# SO YOU WANT TO RUN AN AGENCY?

## (AND MAYBE SELL IT ONE DAY)

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# Contents

# Introduction

Over the years I have had many conversations with people who wanted me to share my experience of running a marketing services group. It seemed like a good idea to write as much of it down as I can remember in a short eBook and make it available to whoever may be interested.

I should explain my background.

I only ever ran one agency/consultancy, The Added Value Group, from 1988 until 2002 when it was sold as part of the Tempus Group Plc to WPP. AVG was focused on marketing but we had 4 divisions who all worked very closely together. These covered:

- Brand marketing in all its facets including innovation
- Design
- Market research
- Internal communications and brand engagement

Tempus was a media group and I have also known many different ad agencies from both sides of the fence

So that is what I know about. We started in the UK – in little old Hampton Wick, just outside Kingston-upon-Thames to be precise – but ended up with offices in France, Germany, South Africa, Australia, Greece plus another couple of small satellites. We eventually acquired agencies in Japan and the USA. During my time we grew to roughly 1000 people.

I include some views about expanding internationally and acquisition as well as what is involved in selling out to a bigger group and in fact being acquired by an even bigger one.

AVG was a project based business, we had very little by way of retainers and predictable income streams. This influenced our development and the way we managed the business and I cover that too. You will need to make adjustments, therefore, if this does not describe your business.

We worked in every industry sector imaginable with the exception of very hi-tech or industrial. Our client list was what is often described as Blue Chip – the key point to make here is that our clients were never spending their own money! They worked in the main for large corporates and had decent budgets.

AVG was eventually sold for, effectively (it's a long story) $100 million. It is now part of the WPP group, the design and internal communications businesses were spun off into different divisions and other consultancies were added under the AVG flag. To the best of my knowledge it continues to thrive, many of the original team stayed for a long while and so I guess we created some kind of a legacy and a brand.

Anyway, this is not a credentials presentation. All of this is by way of background to help the reader understand the basis of the advice and perspective I offer. I don't offer it as a 'seminal work' or even close – just an honest personal view of what I learned about running an agency. Any of the team and many of the clients will tell you it was not all plain sailing. Like everyone else I learned as much through failure as success. But what I did learn I share with you as grist to the mill. Something for you to think about and weigh alongside all the other advice you will get plus your own experiences. I should also say that I never stopped asking advice of other people – specifically, people who ran other agencies or consultancies and generally, business people I respected. That would be my first piece of advice to you – have a point of view but never stop being curious.

Enough of the set up, let me get on with it. If you are running your own business you have no time to waste.

This is what I cover, you can read it as one piece or dip into it wherever you want just by clicking the headings.

**SECTION I**

# So what is it you do exactly?
## HOW TO POSITION YOUR AGENCY FOR GROWTH.

When you start an agency – and, at various times thereafter, since things change – you have to decide a) what you are going to call yourself and b) what it is you do.

Lets start with the easy one. What do you call yourself? There are 3 choices:

- The surnames of the founders and partners e.g. Bartle, Bogle, Hegarty
- Something that more or less describes what you do e.g. The Sales Machine
- Something entirely abstract e.g. Yellowhammer

Note: very often options 1 or 2 become acronyms whether you like this or not – so think it through.

Please do not go for option one! It is tacky, clichéd, pretentious and ultimately limiting. Also, since most people will ignore this advice, it will fail to differentiate you from thousands of others. Obviously it can work but what about when one of the senior people leave or go mad (it has happened), what about ambitious senior colleagues who want to get their name included, what if you merge? It is a really bad idea – go for options 2 or 3.

We went for option 2, although in a fairly abstract way – The Added Value Group. It had something to do with marketing but we could define it the way we wanted and it allowed us a high degree of freedom in how we developed. On the other hand we called the design agency, Brown inc, after the founder Dave Brown. His partner Peter Hollingsworth never enjoyed this – but that is another story.

If you have real guts go for option 3 – your own unique brand name that can be made to stand for anything you want it to be. In which case – and here is a piece of practical advice – start with the URL, the domain name. See what you can afford to buy and then build your identity around that rather than get a great name and then discover the domain is taken.

Now for the more tricky bit – how do you describe yourself in terms of what you do? Lets imagine we have called ourselves Tricklethumper – this name then needs a descriptor, for example "Tricklethumper Design".

