



SURVIVOR TO THRIVER

Research report on how agencies
can turn their fortunes around

HOW DOES AN AGENCY SUBSTANTIALLY IMPROVE ITS PERFORMANCE AND SUCCESS?

We set out to understand how agencies that had previously been struggling managed to turn their fortunes around. Some had been doing 'good enough' but then decided 'good enough' was no longer 'good enough' and stretched out for real success. Unfortunately, there is no secret sauce as such, but there are specific ingredients we observed that might go into that sauce. Many of those 'ingredients' are quite simple but that doesn't make them easy to implement.

This report is a collaboration between media accountants and advisers Moore Kingston Smith and Chris Merrington of Spring 80:20, an agency training consultancy. The different perspectives of the two made the interviews, and distilling the essence from the interviews, all the more fascinating.

We interviewed a range of different types of agency; creative/advertising, media, digital, healthcare, design, events, PR and communications. These interviews were a mixture of face to face and telephone interviews. In each case the interviews were with the agency's CEO, MD or FD.

May we say a huge thank you to the agency heads who shared so generously their strategies and methods for their success. Without your contributions this report would not exist!

FORTUNE FAVOURS THE BRAVE

In 2012, Moore Kingston Smith and Spring 80:20 produced the report, Fortune Favours The Brave. This was a qualitative study into how some of the most profitable agencies were achieving reasonably consistent success. The report identified seven key factors:

- The culture of the agency and the senior team
- People: recruitment and retention
- Agency positioning
- The client-agency relationship with existing clients
- Approach to new business
- Commerciality
- Financial tracking and measurement

THE AGENCY MARKET PLACE – FIVE YEARS ON FROM FORTUNE FAVOURS THE BRAVE

- The **agency marketplace** continues to be tough and highly competitive. Whilst many agencies are seeing revenue growth, at the same time many are seeing a decline in profitability. A worrying trend.
- Certain **agency disciplines** continue to spiral downwards. Some sales promotion and digital agencies are typically seeing poor margins declining yet further.
- The percentage of **revenue spent on people** creeps ever upwards. Given that the salary and freelance bill is the biggest overhead for agencies, this makes improving profitability harder and harder.

- The **war for talent** makes finding and retaining great talent more and more difficult. Agencies are losing staff not just to other agencies but also increasingly to client companies and in-house teams.
- **Technology disruption** has given rise to a continued need to evolve and re-invent to meet clients' needs.
- **Competition and commoditisation** increase. It's like a perfect storm. There are more agencies pursuing each client opportunity. In addition, it is challenging for agencies to have a standout and compelling value proposition that clients are willing to pay a premium for. This then plays into the hands of procurement, who often seek to commoditise agencies' offerings.
- **New disruptive competitors** have entered the market e.g. Accenture and Deloitte. This will probably raise the bar generally for agencies in terms of strategic thinking as these new entrants use their connections with, and access to, the C-suite. However, whether they are able to balance their drive to inject process and rigour whilst maintaining creativity and the 'agency spirit' remains to be seen.
- **Clients' increasing use of zero-based budgets** is making it more difficult for agencies to accurately forecast.

In conclusion, the angle of incline of the treadmill of running an agency continues to get steeper. Agencies need to work smarter, harder and more innovatively than ever.

WHAT CONSTITUTES "THRIVER" FINANCIAL PERFORMANCE?

Some of the results of the agencies going from Survivor to Thriver were astounding. These examples demonstrate that amazing improvements in agency performance CAN be achieved. These improvements were over several years rather than 'one-offs' due to a lucky client win.

- From 2% to 28% profit margin over four years. 30% fewer clients whilst more than doubling average revenue/client.
- Doubled the bottom line and increased the margin by over 60% in two years.
- 80% increase in revenue, nearly trebling operating profit and profit margin increasing from 11% to 17% and then continuing to low 20s over a four year period.
- 80 clients to 30 clients whilst at the same time doubling overall revenue and doubling profit margins to 18% over seven years.
- Turning a £340k loss into £1m profit in 12 months. Revenue then continued to grow by 40% and profit margin to rise to 23%.
- Steady growth over several years to 30% profit margin and average revenue per head of £162,000.

