the SoDA REPORT On

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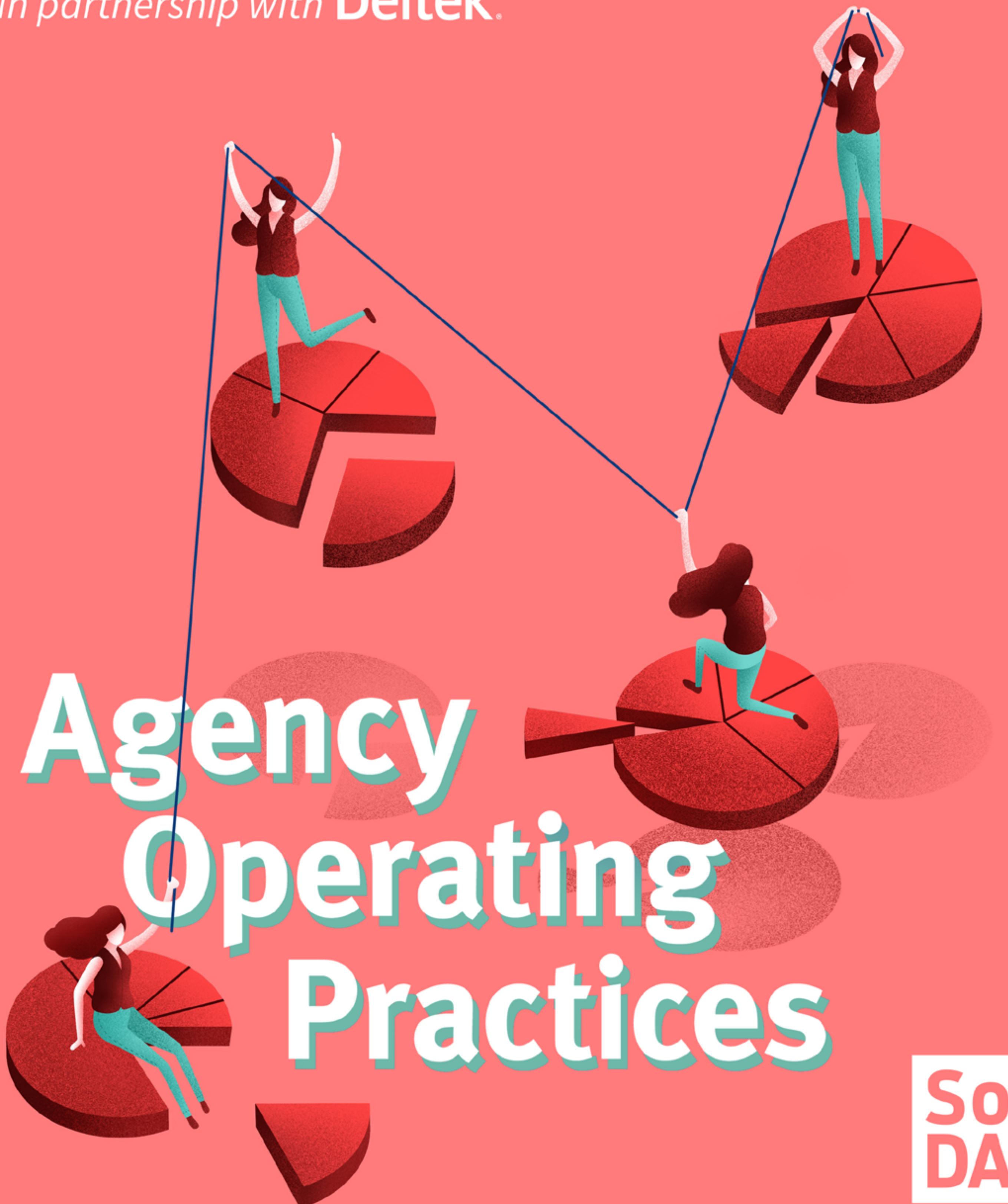
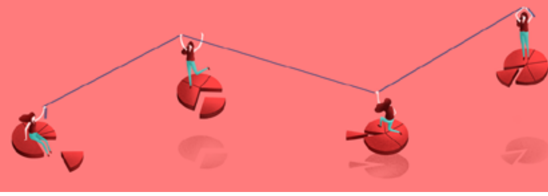


Agency Operating Practices

SoDA



Welcome to this special edition of *The SoDA Report on Agency Operating Practices*, developed in partnership with Deltek.

