

# Agency Operating Plans:

## Keys to Controlling Costs and Realizing Profits

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## sjk advisory group

sjk advisory group has provided specialized financial management services to companies and their principals in the advertising, public relations, digital marketing, and media service industries since 1996.

Steve Koskela, Managing Principal, has years of senior financial executive experience in high profile advertising agencies blended with the credentials of a Big Four CPA firm background. Visit our website at [www.sjkadvisory.com](http://www.sjkadvisory.com) for further details on services and illustrative examples of client engagements.

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# Agency Operating Plans

- ‘Operating’ Plans = **Planning for Profit**
- Fundamental Financial Blocking and Tackling
- A Fully Functional ‘GPS’ System
- Managing the Process in the Capricious World of Marketing Services



# Agency Operating Plans

## Today's Discussion Menu:

- Formats and Fundamentals
- Budget and Forecast Philosophy and Mechanics
- Scenario Planning and the Revision Process
- Op Plans - A Performance Enhancement Tool

# Agency Operating Plans

## Building Blocks for an Effective Plan

- Establish a Customized Framework
  - Locations / Divisions / Subsidiaries
  - Disciplines / Service Offerings
  - Clients / Products / Projects as *Subsets*
- Ask: What Are our True **Profit Centers**?

*Hint:* They're not Departments. Those are **Cost Centers**.

# Agency Operating Plans

## The Ingredients:

- Sources of **Revenue** –  
Clients / Products / Disciplines / Offerings
- **Costs** - Staff Resources (Direct / Indirect)
  - Client / Project non-billable, Direct o-o-p
  - Overhead
- **Variance Analysis**– budget v. actual *meaningful* review
- **Profit Source Detail** – underpinnings for revs / costs\*  
client / product / project

\*{NOTE: Cost Accounting is the Box Score to the Operating P/L's Scoreboard!}  
A Different View!

# Agency Operating Plans

## Constructing the Revenue Forecast

- The Most Critical Challenge to Effective Planning
- Why Is This Now So Difficult?

The Demise of the AOR Relationship

Spending-Based Compensation – Mostly a Faded Memory

Revolving Customized Projects and Multi-Sourced Client Work

Lack of Pricing Expertise and Abdicated Responsibility



# Constructing the Revenue Forecast (continued)

A Variety of Reference Sources for Marketing Service Firms  
(in decreasing order of reliability):

1. *Continuing* – Ongoing fixed fees or budgeted compensation
2. *Backlogged* – Contracted for, deferred to a future period
3. *Pipeline* – Identifiable opportunities, yet to be contracted
4. *Historical Performance + Effects of Change*
5. *Resource-Driven* – Capacity availability as a predictor



# Constructing the Revenue Forecast (continued)

- Effective revenue forecasting may necessitate all of the above input.
- Decide on inclusion/exclusion of unsourced, prospective new business revenues.
- Be consistent and diligent with the process: Establish, Track, Revise... Repeat
- Use of a revenue scenario tool based on Timing, Magnitude, and Probability may be beneficial, a la the following illustration...

# Constructing the Revenue Forecast (continued)

*Illustration*  
*Growing Agency, Inc.*  
*Revenue Forecasting Tool*  
*Period \_ Q1, 2018*

			Q1		
			<u>Low</u>	<u>Mid</u>	<u>High</u>
<b><u>Existing Client/Project</u></b>					
Client X			60,000	100,000	120,000
Client Y			45,000	45,000	45,000
Client Z			25,000	25,000	25,000
Client XX			0	30,000	50,000
sub total			130,000	200,000	240,000
*****					
<b><u>Client/Project Opportunites</u></b>					
	<u>Mid Prob</u>	<u>Rev Opp</u>			
Client A	30%	45000	0	13,500	45,000
Client B	70%	100000	0	70,000	100,000
Client C	30%	200000	0	60,000	200,000
sub total			0	143,500	345,000
TOTALS			130,000	343,500	585,000

# Agency Operating Plans

## Projecting Operating Costs

- What's your Cost Budgeting Methodology?

Follow the Historical Blueprint (aka Incremental Budgeting)?

or

Zero-Based Approach (ZBB)?