What's their secret? The answer isn't about running faster and working longer hours... it's about working smarter, taking time to really think and then making some brave and difficult decisions.

1. DON'T JUST SAY IT – DO IT

(The culture of the agency and the senior team)

This came into even sharper focus for the thriving agencies. In nearly half of the Thriver agencies there was a new director (MD or NED) who came on board to make the transition from Survivor. A fresh set of eyes not wedded to the previous approach makes it easier to both stop, and start, doing things differently.

Culture cascades down, not up. If you say one thing and do another then don't be surprised if your team are confused. They need to see consistency between what's said and done.

2. "RECRUIT FOR THE AGENCY YOU WANT TO BE"

(People: Recruitment and retention)

In every Thriver interview the right people were seen as In every Thriver interview the right people were seen as fundamental to the agency's success. It is too easy as a Survivor agency to see your people as 'assets to be sweated' and also to accept 'acceptable' performance. Several Thriver agencies saw their ability to hire the right senior people as their biggest challenge to continued agency growth.

In several cases, the Thriver agency had become an 'employer of choice', which means you don't have to pay premium salaries to attract and keep great people.

3. KNOW WHAT YOU'RE NOT GREAT AT, NOT JUST WHAT YOU ARE GREAT AT

(Agency positioning)

Too often we see agencies chasing after everything and anything as long as it's revenue, whether in their sweet-spot or not. They try to be everything to everyone, seeking to pay the bills rather than aiming for profitable revenue. It's better to be brilliant at a few things rather than average, or mediocre, at ten.

Agency differentiation continues to be a challenge for many agencies. The Thriver agencies had taken time to develop a compelling value proposition that resonated with clients and prospects. As well as being clear on what they did, they were also clear on what they didn't do. They acknowledged that being able to say 'no' is vital, recognising that average work in peripheral areas tarnishes the brilliant work in their sweet-spot.

4. ARE YOU A CLIENT SERVANT OR REAL CLIENT PARTNER?

(The client-agency relationship)

When you are seen as a real client partner you have access to senior decision makers and, in many cases, the C-suite. To maintain this type of relationship requires effort to avoid sliding into the 'do' role and away from contact with those senior decision makers.

The Thriver agencies sought the right client relationships, which then made it easier to sell value rather than simply time - "Great clients breed great work and attract other repeat clients".

Survivor agencies can be in danger of settling for less senior client contacts. It's not easy pushing to deal with senior clients. Access can be difficult with gatekeepers barring the way.

Thrivers worked WITH their clients, not FOR their clients.

5. PITCH WITHOUT PITCHING

(Approach to new business)

Survivors who transitioned to be Thrivers understood the importance of new business but were also very aware of the huge cost of new business pitching. They were highly selective about which opportunities to pitch for, which was the result of a conscious decision. In several cases, Thrivers talked about being tired of losing pitches and the demoralising effect that this has on the pitch team and wider agency. One Thriver agency talked about being "fed up of being fed up".

Thrivers had no problem with declining to pitch. Some also used techniques to short circuit or de-rail the pitch so they were essentially the only one pitching.

6. THRIVERS RUN THEIR AGENCY AS A COMMERCIAL BUSINESS. NOT ALL AGENCIES ARE RUN THAT WAY

(Commerciality)

Thrivers knew the profitability of their individual clients and client projects. They knew which teams were profitable and which weren't. They didn't cut their way to profitability. They grew their way to profitability. They often used the Moore Kingston Smith benchmarks as target KPIs.

Thrivers use the numbers to make good business decisions. When your numbers are right it is so much easier to focus on the client work. Thrivers typically share their numbers with the rest of the agency. This doesn't need to compromise confidentiality.

"I recall a medium size PR agency (non-Thriver I hasten to add) telling me they hadn't increased their rate card to a major corporate client for over seven years. When asked why this had been the case, the answer was that they 'didn't want to rock the boat'. It's not easy to increase your prices, fees or rate card but there are some key steps which make it more likely to be acceptable to the client."