We are thrilled to feature this report in a series of white papers released under *The SoDA Report On…* moniker designed to conduct deep dives on a targeted issue which impacts the companies and people who are creating the future of marketing and digital experiences.

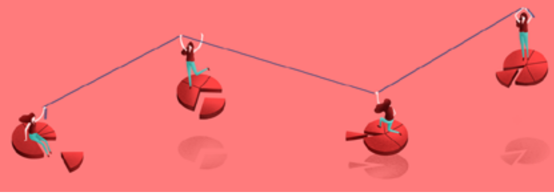
If you can measure it; you can manage it. Measuring performance is a vital part of running a successful agency. The need to analyze and adjust, whether it be your people, cash flow or scopes of work, is the new normal and part of being a modern agency. Ensuring the right data is easily available has also become a priority.

Agencies face the challenge of choosing which metrics to use when measuring key factors like project performance, labor capacity, client profitability, overall financial health and employee satisfaction. What metrics matter most for your agency? What helps you decide how profitable a project is? How do you eliminate too many guesstimates? What metrics help produce a better SOW? How can you tell when capacity is truly maxed or employee retention could become a problem?

Authors from The1stMovement, Handsome, Deltek and more share real-life examples of challenges, modifications, successes and tools to shed insight into agency operating best practices.

I'd like to thank the Deltek team for their continued support of SoDA and the SoDA Report series. To become a subscriber of *The SoDA Report*, please email SoDA (info@sodaspeaks.com) and we will ensure you have priority access to the release of upcoming editions. We hope you enjoy this report and, as always, welcome your feedback, ideas, and contributions for future editions.

Best,
Lakai Newman, Managing Editor and Head of Production, *The SoDA Report*



Tracy Hennessy, Handsome

The Art and Science of Capacity Planning

Capacity planning is often seen as a numbers game. Salaries, staffing availability, utilization, revenue, and risk are important daily considerations for keeping your business strong and growing.

Ensuring I'm getting the right mix of people, hours, and personalities at the right time is critical to project and company success. Since I help staff and manage collaborative teams, I can't just play by the numbers - capacity planning is both an art and a science.

The Science

Adjust your quarterly utilization goals based on business patterns. Setting annual utilization goals is commonplace. Our annual utilization goal is 80%. As business ebbs and flows, you may see regular patterns emerge over time. Always see a dip in business in Q3? Always have a hot Q2? Break your goals down by quarter, and adjust them to accommodate these trends so you're not playing catch-up at the end of the year. Plan your marketing or internal initiatives (when possible) ahead of time so they line up with periods when you can best utilize any team members on the bench.

Make Backup Plans to Your Backup Plans. It's not easy to predict exactly when projects will hit, or in what order they'll land; and it's impossible to predict if a life event will bench someone on your team. Backup planning is essential. Make sure you have a clear understanding of the projects that are highest priority for your company, and build out 2-4 staffing scenarios using tools like Google Sheets or Forecast to outline how you'd utilize current or future staff.

When building my recommendations to give to other department heads, I rank projects based on a series of factors such as importance, budget, likelihood, urgency, and impactfulness. I flag any hiring needs as early and often as I see them; but I am also clear about the likelihood of those needs and the risk if we don't staff on time. We also aim to keep a mix of 20-30% contractors on staff to fill specialized needs or to manage risks accordingly.

