

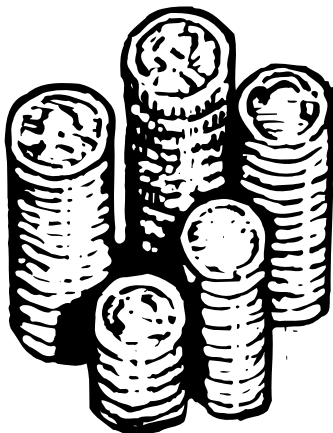
Make More Money With Better Profitability Analysis

By Mindy Williams

“Knowing where profit is coming from is just as important as knowing how much profit you’ve made,” asserts Dawn Jaworski of Gabriel Diericks Razidlo. “You need more than a basic financial report that adds up billings, subtracts job costs, and lets you know if you have enough left over to pay your staffers and vendors, (not to mention wallpapering the executive bathroom)!”

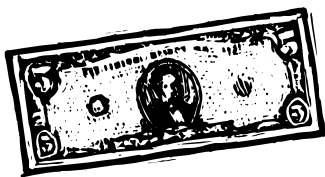
What about monitoring profitability as jobs progress? How about analyzing profitability from various perspectives? The accounting department would kill if you made them crunch all those numbers more than once! It’s all they can do to get the billings out, right? (Not using C&P yet, obviously.)

Think of the benefits of being able to easily analyze any particular job or range of jobs at any point in time, and from a variety of perspectives. If analyzing profitability is this easy, it allows for more time focused on the only two ways to improve profits: get more clients and



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MAKE MORE MONEY



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bill them for more jobs, and know where you're spending every dollar and correct any misspendings.

Two types of profitability

"Don't rely on just one type of profitability report to keep you informed," suggests Yvonne

Westergren of DiBona, Bornstein & Random. Job profitability is focused on job costs and job billings. Profitability reports that focus on just jobs are important because they show profitability details. Details help you determine what went right or wrong on a given job. But job profitability shouldn't be your only focus.

Agency profitability is the bigger picture. It's based upon income and expenses for everything—whether job related or not. If you are not covering your overhead, you won't last long. Once you factor in overhead, you may see that clients which looked marginally profitable from the job perspective, go into the red. Perhaps billing rates are too low for a certain client's production jobs. It's time to renegotiate their billing rates!

Painless profitability reporting

How can you possibly produce detailed and meaningful profitability reporting without driving your accounting department to its limit? The answer is one software, Clients & Profits.

Clients & Profits software is designed to replace your existing accounting and production systems, including manual ones. Everyone shares one database, entering their work whether they are accounting or production oriented. One result of the work process is the ability to produce a variety of meaningful, detailed profitability reports.

Income statements, too

Job profitability and the Income statement emphasize different things. Job profitability reports are based solely on jobs, tasks and clients. These reports show details of how much was made or lost on work for a particular job or group of jobs. Even specific tasks can be analyzed for their profit contribution.

The Income statement includes overhead expenses like payroll, rent and utilities, but doesn't show specifics for the cost of time spent working on jobs like the Job profitability reports. Income statements provide the big picture and Job profitability reports break it down into job-sized details.

It's profitability from a production perspective vs. agency-as-a-whole perspective. Both reports show important information about how well your shop is doing. Job profitability shows exactly where your revenue is being earned, even showing each client's total contribution to profit. Income statements can't show this kind of detail without a lot of extra work (and hair pulling) on your accountant's part.

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Two views on profitability: Job Profitability vs. Income Statement

It's important to see profitability in two distinct ways: from the job ticket perspective and from an agency-wide perspective. Here are the benefits of each perspective:

Job Profitability

- Examines individual jobs accurately, quickly and easily. Shows profit before and after your labor costs. Can print reports by AE/Team, client, profit center, task and group.
- Examines client vs. client profitability. (Notice which clients are almost always least profitable? Perhaps it's time to revise billing rates for them.)
- Examines individual jobs grouped together by job type. Analyzes what types of jobs are most profitable for your shop. (Pursue that type of work more often!)
- Examines how good you are at sticking to your projected gross margin. (Perhaps it's time to revise estimating procedures?)

Income Statement

- The ability to allocate your shop's overhead to the profitability picture is a powerful tool that gets you to your bottom line in record time!
- Clients that may have looked marginally profitable using job profitability reports may lose what little profit they had when overhead is factored into the picture.
- If you're using Clients & Profits Pro, allocate overhead automatically using AAAA-recommended allocation methods—agency direct service costs, agency billings, agency income, or agency direct client hours.

PROFIT MARGIN: WHAT'S A FAIR PROFIT?