Again there are choices, 4 this time:

- Go with the industry accepted (understood by clients) conventions. If you are a sales promotion agency then describe yourself as such.
- Use a range of descriptors, ideally in a unique combination e.g. Accenture – Consulting, Technology, Outsourcing
- Use something new that is vaguely descriptive and vaguely evocative. We called ourselves a 'Marketing Agency,' which at the time was new. There were marketing consultancies and ad agencies and we wanted the combination of the two –strategic yet creative and practical.
- Create a new category and a unique descriptor e.g. Customer Experience Management

No hard and fast rules here but a debate well worth having because there are pros and cons.

- Too conventional and it can be too limiting.
- Too abstract or new and it can too confusing for clients and prospective employees.

I will return to this later under the heading of making the client pitch, a situation where you very quickly need to establish precisely what it is you are selling.

My advice is simple. If you really are, for example, a design agency, that is the market you wish to compete in and you are clear that you have some kind of competitive advantage (e.g. cheaper or more creative) then call yourself a design agency. Do not call yourself a Brand Agency – no-one knows what that means despite lots of people using it, and please don't call yourself something daft like 'Brand Stewards'.

On the other hand if you want to position yourself to be able to grow – you may be starting in conventional PR but you want to expand and change the way clients see the category – then either go for the list of 3 (maximum) distinct but complementary areas or even consider something that ladders up to a broader benefit e.g. Reputation Management.

On yet another hand, The Added Value Group never figured this out. No-one ever got Marketing Agency. After 5 years we moved on to Brand Growth and very few people got that either. They now call themselves a 'Brand Development and Insight Company' – better but they are 20 years old now and most clients have long since made up their own minds.

Obviously it did not hold us back too much, but it did not help externally. Internally I like to think that the continuous debate about this (and it was continuous, resurfacing every time we did a new brochure or web site) was actually quite stimulating and led to some great innovation in terms of services. In all likelihood we succeeded because we did some of the other things much better.

SECTION 2

# It's all about the people

CHOOSING THE RIGHT PARTNERS. HOW TO ATTRACT, RETAIN AND MOTIVATE THE RIGHT TEAM.

I have had many long discussions with people about their choice of partners – how critical it is, the criteria you should use and how you must NEVER compromise. I don't have the statistics but I would hazard a guess that the vast majority of agencies that go bust do so for no reason other than the partners fell out.

So here's my advice (reproduced by kind permission of SOGiants.com where it was first published)

## Pick your business partner like you pick your life partner

At the heart of every great business is a partnership which is more important than your choice of wife or husband. OK the latter is more important to you but the success or failure of your business partnership has a big bearing on a lot more people. So how do you know you have the right business partner? There are 3 simple tests.

Never mind TLC – leave that for the partner you go to bed with every night. I'm talking TLR – trust, like, respect. Your business partner (or partners) have to put a tick in every box – EVERY BOX!

**Trust** – can you trust the person 100%? Not just money, although that is pretty important, but can you trust them completely about anything. They will get to know you pretty well, can you trust them with keeping secrets about you?

**Like** – do you really like this person. You don't have to love them, you don't even have to like them that much but you must like them a bit. You spend more time with this person than anyone else. Do you have anything in common, can you share a joke, do you enjoy being with them?

**Respect** – do you respect them for who they are and what they can do, especially the things they do really well which you don't – the best partnerships complement each other.

Tick in every box – you can't just like them and respect them but not trust them 100%. You can't trust them and like them but not really respect them.

Great quote from a partnership that broke up: Allegedly, someone commented to Messrs Lennon and McCartney that Ringo was the best drummer in the world. They both burst out laughing and said, "He's not even the best drummer in the Beatles". But they probably liked him and trusted him.

So get your partners together – or prospective partners if you are about to start a business. Look each other in the eye and ask yourselves – do we trust, like an respect each other? Any doubt on any one and you've got problems.

I speak from experience as someone who had a great partnership that eventually, after 10 years, started to crumble as the mutual trust, respect and liking diminished.

The next part of this section comes in 3 parts:

- Attracting/selecting the right people
- Retaining the right people
- Motivation

Before launching into this let me just make the mega point that people are your single biggest issue. You may think it is clients, hitting the numbers, the competition but it is, in fact, people. With the right team none of the other things become issues. No amount of time you spend on people will be wasted, it is your single biggest success factor. If you become excellent at finding and hiring the best people, the place where everyone wants to work and where everyone is happy and motivated you will build a very successful business.