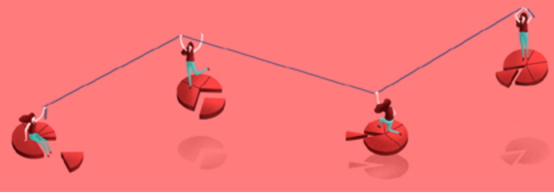
The Art

Know the humans behind the numbers. Ultimately, collaborative teams must have team chemistry to be successful. We are dealing with real humans, after all. As a staffing manager, knowing your team as well as you can--at least enough to summarize key strengths and weaknesses of your team--will go far. Knowing which designers are junior but move more quickly than others, or who might be more senior in skill-set but weaker in presentations will make sure you're putting the right people on the right projects.

The theory of Dunbar's number states that there's a cognitive limit to truly knowing more than 150 people at a time. Handsome currently has a staff under 150, so I have the luxury of knowing my entire team, and things that aren't easily verbalized like signs of burnout, over-commitment to projects, or underutilization. As we grow, knowing at least the top-level strengths and weaknesses of each employee is critical for me to keep managing the art behind the numbers game. Some questions to consider for better understanding your team members are: Does this person do well under tight timelines? Do they get bored easily with long-term projects? What is their defining personality type: are they a superstar presenter, utility player, or precision-honed specialist?

Optimizing team utilization to set your agency up for success is more than an economics and spreadsheet game. To truly build, support, and nurture a solid team, you should look beyond someone's strengths and weaknesses and get to know their aspirations both within their current role and beyond. What are their growth areas? What are they trying to work on professionally and personally? Knowing their goals ensures they're given the opportunity to shine, and to unleash any potential secret weapons they may possess. Long term, this will lead to higher retention and a happier and healthier team.

About the Author: *Tracy has over 8 years of agency experience staffing and managing projects for clients touching nearly every industry. As the head of project management and strategy teams, she's ultimately responsible for the successful delivery of digital services across Handsome's entire portfolio. When Tracy isn't running a 1,200+ member digital PM meetup in Austin, she can typically be found running someplace in the city with her dog, Maddie.*



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Jeff Mikes, Zemoga

Capacity Planning Trends

Capacity Planning is a core challenge for every professional services firm, but especially for agencies given their breadth of offerings and dynamic market demand.

Managing growth is hard work—winning new business while staffing too slowly leads to team burnout and negative impacts to culture. Staffing ahead of the curve puts profitability at risk if new deals don’t materialize. Finding the right balance is key to a well-functioning shop.

Here are insights on what some of the best, most innovative firms are doing to stay ahead:

Integrated System

Agencies sell clients on the value of data driven strategy and optimization and we should heed our own advice when it comes to Capacity Planning. The core inputs—Revenue Pipeline, Resource Allocation, Resource Skills—are too often tracked in

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disparate systems and manually mashed together in spreadsheets. This lack of integration pushes the data and insights into a corporate reporting function and away from the front-line leaders that need real time data to make decisions. Implementing an integrated stack, whether from best of breed components or an all-in-one solution, can have immediate ROI for the agency through better resource planning and utilization.

Ombudsman

Project estimation is both art and science and a skill that can take years to learn and execute well consistently. Many agencies spread this responsibility across multiple groups and team members, with account or project managers gathering input from functional leaders and rolling it up for management blessing. Instead, consider naming and empowering an estimation ombudsman—someone who owns the process and results for all pipeline opportunities. This can shorten the agency learning curve by providing a central repository for estimation efforts and data, leading to more accurate inputs for capacity demand.

Fallacy of Full-Service and the 80/20 Rule

“We’re an integrated, full-service, traditional digital marketing firm”. Ughh. Chasing any and every client opportunity has led too many firms to position themselves as one-stop-shops. The reality under the hood is that most only deliver a handful of services really well. Many high growth agencies understand the need to specialize in a crowded market and have taken it a step further by productizing their service offerings. Productization allows them to know exactly what they’re selling (and what they’re not), leading to much simpler Capacity Planning since each offering is defined by the skillsets and time needed to deliver it. Of course, there will always be customization needed for some clients but use of the 80/20 rule can streamline resource management – 80% productized service sales and 20% custom.