Chris Merrington

7. 'THE NUMBERS SET YOU FREE'

(Financial tracking and measurement)

Survivors sometimes get too obsessed with minor detail on the numbers – they focus too much on historic numbers and measurement rather than forecasting what will happen going forward and how to improve that forecast. The ability to see the big picture is vital and then to swoop down periodically into the detail to sort out any problems.

"Have a rolling 12 month forecast so that you can spot trouble early"

Each Thriver agency had clear KPIs they measured. As well as tracking revenue and net profit, some tracked their NPS (Net Promoter Score), their recovery rates and billable utilisation by department. Know which numbers are right for your agency to track.

Over-dependence is often overlooked. It is too common for a Survivor agency to be over-dependent on one or two clients but think all is ok.

8. "CHANGE THE WAY YOU LOOK AT THINGS AND THE THINGS YOU LOOK AT CHANGE", WAYNE W. DYER

Change is hard. Doing things differently is hard. Stepping outside of our comfort zone is hard. Taking brave decisions is hard. The adage that "if you always do what you've always done, you'll always get what you've already got" no longer holds true. Now you'll always get even less than what you've got.

Do what's right for your business, not what's easy. Sometimes we need a burning platform to force the change. Sometimes the change comes from fresh eyes. Sometimes it's because we've had enough of barely surviving.

For some Thriver agencies there was a catalyst for change – the recession, a new director, or the loss of a major client.

"It's easier changing a business when you have fresh eyes"

9. GROW YOUR BUSINESS BY GROWING YOUR CLIENTS, NOT JUST YOUR CLIENT LIST

A majority of the Thriver agencies restricted the number of clients they worked with and focused on growing their core clients rather than growing the agency revenue by winning more clients. Some limited their client list to 20 or 30 clients.

Several actively cut off their tail of small clients, which they found sucked out resource and were often unprofitable.

At the same time, the core clients were well spread to avoid over-dependence on any one or two.

"Fewer, bigger, better clients" was a common theme.

10. BE STRATEGIC, BE MISSION CRITICAL, HAVE BUSINESS IMPACT

Nearly all Thriver agencies focused on having strategic conversations with their clients. It is then far more likely the agency will work on 'mission critical' campaigns or programmes (rather than tactical projects), which can truly impact the client's business to the delight of the client CEO, MD and FD, rather than 'nice to have' work.

Some agencies can deceive themselves that they are being strategic. "When you are doing scrappy work, you attract scrappy clients and scrappy employees."

Thriver agencies deliberately recruited and sought out strategic thinkers to grow their clients. We suspect agencies need to look carefully at their senior people to ensure they are truly capable of strategic thinking and strategic conversations.

CAN WE HELP YOU BECOME A THRIVER?

MOORE KINGSTON SMITH

Moore Kingston Smith LLP is one of the UK's top 20 full service professional audit and advisory firms and a member of Moore Global Network, a worldwide association of independent accountancy firms.

Moore Kingston Smith's West End office, with its team of six partners and 60 staff, specialises in advising media businesses. We are able to provide a full range of audit, tax, corporate finance, M&A and strategic advisory services.

Our consulting offering is designed to support media businesses through all phases of their growth journey, from start-up to scale-up to international expansion through to exit. We focus on helping our clients maximise their potential and ultimately realise the optimum value from their business. We work in partnership with them, providing insight and support to ensure that they are performing at their peak across all the core strategic areas that are most critical to their success.

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CHRIS MERRINGTON AND SPRING 80:20

Chris has studied what the most successful agencies do to grow and shares those learnings with his agency clients*. He helps the senior agency team be more confident to change their behaviour and mindset to achieve real business improvements. He's previously worked in agencies at director level and has spent the past 15 years advising directors of over 110 agencies on how to negotiate more profitably, sell as trusted advisers and how to have a successful new business pipeline. 80% of his business comes from repeat and referral work.

*He's also studied what the least successful agencies do to stay stuck.

He works with most of the major agency networks and also many independent agencies. He has worked with agencies and consultancies in every discipline: Creative/advertising, Media, PR/communications, Digital, Design, Research, Healthcare, Sponsorship, Experiential, Direct Marketing and Sales Promotion.

His pragmatic advice and approach is sought by agencies in the UK, across Europe and the US.

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