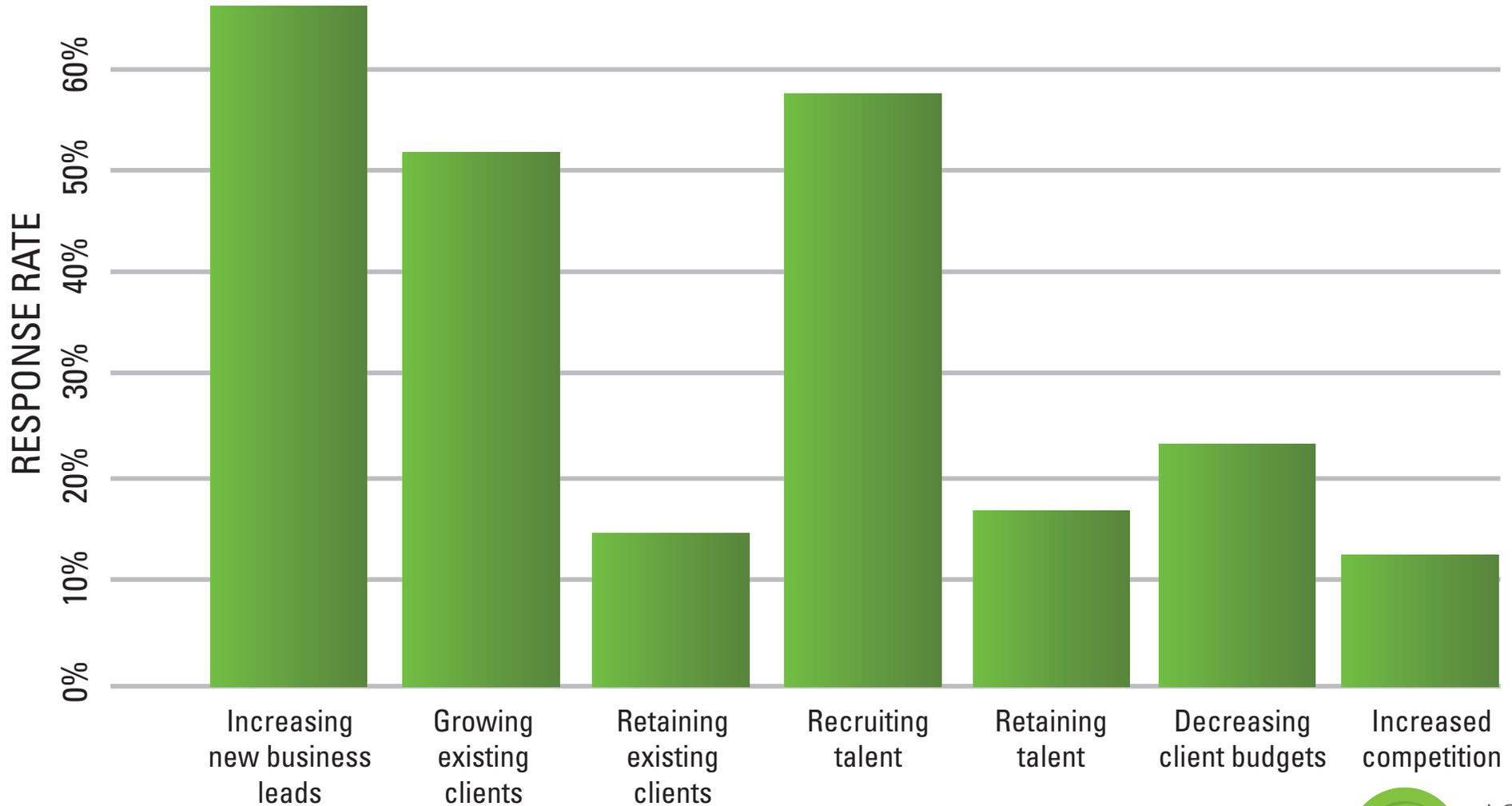
# OUTLOOK?

“What is the general outlook of your agency’s performance over the next quarter?”