I probably spent 25% of my time on this and 100% worrying about it. We also had one of our very best directors take this on as their special focus and hired a really outstanding HR director long before most agencies our size would have done.

## Attracting/selecting the right people

You must think and behave as if you are always looking for good new people – because you should be. It does not matter how tough the business climate is, there is always room for a really good new recruit. If I came across someone excellent I always went out of my way to hire them, irrespective of our current trading position. In tough times, just set the bar higher (but then you should always do this). On the other hand, even if you are furiously busy, resist the temptation to lower the quality standards in terms of who you hire. As Steve Jobs once said – "better a hole than an asshole". Any compromise you ever make on people will always come back and bite you in the ass .

By far the best source of good people are the people already in the business. You have to be a little careful with this, they are sometimes reluctant to introduce people who they think are better than them (we did not find our senior team were very good at finding other senior people). However, they are your best scouts so we offered big incentives for anyone finding good people.

The right head hunters are also a big advantage. We made a very deliberate point of cultivating a couple of the best firms of headhunters in our area. We brought them in to the business, explained everything about us, built the relationship and made it clear that if they ever had good people we were always interested. This had two advantages:

- We went to the top of the list for any good candidate they had
- They were fantastic PR for us

Head hunters are always out there talking to people. We won several clients who told us that they had heard great things about AVG from our head hunters. We paid their full fess, we did not haggle and we were well rewarded for building this long term relationship.

Of course, your very best PR comes from your clients. The better you treat your clients the more likely they will be to recommend good people to you and even to want to join you themselves. Several of our clients came over to work for us.

We occasionally ran recruitment ads for new people but due to the success of the above, not often. When we did, we treated the recruitment ad as effectively an ad for the agency as a whole not just for new people. In a recruitment ad you are allowed to be immodest and really talk up what a great place you are, how you only hire the best etc. And, of course, clients read this as well!

So assuming you now have a flow of good people let's move on to the selection and induction process.

## SELECTION AND INDUCTION

We latched on fairly early to the idea that choosing the best people was a critical success factor for us and that hiring people who 'did not work out' was a disaster. So we deliberately set out to design an interview process that helped us choose only the best.

To begin with we had a very clear idea of what best meant. It will vary for different types of agencies or consultancies but for us it was:

- Really smart
- Passion for marketing (and their particular specialty within this)
- Radiators

Let me explain 'radiators'. We had a view that there are 2 types of people – radiators or drains. The former are warm, optimistic, energetic, empathetic, supportive, confident (but not arrogant). The drains are the opposite even though they may be bright and passionate about marketing. We discovered this the hard way – we lost (thankfully) several of the senior team early on. Some were regretted losses but most were not, they were 'drains'. In their place we hired some true radiators.

We also had this notion of the 'Christmas Party test'. Very simply if we looked at the prospective hire and felt, even though they were bright and good at what they did, no-one would want to sit next to them at the Christmas party we turned them away. Consequently we had great parties and, for the most part, great people.

## INTERVIEW PROCESS

But there was more to it than that. We had a 4 stage interview process. There would be an initial interview. In this interview we asked the obvious questions about their CV and the things they were most proud about. We also had a couple of questions designed to probe their true passion for marketing. One example of this was "If you could work on any brand in the world, which would it be?". If someone is passionate about brands they have no problem answering this. If they are not they give some bullshit answer about being a true professional able to be enthusiastic about any brand. I also used to give them another quick test to discover what kind of marketer they were. I'd pick a brand (often I chose Nike) and told them to imagine I was their new boss but someone who had never worked in this category before. So the question was, "What would you tell me on my first day when you were briefing me, what is the most important information to get across". This seemed to neatly divide everyone into one of two groups. Either they told you all about the market size, how much it was growing, who the competitors were, the distribution channels, pricing etc etc. In other words they described it as a business albeit from a marketing point of view. Or else they started talking about the brand and some useful insight like "People buy Nike Trainers with no intention of ever going near an athletic track – they pay a premium for perceived authenticity and brand values". We favoured the latter group but other types of management consultancies might go for the more business oriented. The point is you must know what you are looking for and the kind of questions that tell you whether you have found it.