By Brad Manning, CPA



What owner hasn't heard this statement from consultants, CFOs and pundits in the agency

business: **ADVERTISING AGENCIES SHOULD MAKE A 20% PROFIT ON INCOME.** But statistics from the American Association of Advertising Agencies (AAAA) show that actual agency profit margins aren't close. These stats shows that 80% of agencies surveyed made a 10% or less gross profit—and fully 12% lost money.

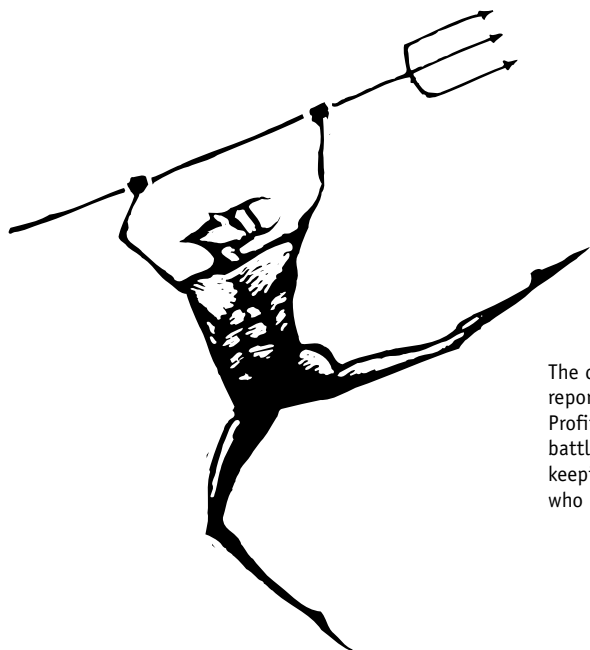
Before comparing your financials to those of other agencies, here are some key terms to know: *gross profit*, *profit before taxes*, and *net profit*. **Gross profit** (i.e., agency gross income, or AGI) is not billings; it is what the agency earns by media commissions, markups on outside costs, billed staff time and fees. **Profit before taxes** is profit left after paying for the shop's expenses, like rent and utilities. For small shops, a 20% profit before taxes (after deducting a reasonable owner's salary) is the goal. **Net profit** is simply what's leftover after taxes.

A typical ad agency spends half of its gross profit on salaries. In addition, about one-third is spent on overhead expenses—just keeping the doors open. (It's easy to compare these percentages throughout the month by printing an Income Statement w/ AGI from Clients & Profits.)

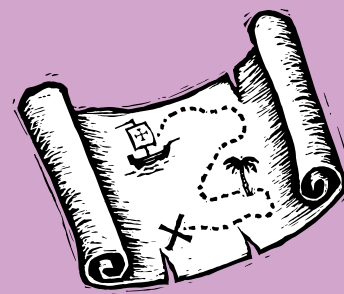
Not making a 20% profit doesn't mean the shop is failing, especially in this unpredictable industry. If a 20% profit is unrealistic, what should your agency earn? You need a consistently good profit margin to build up your financial strength, helping the shop survive client losses, bad debts, slower payers and economic downturns. It also provides the equity every shop needs to invest in its future.

With Clients & Profits, you have the means to easily track budgets, costs, billings and profit. All it takes is putting it to work.

Brad Manning is a CPA and the president of Clients & Profits, Inc.



The cost accounting and profit reporting systems in Clients & Profits help you win the ultimate battle: getting the good clients and keeping them profitable. After all, who needs evil clients?



What's Your Favorite Profitability Report?

We asked Clients & Profits users to speak out on their favorite profitability reports, a subject close to their hearts—and their bottom lines.



Projected vs. Actual Gross Margin "It's so important to measure how well your job estimating is stacking up to what's actually done," says Kym Tedesco of The Townsend Agency. "It's an especially important tool when you first start using C&P to ensure your estimating is right on the money."



Gross Margin by Job "Sorting by job type gives the unique perspective of what type of work is most profitable for your shop," says Bryant Walton of Pentagram Design. "I wait until the jobs are closed, so I get the full profitability picture."



Gross Margin by Client "Our AEs want to see profit before and after labor for all their jobs and clients," says Kelly Ruzich of Fruehling Communications. "The one client per page format makes it easy to distribute to AEs."



Client vs. Client Gross Margin "I want to know how well we are maintaining our gross margin from month to month," says Sue Augustine of Creative Concepts, "so I print this report by work date range each month. I get the AEs involved in the results, too."



Client P&L Analysis "It's the report our owner wants to see," says Kathi Landis of Creative Company, Inc. "She's very interested in how direct costs apply to our various clients, and this report shows that...and a lot more!"