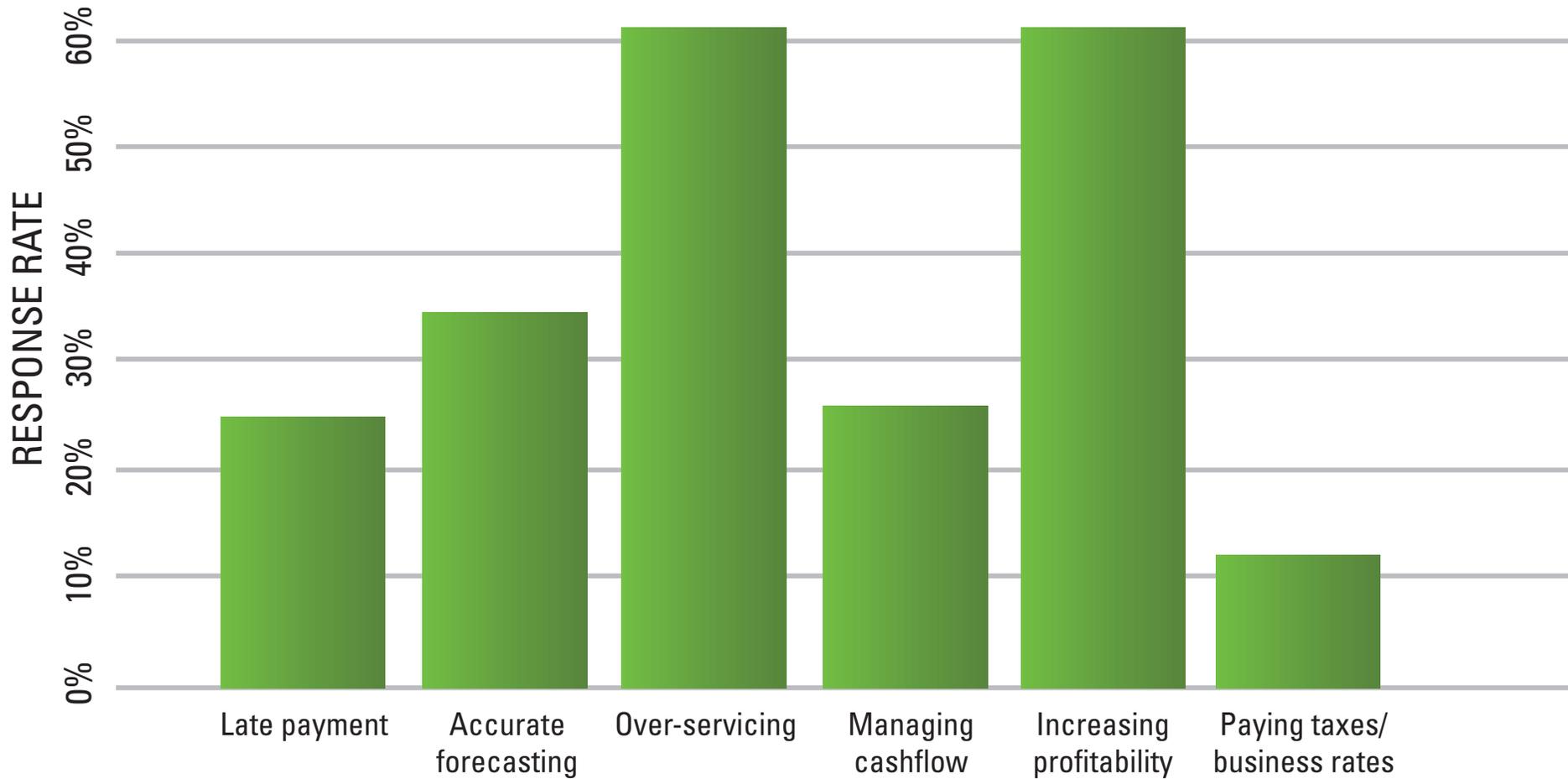
# CHALLENGES?

“What are the key challenges your agency faces right now?”



# THE FINANCES

“What are the biggest financial challenges you face in running your business?”



## FOCUS ON: PROFITABILITY & RATES

### NIGHTMARE ON WINNING STREAK – SLASHING CULTURE IS RIFE!

First The Agency Food Barometer found that agencies are certainly benefiting from new business opportunities aplenty and most are enjoying a healthy new business win rate with a 1 in 2, or a 1 in 3 hit rate being the average. Confidence is high for new and existing business growth alike, with 52% of agencies paying attention to growing their existing client base – often the most profitable way to grow business.

### BUT...

Slashing rates to achieve high hit rates seems to be a common practice. 47% of creative agencies have slashed their rates in the past quarter to win new business. 28% have slashed by up to 10% and nearly 1 in 5 (18%) have slashed by up to 30%.

Jay Neale, Director of The Agency Works explains why this is a worrying trend:

#### JAY SAYS:

By reducing rates to win new business, agencies are creating a false economy. It sounds obvious, but the link between getting the right price for your services & profitability is often overlooked by many busy agencies.

It's easy to get caught up in the day-to-day hype when the new business pipeline is thriving, but agency owners need to stop & ask themselves, is this actually going to make us any money? It's no coincidence that for 61% of agencies we surveyed, although business is booming, profitability remains their biggest challenge.

1 IN 3  
PROFITABILITY  
RATE

47%

CREATIVE AGENCIES  
SLASH RATES TO  
WIN BUSINESS

52%

OF AGENCIES ARE  
GROWING EXISTING  
CLIENT BASE

61%

OF AGENCIES SEE  
PROFITABILITY AS  
MAIN CHALLENGE

## FOCUS ON: BUY IT, SELL IT – ECONOMICS 101....

### UNDERSTAND THE NUMBERS

What you're selling and for how much is such an important part of growing a profitable agency. What the Agency Food survey found is that whilst agencies have a very clear understanding of what they should be paying staff on the 'open market', when asked about packages for a midweight Account Manager 80% responded £25k to £30k.

What was less clear was how much staff time should be sold for to make the numbers add up and how this was having a major impact on accurate forecasting, cash flow and overservicing issues. Cumulative charge out rates varied widely from £55 to £105 per hour, making for noconsensus on rates.