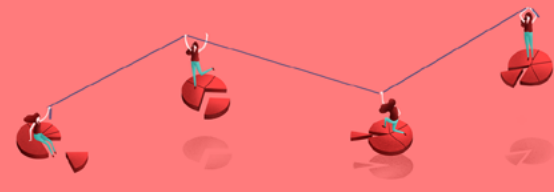
Rethink Talent Pool

Much of Capacity Planning focuses on keeping the team utilized and knowing when to hire the next resource. However, today’s “gig economy” can provide a semi-committed bench of trusted freelance talent to allow an agency to flex with spikes in demand without making long term commitments to hires. Most shops do this on an ad hoc basis but incorporating freelance as a central element of the operating model can be a competitive advantage. It also allows firms to accept opportunities on the margins of their specialization, owning the work while subcontracting it out in the hope of expanded opportunities down the line. And this same model applies to working with partner shops, an effort SoDA has helped drive for years. Be great at what you do and align with freelance and partner networks to scale for all.

Go Radical

In practice, Capacity Planning simply attempts to best match new revenue with resources to maximize utilization and generate profit. As agencies grow this matching can become cumbersome. Smaller firms often manage Capacity Planning via direct line of sight to each revenue opportunity and explicit knowledge of what each team member is working on, making resourcing decisions much simpler. Borrowing from this smaller firm mentality, some high growth firms are reorganizing themselves into pods of dedicated cross-functional resources with their own P&L. All pod members know what's on their plates and in the pipeline and are held jointly accountable for hitting profitability targets like Gross Margin. The approach not only simplifies Capacity Planning, it empowers team members as owners and entrepreneurs in assessing revenue opportunities and how and when to invest in the right capacity.

About the Author: *Jeff serves as Managing Director of Zemoga, where he's responsible for strategic growth and scaling of the company. He's been working with the Zemoga team as a consultant, business partner, and employee for almost 10 years. Jeff's a digital agency vet - from rolling up shops under Publicis in the early aughts to working as an advisor to a host of SoDA shops. Jeff has a masters in international management from Thunderbird and loves puppies and heavy metal.*



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Tamir Scheinok, Fluid

Project Profitability (aka Unit Economics)

Project Profitability (or "Unit Economics") is a profit and loss measure of a firm's smallest economic unit—a project.

It is a fundamental KPI for agencies where project teams operate with a high degree of autonomy. A well-conceived and executed process for managing unit economics allows agencies to quickly and confidently assess economic performance (at any level of granularity and cross-section) so that management attention can be optimally focused (on economic issues or otherwise). The resulting operational maturity is essential for managing operations at scale or during rapid growth.

Unfortunately, many agencies struggle with the process of managing unit performance. As identified within the accompanying research, only 20% of agency respondents report using partially automated systems for tracking profitability. Most Agencies rely on a collection of point solutions rather than a Professional Services Automation system (a "PSA" where time, resourcing and commercial terms are integrated within the same system. It isn't surprising that 84% of agencies report regular budget overages on projects.

If you are looking to upgrade your process for managing project profitability, consider the following:

It Is A Process, Not Just A Measurement

- Cadence – Bad news doesn't age well. The goal is to be able to react quickly to mitigate issues. For most agencies, a weekly meeting will allow account/project managers to take action before it is too late to: make design and scoping decisions, manage client expectations, team changes, initiate change requests, etc.

- Set red, yellow, green targets for Gross Margin and RPH and share them widely. I believe that 50% gross margin is a reasonable starting place for most agencies. Rate per hour is highly variable based on your location and associated labor costs.

- Pricing – Start measuring profitability in the sales process when determining the price—this will provide valuable insights for pricing future deals, managing risk and help reduce finger pointing after kick-off.

- Focus on forecasting future performance. The past is only useful as an indicator of what will happen tomorrow. Conversely, one definition of insanity is doing the same thing over and over and expecting different results. A PSA will point you where and how you need to take action to change outcomes.

- Track changes from week to week. By watching the changes over the prior 4-5 weeks, you will be able to see underperformance trends as they emerge—don't wait until you cross thresholds to take action.

- Your process should include your partners/execs, heads of account and project management and possibly other departmental leaders.