CLIENT P&L ANALYSIS

The profitability report that leads the way

The **Client P&L Analysis** is the only profitability report that allocates overhead (non-client related expenses) after determining net revenue (gross margin) providing a total profitability picture.

The Client P&L Analysis can be printed for one **accounting period** at a time, so printing at the end of each month is recommended.

Each **client's** activity during an accounting period is summarized. The report sorts the most to least profitable clients so you quickly see who is making you the most money.

Income and **costs** appear here automatically based upon job costs and job billings posted throughout the month.

Direct labor amounts appearing here are derived from information you enter into the **Overhead Allocation worksheet**.

Clients & Profits Sample Data

Client P&L Analysis

Client income, cost, and expenses for period 1 - January 1997

Profit Center: ALL

Client:		Income:	Costs:	Net Re
TER	Tobias Energy Resources Inc.	\$ 81,596.32	\$ 6,727.45	\$ 74,868.87
ABI	American Bios/Integrated Systems	\$ 74,671.04	\$ 24,126.15	\$ 50,544.89
BAC	BAC-Channel Partners	\$ 2,245.00	\$ 288.75	\$ 1,956.25
ITP	International Performance Corp.	\$ 18,518.10	\$ 12,042.35	\$ 6,475.75
ADL	Applied Dynamics	\$ 3,470.00	\$ 51.00	\$ 3,419.00
SED	SED Galaxy Studios	\$ 1,413.00	\$ 297.70	\$ 1,115.30
CAP	Cappelli Corp	\$ 17,096.33	\$ 370.85	\$ 16,725.48
BAN	Banyan Data Systems, Inc.	\$ 3,649.34	\$ 397.20	\$ 3,252.14
BEN	Benton Chemicals	\$ 16,024.18	\$ 4,149.05	\$ 11,875.13
ATT	Audience Technologies Inc.	\$ 35,067.78	\$ 15,558.61	\$ 19,509.17
CBT	CMT Studios		\$ 13,151.35	\$ -13,151.35
		\$ 253,751.09	\$ 77,160.46	\$ 176,590.63

Overhead Allocation

Period: 1 - January 1997

Initials:

Name:

LV	Louise Valentine
KM	Kerry Mooney
MG	Megan Goode
MGR	System Manager
BAT	Barbara Templeton
BEN	Bea Noonon
CL	Cathy Lewis
MCR	Mary Meyers
ML	Mary Lowe
TOG	Teri Olsen-Geary

Use allocation formula: Agency Dir

Revenue:	Direct Labor:	Direct Exp:	Overhead Allocation:	Net Income:	% of Net:
868.87	\$ 2,305.05		\$ 6,700.45	\$ 65,863.37	134.36%
544.89	\$ 8,038.12	\$ 1,265.00	\$ 21,696.69	\$ 19,545.08	39.87%
956.25				\$ 1,956.25	3.99%
475.75	\$ 1,154.56		\$ 3,927.00	\$ 1,394.19	2.84%
419.00	\$ 523.02		\$ 2,503.46	\$ 392.52	0.80%
115.30	\$ 647.76		\$ 2,356.20	\$ -1,888.66	-3.85%
725.48	\$ 6,717.60		\$ 14,259.93	\$ -4,252.05	-8.67%
3,252.14	\$ 1,897.29		\$ 7,412.22	\$ -6,057.37	-12.36%
1,875.13	\$ 3,954.95		\$ 14,088.12	\$ -6,167.94	-12.58%
9,509.17	\$ 5,607.94		\$ 20,174.97	\$ -6,273.74	-12.80%
3,151.35	\$ 449.51		\$ 1,889.87	\$ -15,490.73	-31.60%
6,590.63	\$ 31,295.80	\$ 1,265.00	\$ 95,008.91	\$ 49,020.92	

Each client's total **percentage of net income** shows what portion of the profit each client is responsible for.

Each client's total **net income dollar amount** shows pure profit amounts. Those clients showing negative amounts are losing you money after overhead is factored in.

All costs that are not associated with a specific client appear in the **overhead allocation** column. The amounts are determined using the **overhead allocation worksheet**.

All costs that are associated with a specific client and with an expense G/L account (as opposed to a job cost G/L account) appear in the **direct exp** column.

MTD (or Month To Date) amounts should include salary, payroll taxes and benefits. Any related amount that is not factored in here appears as overhead.

One of four **allocation formulas** is chosen by you. It will determine how overhead is allocated. Each of these four methods is recommended by the AAAA.

