



Increasing the Profitability of Your PR Agency Using Proven Benchmarks and Ratios

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YOUR TRAINERS



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Today's Training Agenda

- **Meet the trainer/Top takeaway tip**
- Managing the top line: Revenues
- Managing your biggest expense: Labor
- Keeping operating expenses in check
- Additional benchmarks and best practices
- Financial Succession Plan



**Rick Gould, CPA, J.D.
Managing Partner
StevensGouldPincus**

Rick Gould, CPA, J.D formed StevensGouldPincus in 2003 with Art Stevens, former CEO of LobsenzStevens, and PR legend Ted Pincus. Rick has been a frequent speaker at Bulldog Profitability Summits, HOW Mind Your Own Business Conferences, Counselors Academy, PRSA, NorthStar and other management conferences. He recently was interviewed by *The Economist* and has been quoted by the *New York Times*, *Wall Street Journal*, and other publications. He had a monthly column on financial management in O'Dwyer's PR Services Report for eight years, and for four years was on the graduate faculty at the Parsons School of Design, teaching a course he created "Entrepreneuring – The Business of Creative Businesses."

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Introduction

- **The End Game**
- **Recent Transaction**
- **How they did it?**

Model Firms

- **Definition:**

Firms that will not only survive, but will thrive, no matter what the state of the global and/ or U.S. economy and the effects on the PR industry.

Financial Best Practices Benchmarking Equation

- I. **REVENUES**
 - II. **(-) LABOR**
 - III. **(-) OPERATING EXPENSES**
- = OPERATING PROFIT**

NET Revenues

DEFINITION

Fee Billings

+ Mark-Up on Rebillables

= Net Revenues

Track Revenues

RULE

Track by

- I. Areas of Expertise**
- II. Industry Services**
- III. Territory/ Geography**
- IV. Method Billing**
- V. Client**
- VI. Employee (Average)**
- VII. Professional (Average)**

WHY

Because when SELL your firm, which you will someday, all BUYERS will need this.

By Areas of Expertise- Industry Sector

- **Consumer Products and Services**
- **Government/ Public Affairs**
- **Healthcare**
- **Beauty & Fashion/ Sport**
- **Professional Services/ Real State**
- **Crisis**
- **Education/ Not For Profit**
- **Technology/ Social Media**
- **Financial Services and Products**
- **Travel/Lifestyle**

By Method

- **Time Based (Hourly)**
- **Blended Hourly Rate**
- **Fixed Retainer (i.e. \$10,000/ Month)**
- **Project**
- **Value Billing**
- **Other (List)**
- **Minimum Monthly Retainer (i.e. \$10,000/ month) Plus Bill for Excess hours over Budget at Hourly Rate or Blended a Rate**

By Client

- **List each client & percent of Total Revenues**

RULES

- **No one client should generate more than _____% of Revenues.**
- **Top 20% of clients should represent no more than _____% of Revenues.**

By Employee

Total Revenues **\$3,800,000**

**÷ Total Equivalent
Full Time Employees** **20**

= Revenues Per Employee **\$ 190,000**

What is the Benchmark? **\$ _____**

By Professional

Total Revenues \$3,800,00

÷ Total Equivalent Full Time Professionals 16

= Revenues Per Professional \$ 237,500

What is the Benchmark? \$ _____

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II. Labor Benchmarks

The Key to Profitability!

- **Professional Labor** **38%**
- **Freelance** **2%**
- **Payroll Taxes & Benefits** **10%**
- **Total** **50%**

Staff Turnover

- **Retaining Great People critical when ready to sell.**
- **Turnover very high in many firms.**
- **What is the benchmark?**

Staff Turnover

< \$3 Mill	_____ %
> \$3 Mill - \$10 Mill	_____ %
> \$10 Mill - \$25 Mill	_____ %
> \$25 Mill	_____ %

All Firms

2010	_____ %
2009	_____ %
2008	_____ %

Model Firms	_____ %
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Key Staff Retention

- **Salary - Surveys**
- **Bonuses**
- **Perks**
- **Equity**

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III. Operating Expenses

- **Administrative Salaries** **6%**
- **Rent & Utilities** **7%**
- **New Business** **2%**
- **Other Operating Expenses** **10%**
- **Total** **25%**