Automation

- The system that is used to assess profitability need to be 100% automated[1]. Time cards, scheduling (and contract changes) are the inputs and revenue, costs and gross margin are the outputs.

- Full automation almost definitely means you need to purchase a PSA system. The core functionality of a PSA has time entry and resourcing at its core. Once a project is set up with bill rate, cost rates, and commercial terms, time (past) and resourcing (future) you can report on revenue, costs, and profitability in an automated manner. It is imperative that time, expense, resourcing, and commercial terms are in the same system—integrating different point solutions won't work nearly as well.

[1] *I am not exaggerating about this point. Aside from time, schedule and contract inputs, profitability reports need to fully automated. If not, the manual step (and persons who take it) will be a bottleneck or worse. Teams should be able to assess profitability from the PSA directly and independently.*

Consistency Is More Important Than Accuracy – This is NOT an accounting exercise

- Consistent Measures. It is essential that the assumptions used to measure profitability (e.g.,cost rates) are consistently applied across, people, projects and periods – this will enable high-integrity comparison between project types, periods (proposal vs. completion), and different teams as economic performance is impacted solely by how much revenue is generated and the hours (and cost rate) consumed in the process.

- About once a year you can assess if changes to cost rates are needed. It is better to add a few percentage points now to account for inflation and go 2-3 years without requiring modifications.

- Simplicity will help you achieve consistency. For instance, use average salary not actual salary to calculate cost rates. Organize your staff into groupings (or band – 8 is more than enough, even for large organizations) and use average salaries for each group. With this approach, for example, the cost of two different Sr. Engineers will be the same, even though salaries can vary across a group by 20-30%. Each line on your Bill Rate card should have exactly one cost rate associated with it.

- Don't take overtime or exempt salaries into account. The 41st hour should be treated the same as the 1st.

- Keep utilization assumptions simple (which are part of labor costs – see below)—use one number of the whole agency and be conservative (e.g., 1550 billable hours).

- Be careful to avoid creating incentives to use freelance labor. If you need to artificially increase cost rates for freelance labor, do so by applying a load factor.

- Be conservative. It is better for your measurement process to indicate slightly worse performance than reality.

- Pay attention to differences between your average project gross margin and the gross margin on your income statement. Large differences suggest issues with your cost rates.

Measurements

Percent Complete = Actual Labor / (Actual Labor + Remaining Labor)
Labor can be measured as Costs (best) or Hours

Revenue to Date = Percent Complete * Total Contract Value
Works for T+M and Fixed Fee

Current Period Revenue = Revenue to Date - Sum of Prior Period Revenue
The math looks simple here, but you really need a PSA to track revenue.

Direct Costs = Costs Associated with Fulfilling Contractual Obligations (Loaded Labor and Expenses)
Do not include sales costs

Loaded Labor Costs = (Annual Salary * Payroll Tax and Benefit Load) / Billable Hours Per Year
For Example, $100k per year employee has a $78 Cost Rate Per Hour
*($100,000 * 125%) / 1,600 (be realistic and conservative)*

Gross Profit = Revenue - Direct Costs

Gross Margin = Gross Profit / Revenue

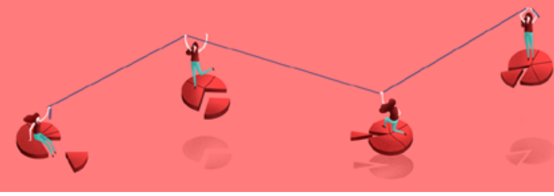
Rate Per Hour (RPH) = Revenue / Hours

Pulling It All Together

- Get a PSA.
- Validate/Audit your Bill and Cost Rates.
- Set Targets for Gross Margin and RPH.
- Integrate these principals into your pricing process.
- Meet with core team frequently (weekly, one-hour, regular time). Finance scrubs numbers for data validation (did hours get added before the change request was added?).
- Review the projects below thresholds or with biggest movement from the prior week. It should be obvious to everyone where attention is needed.
- Test your assumptions periodically (hopefully not more than every few years)