Overhead Allocation Worksheet

Print to: **Screen**

Direct Service Costs:

Department:	MTD:
Acct Serv	\$ 3,500.00
Admin	\$ 2,750.00
Admin	\$ 2,200.00
C&P	\$ 2,500.00
Creative	\$ 4,500.00
Creative	\$ 3,258.00
Creative	\$ 3,108.00
Production	\$ 2,580.00
Production	\$ 2,750.00
Production	\$ 150.00
	\$ 30,296.00

Direct Service Costs

Cancel Save

PROFITABILITY QUESTIONS AND ANSWERS



Q. What is an “AGI”?

AGI, or *agency gross income*, is an important tool in financial analysis. Analyzing your shop’s expenses is more meaningful if you look at expenses as a percentage of income. In addition to the standard income statement, Clients & Profits provides an AGI-based report that calculates expense percentages based on gross margin, not total income.

For example: Rent expense is constant each month, but the percentage of income differs each month. If you see consistently lower percentages over many months, you may decide you can afford more office space.

Q. How do we calculate the cost rate for staffers?

A staffer’s cost rate should be based upon the staffer’s gross salary, benefits and the employer’s portion of payroll taxes. Or you can create an average cost rate for a number of staffers that are at roughly the same salary level. There is some debate as to the number of hours to divide the total amount by to achieve an hourly rate; many shops use 2,080 hours.

Q. What should be entered in the budget column on a job ticket? (Budget appears on some Gross Margin reports.)

Strictly speaking, the budget should include all the net costs that affect a job: both external and internal costs.

Q. What’s the difference between gross margin and net income?

Gross margin is the amount of total profit from a job before applying overhead. *Net income* is the amount of total profit after overhead expenses are deducted.

Q. Should we include a client’s unbillable jobs on profitability reports?

You have the option of being able to include them or not on job profitability reports. All job profitability reports are printed for a status code range. So, any job you don’t want included should have a status code that’s outside of the range for which you’re printing.

But when printing for the agency-as-a-whole perspective, anything and everything client related—billable or not—should be included. So, the Client P&L Analysis always includes everything.

Q. What’s the difference between running profitability reports by work date or start/due date range?

The work date range option allows you to zero in on a particular point in time, for example, last month, and see where profit is being made. But work date range never shows the ultimate profitability picture of a job. Printing for a job’s start or due date shows a job’s complete profitability picture to date; it will be more complete. We suggest printing a profitability report each month for jobs closed during that month. Here you’ll see the final tally on a job’s profitability.

AGI, or agency gross income, is an important financial tool:

“Analyzing your shop’s expenses is more meaningful if you look at expenses as a percentage of income.”

Clients & Profits offers a special agency gross income-based Income Statement, in addition to the standard one.”



GUARANTEED GREAT IDEAS!

Profitability Tips from Real Clients & Profits Users

Clients & Profits users are happy to share their tips on how they increased profitability in their shops, and how you can increase it in yours:

Track time frequently “If time is entered daily, you can see a job’s progress and know if it’s going over budget,” says Marty Pennoni of Pace & Partners. “This allows you to be proactive and do something about it now, instead of waiting until the end of the job, when it may be too late.”

Once a client signs an estimate, use change orders “When a client wants a change to one of their jobs, it generally costs us in time and money,” says Jim Littlejohn of Square One, Inc. “By using change orders after the estimate is signed, we have an opportunity to recoup the cost of the change. And by recording the change order when it happens, it’s not forgotten when it comes time to bill the client.”

Use job cost transfers carefully “It’s important to us to know the real profit on the job, not what the costs are after any overages have been pulled out,” says Leslie Duncan of Duncan/Day Advertising. “We transfer net costs only when we correct posting errors. If we’re moving something for billing purposes, we move only the gross costs.”

Write purchase orders early “By recording commitments early, you see if your estimate is sufficient to cover costs on the job or if you’ll need to go to the client for more money,” says Kathy LaBonte of VML. “It helps prevent surprise invoices from showing up on jobs and helps vendors live up to their commitment to you.”

WHAT OVERHEAD ALLOCATION CAN DO FOR YOU

By Rhonda Brazelton

Do you have annoying clients who always want a lower price? Or alter their jobs and not pay for the changes? Difficult, demanding, or slow-paying (to name only a few reasons) clients may be hurting your shop more than you think.

Clients & Profits provides dozens of cost and profit reports that compare and evaluate each client's worth to the shop. For questionable clients, management needs an accurate, compelling look at each to make the hard decision about keeping them.