### BUT...

Basic economics of running a business, specifically sound financials, seemed to be where most agencies needed extra support: 67% of agencies are overservicing regularly, 65% of agencies are not delivering accurate forecasting, and 73% of agencies are challenged with managing their cash flow.

### JAY SAYS:

"It's essential to plan for the profitability of the agency and not just hope that it happens. Having a sound knowledge of what the costs are to run the agency will enable the agency to accurately calculate the charge rates they need to achieve to drive the profitability that they have planned. On top of that have KPI's that are simple and easy for the business to understand such as Employment costs V GP."

67%

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REGULARLY

65%

OF AGENCIES NOT  
DELIVERING ACCURATE  
FORECASTS

73%

OF AGENCIES ARE NOT  
MANAGING THEIR  
CASH FLOW

## FOCUS ON: BRITAIN'S GOT A TALENT GAP

### AN AGENCY IS SOLD ON ITS PEOPLE

People are the lifeblood of the business, and so in the eyes of employers it is the talent, experience and innovation of their staff that will help move their business forward to do exciting things. But despite the Agency Food survey showing that the economic light is at the end of the recession tunnel with over three quarters (78%) of creative agencies stating that they are feeling positive and confident about improved prospects over the next quarter, over half (58%) admitted that recruitment of this essential talent is in fact a challenge for their agency at present.

This may be a familiar hurdle for agencies who have lived through a financial crisis before. Following a recession, the talent pool inevitably shrinks as a result of the ebb and flow of employees moving to alternative jobs, and some even out of the industry. So although business may be booming once more, the survey reveals there is a talent hangover striking the majority of agencies.

### SO HOW CAN YOUR BUSINESS GET PAST THIS?

Freelancers are a viable solution for some, but too expensive for others as a solution to staff up during busy delivery periods. One possible mindset for agencies to adopt is to be constantly on the search for great people so they are ready to snap them up when they are needed.

However, while keeping one eye on talent recruitment, they also have the opportunity to focus renewed efforts on staff retention.



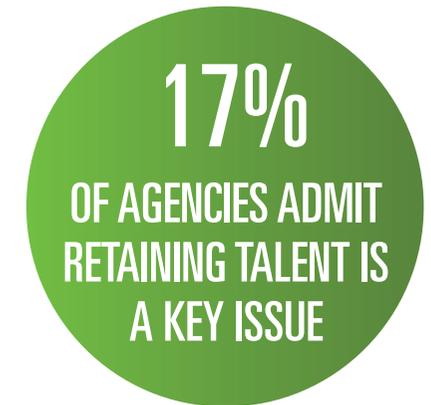
## BRITAIN'S GOT A TALENT GAP (CONTINUED)

The Agency Food survey indicates that only one in six (17%) cite retaining talent as key challenge BUT it would make financial sense to balance your time and effort between keeping and nurturing the amazing people you've already got and future resource, rather than just on bringing new talent to the party.

### JAY SAYS:

An agency must gear its resources to the level of business that it is achieving. If they employ the resources first and then try to win business to cover the costs it rarely results in profitable business.

An agency should be constantly looking for the new talent and build up its own potential employee pot so that it can gear up when the increased volumes begin.



## WHAT WE ASKED...

All the questions the Agency Food Barometer covered...

WHAT IS YOUR AGENCY'S DISCIPLINE?

IN WHICH REGION OF THE UK IS YOUR COMPANY BASED?

HOW MANY EMPLOYEES WORK AT YOUR COMPANY?

WHAT IS YOUR AVERAGE NEW BUSINESS WIN RATE LIKE AT THE MOMENT?

WHAT IS YOUR BUSINESS' ANNUAL TURNOVER?

WHAT ARE THE BIGGEST FINANCIAL CHALLENGES YOU FACE IN RUNNING YOUR BUSINESS?

WHAT IS YOUR AVERAGE HOURLY RATE?  
(cumulative of all the team)

WHAT, ON AVERAGE, DO YOU PAY FOR AN ACCOUNT MANAGER LEVEL/MID WEIGHT EMPLOYEE

WHICH OF THESE IS A KEY CHALLENGE FOR YOUR AGENCY AT PRESENT?

BY HOW MUCH HAVE YOU REDUCED YOUR RATES IN THE PAST QUARTER TO WIN NEW A NEW BUSINESS CONTACT?

WHAT IS THE GENERAL OUTLOOK OF YOUR AGENCY'S PERFORMANCE OVER THE NEXT QUARTER?  
(compared to last quarter)

## ABOUT THE AGENCY WORKS



THE AGENCY WORKS

The Agency Works helps agency owners, MDs and senior teams with the financial and operational aspects of running their businesses offering both strategic counsel and workable solutions, depending on their needs. The insight that we have gained over the past 10 years means that we're ideally placed to understand the challenges agencies face when looking to launch, build and grow a sustainable, profitable business.

We hope you've found our Agency Food Barometer an effective way to share collective experiences, trends and feedback. And, will be interested in taking part next time. If you'd like to engage with us online, then you can find us at:



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