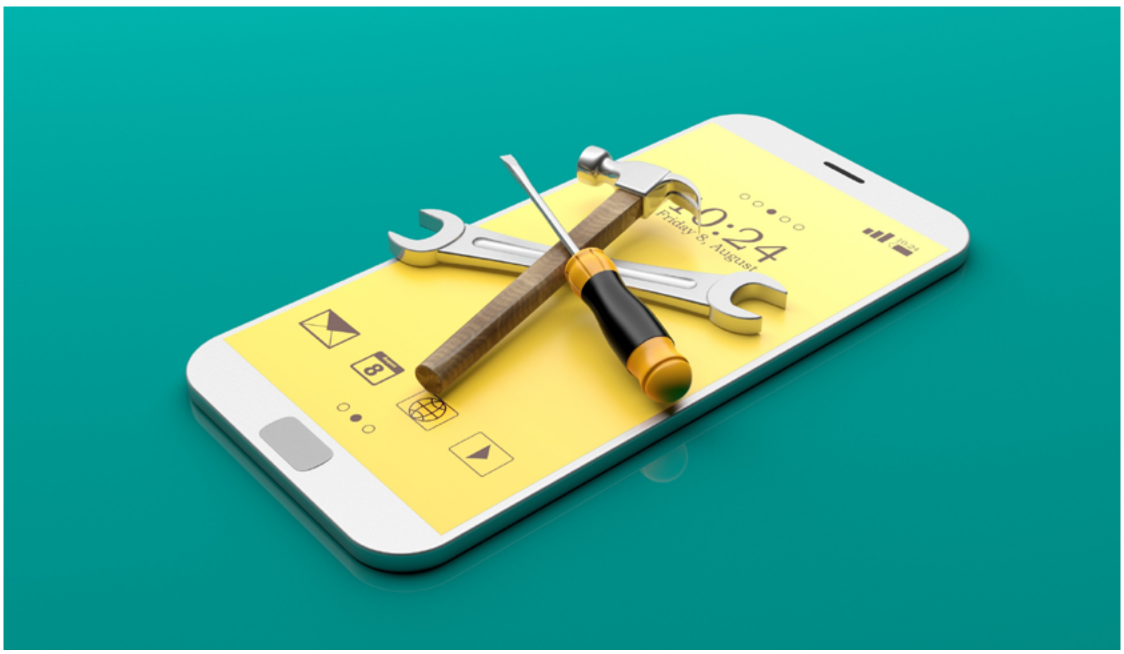
With success, this will free up more time to focus on the work. Good luck!

About the Author: *Tamir Scheinok is a co-founder of Fluid (www.fluid.com) and was COO and CFO from 1999 until Fluid was sold to Astound Commerce (www.astoundcommerce.com) in 2018. Astound is a digital commerce agency with operations in North America, UK, Germany, Colombia, and Eastern Europe.*



Jenn DePauw, The1stMovement

Effective Capacity Planning is Rooted in Tools, Communication and Team Alignment



On paper, capacity planning should be very simple, right? Multiply this, divide by that, calculate billable utilization, average bill rate, and bam... a revenue forecast to help drive your sales pipeline.

Ok, if only it really were that easy.

Balancing your sales pipeline and your capacity to produce great work is always going to be a challenge, especially when we see shifting needs within our industry. Clients want projects faster to market, which means work needs to move faster to production imminently once it is signed on the dotted line. And so, the race begins!

Most digital agencies don't have the luxury of an on-demand team ready to dedicate 100% of their time to a project with little or no notice. The common challenges of the industry leadership are balancing profit margins with overworked employees, compromised client service due to insufficient resources, or equally challenging is reduced quality of work from the same overextended pool.

More than 100 key-stakeholders at digital agencies view "New Business Pipeline vs. Capacity" as an "important" to "very-important" KPI in managing their agencies.

The first step in managing sales vs. capacity is having the right tools and automated systems to manage your sales pipeline and resource allocation. The good news is that while these automated tools are ever evolving, and continue to deliver great value, there is no quick switch to plan your capacity. Once you have done your research—and found the tool that is right for your team—there is still going to be a level of human interaction needed to guide your capacity planning. A capable team that is able to manage the necessary data points is key.