Profitability reports get you part of the way there, but they show only gross profit. They show how much profit a client generated to pay salaries, rent and other expenses. Since profitability reports are designed for account service, they don't include overhead expenses (which may not be any of their business). A client may look marginally profitable, but factor in overhead, and you realize that they are actually costing you money. To see the true picture, overhead needs to be allocated to each client.

With Clients & Profits Pro, overhead can be automatically allocated based on different AAAA-based formulas. *Agency Direct Service Costs* is used most often, since it allocates overhead based on two factors: (1) how much time staffers spent on each client and (2) staff salary expenses. So if an owner works one hour on a client's job, that client gets more overhead allocated. The owner spends more overhead due to his larger salary. (After all, who has the bigger office and the best computer?) A junior creative, in contrast, working an hour on the same client results in less overhead allocated to the client.

Once overhead is allocated, the Client P&L Analysis report shows how much each client is actually bringing to the bottom line. Some clients will likely surprise you with how little profit they generate, and vice versa. It won't fix problem clients, but it at least provides a bargaining tool the next time their retainer is negotiated.

Rhonda Brazelton is the lead programmer for Clients & Profits.



THE JOB SNAPSHOT— MORE THAN JUST A PRETTY PICTURE

When someone says "job snapshot," do you think of a job's photo shoot? In Clients & Profits, the Job Snapshot is an account management tool that provides a real-time view of a job's key aspects. And when you can see events happen in real-time, you can respond quickly if anything starts to go wrong.

As part of every job ticket, the Job Snapshot window is used by account executives to get up-to-the-minute balances for a job, as well as make projections about the job's progress. It's also a great way to communicate to the accounting department upcoming job billing details—when and how much to bill. The window contains four integrated worksheets:

The estimate worksheet lets AEs enter an approximate amount for costs still outstanding to arrive at a true estimate remaining figure. Here is an early tip-off as to whether or not the job, as a whole, will come in under budget.

The hours worksheet lets AEs enter approximate hours needed to finish the job. Here is an early warning as to whether the job's internal components are going well. The total of actual hours already billed also appears here.

The profit worksheet is a mini-P&L for this job only. As soon as work begins on a job, the Profit worksheet keeps AEs informed on the job's bottom line. AEs see both gross and net profit here.

The billing worksheet is an important tool that AEs use to communicate with the accounting department. AEs enter what the next billing amount should be, as well as the billing date. This information prints on the Job Snapshot report from the Job Summaries report area. This report also shows other details entered into the Job Snapshot window.

MAKE MORE MONEY (con't)



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However, the job profitability doesn't include overhead—so it's not a complete picture either. Use both of these reports together for a complete profitability picture. Or use the ultimate profitability report, the Client P&L Analysis.

Easy time keeping

Tracking how everyone in your shop spends their time is fundamental to the profitability of your business and to Clients & Profits. With features like interactive lookup lists for jobs and tasks within personalized user time cards, ample space for time notes, and really easy ways to monitor whether or not someone has accounted for every hour of

their day, your jobs track every hour worked on them, adding to their profitability. Accounting for every hour worked on a particular job ensures that a job's labor picture is complete on profitability reports like the job's Gross Margin.

Easy expensing

It's easy to track and charge clients for in-house output, faxes, long distance calls, CD-Roms and Zip disks with Clients & Profits. "We make an effort to record all miscellaneous costs spent for client jobs," says Alice Mathews of The Tombras Group. "Their billings can account for several thousand dollars over all the jobs we bill in a month. It's very important to keep those job margins up."

Easy billing

Easy billing contributes to overall profitability! Less time is spent on the mechanics of billing because all the time, expenses and outside costs you've entered flow from job tickets to Accounts Receivable. There's no rekeying of information necessary.

The simplicity and speed of the billing process means you'll bill more often—when jobs are done or when costs are incurred instead of waiting until the end of the month—so cash flow is improved, too. Details like job specs on invoices and general or very specific descriptions of tasks promote a client's understanding of the work. Fewer questions lead to faster payment.

Make More Money

Armed with the tools to determine which clients and what type of work is most profitable, how you're spending every dollar, and easy ways to track and bill costs, your shop's ultimate product is profit!

Mindy Williams is a senior member of the Clients & Profits Helpdesk. She teaches the new-user training classes and edits the quarterly newsletters.

CLIENTS & PROFITS is job production and accounting software designed especially for creative businesses. Since 1986, more advertising agencies have chosen Clients & Profits over any other agency management software for Macintosh and Windows. Over 1,700 ad agencies, graphic design firms, and corporate marketing departments use Clients & Profits to track jobs, costs, and billings every day. For more information, send email to info@clientsandprofits.com.

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