Labor & Operating Expenses

Monthly Monitoring

Month of September 2011

Quarter Ending September 30, 2011

Projected to year-end Oct-Dec 31, 2011

Projected for Full year 2011

Comparative for full year 2010

Financial Best Practices Benchmarking Equation

I.	REVENUES	100%
II.	(-) LABOR	- 50%
III.	(-) OPERATING EXPENSES	<u>- 25%</u>
	= OPERATING PROFIT	<u>= 25%</u>

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Additional Benchmarks and Best Practices

Managing Rebillable Cost Recovery

- **Cost of the out-of-pocket plus a Mark-Up**
- **What is the benchmark?**

Charging Administrative Fees?

- **A percent of the client invoice for routine
rebillable costs.**
 - **Phone**
 - **Copies**
 - **Supplies**
 - **Others?**
- **What is the benchmark?**

Managing Billing Rates

DEFINITIONS

➤ **Blended Rate**

- **One Rate regardless of level of staff**
- **What is the going blended rate benchmark?**

Billing Rates Tops
In Each Category:
2010 Year-End Billing Rates

	<u>Top Size</u>	<u>Two Top Regions</u>		<u>Two Top Specialties</u>		
	> \$25 Mill	NY/NJ	D.C.& Suburbs	Public Affairs	Sports/ Entertainment	
President/CEO	\$ 513	\$ 424	\$ 418	\$ 397	\$	391
EVP/SVP	\$ 387	\$ 353	\$ 356	\$ 318	\$	319
VP	\$ 298	\$ 287	\$ 306	\$ 272	\$	256
Account Manager	\$ 256	\$ 214	\$ 219	\$ 228	\$	218
Senior Account Executives	\$ 188	\$ 182	\$ 179	\$ 190	\$	168
Account Executives	\$ 168	\$ 154	\$ 156	\$ 162	\$	151
Account Coordinator	\$ 133	\$ 110	\$ 123	\$ 114	\$	108
Blended Rate	N/A	\$ 192	\$ 163	\$ 192	\$	195

Managing Utilization

DEFINITIONS

➤ Baseline Hours

- The total “Available” client billable hours for the year.
- What is the benchmark?

➤ Utilization %

- Actual billable hours divided by the Baseline hours
- What is the benchmark?

Utilization

Applying the Utilization Concept-Example

September 2011

Senior AE – 40 hours/Week

@ 4 1/3 weeks

= 173 hours

Utilization rate

88%

Available billable hours (baseline)

152

Billing Rate

170

Projected Billing for month

\$ 25,840

Can you do this by week, month or year?

Recommend as often as possible.

Utilization

DEFINITIONS

➤ **Writedowns**

- **Unbillable client hours (baseline).**
- **What is the benchmark?**

Average Rates & Utilization- 2010 vs. 2009

	Average Billing Rates 2010	Average Billing Rates 2009	Average Utilization 2010	Average Utilization 2009	Firms in Excess \$25 Million 2010	Firms in Excess \$25 Million 2009
President/CEO	\$ 360	\$ 338	39.0%	43%	29.7%	37%
EVP/SVP	\$ 309	\$ 283	63.1%	64%	56.7%	61%
VP	\$ 261	\$ 241	75.1%	73%	75.3%	81%
Account Manager	\$ 208	\$ 199	84.5%	85%	90.0%	91%
Senior Account Executives	\$ 178	\$ 168	89.9%	88%	89.4%	96%
Account Executives	\$ 153	\$ 142	91.7%	92%	89.6%	93%
Account Coordinators	\$ 113	\$ 110	85.9%	88%	91.0%	97%
Blended Rate	\$ 182	\$ 171	---	---	---	---

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Financial Succession Plan

➤ **Develop One . . .**

- **5 year commitment**
- **Know the “game”**
- **Build a track record**
- **Clean-up your financials**
- **Profile your client revenue**
- **Cultivate your key staff**
- **Understand the integration**



STEVENS GOULD PINCUS

Merger & Management Consultants to the Communications Industry

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