Project Managers and Business Development team alignment is imperative in order to plan for resources. PMs typically have the clearest visibility into current capacity and assignments, but also have a view into things like team stress level and morale. Meeting the expectations for the expediency demanded by the client can often lead to higher levels of stress and lower levels of employee satisfaction – two things that often have a direct effect on efficiency and quality of work.

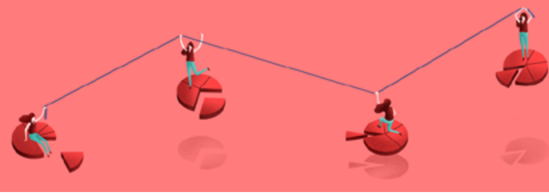
A common vernacular across your team will ensure that everyone is level set to the same expectations. At The1stMovement, we have a Sales Stage Definition list that defines the criteria to calculate a percent to close so when a 75% prediction is identified, it holds some weight because criteria has been set to define that percentage. This allows us to layer onto the definitions the engagement level needed for resource planning. For example, when a lead is at 25%, biz dev is in the discovery stage – finding out what is the need, how long it takes to make a decision, who the decision makers are, etc. At this point the PM can begin to provide insight and information on past/similar projects. This level of engagement increases as the lead moves through the pipeline and towards the finish line, along the way the PM and Biz Dev have a finger on the pulse of capacity.

From a project management perspective, key-stakeholders at digital agencies see "Lack of view into over-servicing clients" as the issue that has the most impact on agency profits.

Yes, over-servicing of clients has a direct impact on profitability because you are essentially giving your services away. It also has an impact on your capacity planning by slowly eating away at available resources. This allows it to creep into your culture, which ultimately can lead to lower employee satisfaction and lower productivity. Let's face it, it's hard to see real value in something you are giving away for free. Spend time to go over what is included in the SOW, understand the objectives and the role your team plays, and then empower your team to make decisions, or take action, when they see a project going off the rails.

Pipeline vs. Capacity comes down to good data, good communication, and realistic expectations. Sell realistic lead times whenever possible to allow time to plan resources effectively. Communicate expectations internally, when everyone understands the nuances of the project and the level of service needed it's easier to identify areas of over-servicing. And lastly, appreciate the value that you provide to your clients. When everyone is aligned on the value of the service you are selling, managing capacity can be done much more effectively.

About the Author: *Jenn DePauw is the Managing Director of The1stMovement, a digital agency with offices in Los Angeles, Denver and Hong Kong.*



René Praestholm, Deltek

Top 5 Metrics Management Teams Should Watch Closely

The concept of measuring performance and utilizing KPIs is nothing new to agency people. Most have a handful they track, but are they the right ones?

The more successful agencies often look beyond the end-of-project numbers to evaluate agency health across sales, estimating, and project management on a regular basis (and in real-time). While every agency is somewhat unique creatively, most share similar business practices and the frustrations that come with over servicing, poor estimating and inferior client management.

The metrics I've highlighted below represent five integral areas of agency business practices that, when monitored and stabilized, contribute to solid agency performance and more predictable results - while helping to avoid cash flow and resource surprises.

Is there enough new business in the pipeline to cover costs?
Make sure that you have a solid view into your new business pipeline and make sure that you have proper metrics to determine the health of your pipeline. Having the ability to compare pipeline vs. capacity is really important as you might not have the

resources available when you win the pitch. This leads to extra work pressure on your team which is bad for employee morale. 85% of the survey respondents report this as a high priority KPI.

How is new business pipeline progressing?
Spending too much time on that one pitch? Maybe start tracking how much you invest in winning pitches. Often, I see too much time is invested in a customer that really isn't that profitable. If your new business investment supersedes your projected profitability, then you need to consider backing out.