- Comparative Pros/Cons

Historical:

**Simplicity; Reference Points; Gradual Change; Required Justification**

**“Use It or Lose It Mentality”; Overlooked Savings/No Creativity**

ZBB:

**Requires Rigor; Challenges Prior Assumptions; Innovative Thinking**

**Substantial prep time; May be impractical re cost/benefit; Makes budgeting onerous**



# Projecting Operating Costs (continued)

- Start with the Biggest Puzzle Piece -



Bottom Up Breakdown of **Staffing** Resources

Apply “Activity-Based” focus (a la cost accounting) to current base of business + known new revenue sources

Separate ‘Direct’ from ‘Indirect’

Fine Tune for Business Mission / Growth Goal Investment

# Projected Operating Costs (continued)

A Budget Strategy to Optimize Costs –

- Instead of 'Fixed' and 'Variable' –  
Focus on 'Core' and 'Flex' Operating Costs
- Ask- “What is Our Core?”, defined as *Prime Resources*:
  - Essential Staffing
  - Requisite fixed infrastructure
  - What's critical to sustain the 'soul' of our agency brand?
- The Challenge: Determine mission critical resources to attain near term goals and fulfill longer term vision

# Projecting Operating Costs (continued)

Where can we utilize a 'Flex' approach to costs?

Staffing (greatest cost saving opportunity):

- Benefits of tactical talent utilization

- Develop working partnerships with independent resources

- Capacity Planning = Tough Balancing Act

- Think *Optimizing* Utilization v. *Maximizing* Utilization

Re-evaluate All Cost Commitments >>> Think Rent, not Buy



# Projecting Operating Costs (continued)

## Effective Planning for Costs

Start with Realistic Revenue Assessment

Define your 'Core' - Embrace 'Flex'

Think consequences – “What if I build it, and they don't come?”

Have a course correction plan

# Projecting Agency Costs (continued)

A Template for the Successful 'Flex' Model?



- Chicago-based, “new model” agency that has as one of its key operating principles:  
“Put the Agent (Back) in Advertising Agency”
- The New Hollywood vs. the Old Studio System

# Agency Operating Plans

## Scenario Planning as an Agency Budgeting Strategy

Three Versions of a Plan

Why?

It's an Ever Changing World of Optimism, Pessimism, and Reality

Provides Range of Potential Outcomes w/ Adjusted Rev/Cost Assumptions



# Agency Operating Plans

## Review and Revise Guidelines

- Establish a manageable revision process / timetable
- Define routine – monthly, **quarterly**, annual
- Limit focus to MATERIAL variances and major changes to business circumstances →→→ Maintain the Baseline
- Avoid a bureaucratic process nightmare =  
Tree Fascination and Forest Blindness
- The more unwieldy, the less the value

# Agency Operating Plans

## Adopting a Rolling Forecast Methodology

- Continuous Planning Approach - Suited to Marketing Service Firms  
Dynamic and Changeable vs. Static Assumptions
- Annual Plan as base for 'rolling' vs. static forecasts –  
Ongoing 12 month view / 15 month horizon
- *Pros*: Agility; Forecast Quality; Anticipatory; Reduced annual time
- *Cons*: Performance Variances Less Visible; 4x Planning Effort?
- Important to maintain regular fiscal reporting year as baseline.

# Agency Operating Plans

## Critical Performance Enhancing Tool

- More than a scoreboard or scorecard
- Enables goal setting, monitoring and result evaluation
- Using the plan to build team insight and improve decision-making: Brainstorming the financial future

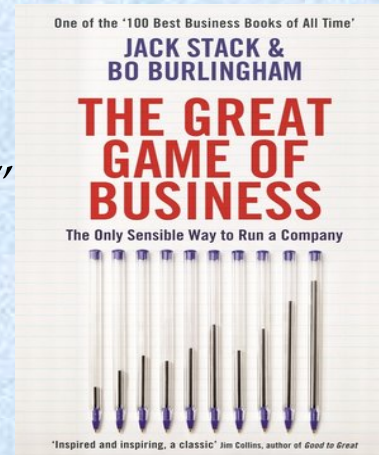


# Agency Operating Plans

Whose Plan Is It Anyway?

- Here's a Radical Idea - Open Book Management

*"The Only Sensible Way to Run a Company"*



by Jack Stack, first published 1992

- Team Financial Goals and Decision-Making
- Let the Players See the Scoreboard

# Agency Operating Plans

## Lessons Learned

- Consistent Profits Are Planned, Not Accidental
- Quality of Planning = Quality of Future Results
- Make Op Plans Manageable and Actionable
- Acknowledge – It's a Blend of Art and Science
- Make Achieving Financial Goals a Team Sport

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