Monitor the health status on our on-going projects
Monitoring project heath is key to your profitability. If a project is off track it can cost you a lot of money. Often you find out too late if a project is not performing as expected, so make sure that you have proper tools in place that can foresee if a project is going in the wrong direction. This survey reveals that most are dedicated to measuring efficiency (96%), but only 20% are using an automated system. Consider the implications of a "stitched together" monitoring plan that can be inconsistent versus a complete operational system that ties activities, transactions, costs and resources together for complete reporting.

Consider your agency business model
There is no single answer to what model is the best, but having the different models in mind when you negotiate your next agreement is valuable. Considering variables like the amount of work, type of work, client budget and frequency of deliverables will help you determine which of these three models is most applicable for your situation:

- Project by Project model: you sell projects one at a time with no upfront commitment from the client on a yearly budget.
- Retainer model: you have a fixed yearly budget that is based on x amounts of projects, by project type and size.
- Capabilities model: you sell a team of people with a specific skill set for an agreed time frame. This team is then at the client's disposal throughout the period.

Getting estimates right
39% of survey participants say their projects often go over budget due to scope changes with 65% reporting an income loss of 10-25% when that happens. Over-servicing is hard to avoid if you haven't got tools to drive a template structure. With a template structure in place, both the brief, estimate and time plan is accurate from the get-go, which ensures that the project framework is initiated correctly. Furthermore, as you accurately measure capacity and performance against these scopes you can refine them over time to include line items, new pricing and language that ensures they do not overpromise and/or under deliver.

About the Author: *René started his career in 1999 as a project manager overseeing large and small business software installations with global advertising networks. He was the first employee at WorkBook (acquired by Deltek in 2017) and has worked on more than 250 implementations of the creative agency management system. With his profound knowledge and experience in the agency industry, René knows how a modern agency should be run. He is now working as the Global VP of Agency Solutions with Deltek out of the Copenhagen office.*

Team & Partners

SoDA

SoDA serves as a network and voice for entrepreneurs and innovators around the globe who are creating the future of marketing and digital experiences.

Lakai Newman, Communications Manager

A graduate of Emory University, Lakai Newman came to SoDA from a NY-based digital agency where he focused on creating compelling content for a number of blue-chip brands. He serves as SoDA's primary steward and contact for communications, social media, and marketing efforts. Lakai also serves as Associate Editor and Head of Production for *The SoDA Report*, SoDA's biannual trend publication that features primary research, thought leadership, and case studies from top digital agencies, production companies, and client-side digital marketing executives from around the world. He considers himself a natural "creative" that is passionate about global travel, cooking, pop-culture, and all things digital.

Jessica Ongko, Designer

Since joining SoDA's Operations team in 2014, Jessica Ongko has been deeply involved with strengthening SoDA's brand and visual identity while collaborating with agencies around the world to design and create publications, event signage, and both digital and physical assets related to the work of SoDA. A graduate of the Graphic Design program from advertising portfolio school, The Creative Circus, you'll often find Jessica trotting the globe and working out of airports during long layovers.

Deltek

Deltek is the leading global provider of enterprise software and information solutions for advertising and marketing firms and other project- and people-based businesses. Deltek customers include three out of the four largest global agency networks. More than 20,000 organizations and millions of users in over 80 countries around the world rely on Deltek to streamline operations and deliver more profitable projects, optimize resources, recruit and develop talent, research and identify opportunities, and win new business. www.deltek.com

Nancy Murray, Director of Solutions Engineering

Nancy leads solutions engineering at WorkBook, Deltek's global agency management solution practice designed specifically for advertising, creative and digital marketing firms. She is dedicated to the delivery of exceptional data intelligence and best-in-class products to "service-driven" agencies. A native of Quebec, Nancy has a comprehensive background in radio/broadcast, enterprise-level organizations, communications & agencies as well as worldwide technology transformations for over 20 years.

René Praestholm, Global VP of Agency Solutions

René started his career in 1999 as a project manager overseeing large and small business software installations with global advertising networks. He was the first employee at Work-Book (acquired by Deltek in 2017) and has worked on more than 250 implementations of the creative agency management system. With his profound knowledge and experience in the agency industry, René knows how a modern agency should be run. He is now working as the Global VP of Agency Solutions with Deltek out of the Copenhagen office.