If they passed the interview then we asked them in for the morning and set them a real task based on a real project. They had a few hours to sift through some background material and then they were asked to brief a team of 4-6 of our people on how they saw the issues and how they thought we might tackle them. This worked unbelievably well – it really sorted the wheat from the chaff. With this exercise lots of things became very clear – whether they could handle pressure, assimilate various data and make sense of it, communicate and present well, work with the team.

This last point was so important – with this mock exercise you could see whether the person could actually listen to other people while standing their ground on things they felt strongly about; whether they could accept builds on their thinking and build on other peoples' ideas.

It was amazing how some people with really strong CV's, who had interviewed brilliantly, fell down at this stage. Equally we discovered that some people who we were unsure about excelled when you actually 'worked' with them.

The third stage came immediately after the 'mock' project exercise. The candidate was taken to lunch by a group of agency people, some of whom would be their peers, one or two might be more junior, but no senior people. The candidate was able to ask any questions about what it was really like at AVG and our people could also form a final judgment on the 'Christmas party test'.

People would sometimes fall down at this stage. Once left alone with their peers and some juniors, less attractive aspects of their personality might come through e.g. arrogance. If they failed to engage the 'juniors' and talk to them on an equal level this was the kiss of death for us.

Finally, they would have one final interview with the most senior person we could field, often, at my request, that meant me. I never regarded time invested in selecting people a waste.

McKinsey have a 7 stage interview process although I suspect it does not include the criteria we used.

For the record I only ever over-ruled the process once. The person in question had not gone down well with the team at lunch. They thought she was haughty and aloof. I knew she was shy. At the time of writing she is the CEO of the entire group, loved and admired by all her team and her clients. On the way to the top she was also, for many years, the person we put in charge of all people issues, working alongside the HR director.

Also for the record, my partner, who was brilliant in many ways sadly not including his judgment of people, often by-passed the selection process altogether and just hired people off his own bat. They were all unmitigated disasters, as may have been the case if I had done the same thing.

When you have developed your own unique selection process you must stick to it – no exceptions. Even if you personally take the final decision at least you do so having followed the full process.

AVG also had a very well developed induction process that covered not just the first week but the first few months. I am not saying we always did this brilliantly but we did put real effort into making sure that the new recruits were properly introduced to the business and trained in all our processes, methodologies and customs.

There is more I could say but half the value and fun is figuring this out for yourselves. Just remember, THERE IS NOTHING ELSE YOU DO THAT IS MORE IMPORTANT THAN THIS – NOTHING!

## Retaining the right people

OK this is pretty important too but irrelevant if you do not get the right people in the first place.

Of course AVG lost people over the years and some of these losses were more regretted than others (some were positively celebrated – we didn't always hire the right people and inevitably people change). Very few people, and none of the regretted losses, left to go to a similar job for a bigger title and more money. Why?

- We worked very hard to make AVG a really fun place to work,
- We constantly recognized and rewarded success and effort,
- We promoted people as fast as we could, we responded as best we could to people's need to try new things and take on new challenges.

Some of this was semi-formal – we had regular Friday get-togethers where we awarded silly prizes and small gifts. A lot was very informal. We had 3 bars in our London (Hampton) office and I spent a lot of time in all of them. Normally just for an hour or so, I and other members of the senior team – the smokers and drinkers especially – would go down and just hang out with the team. We'd talk work and we'd talk a lot of nonsense.

We invested a huge amount – for a business our size – in training. We did this in such a way that it forced together different groups of people within the agency and we made it a lot of fun. The training reinforces our culture.

I, and others, went out of our way to get close to the really high fliers. We were always available to share any issues they had, professional or personal. Everyone is special but some are more special than others. You need to know who your real stars are and make an extra effort with them. Obvious but not always done – that is why we were often able to hire really outstanding people who were looking around for new opportunities because their current employers did not show they valued them enough.

We were always very nice to our clients (see below) but we stuck up fiercely for our people if we thought they were being badly treated by them. We defended their work and we passed the buck up not down in the event of a problem. We did not always do this and we had some clients we were not proud of because they treated our people badly on occasions, but they were thankfully few and for them we fielded our more robust teams.

We worked hard to balance the aspirations and business plan of the business with people's own needs. We were opportunistic in the way we took chances based on what key people wanted to do. To give just one example of this, we had a French woman who joined us. She did really well for a couple of years but then one day she came to my office in tears – her husband has been posted back to Paris and she had to leave. My response was to suggest we opened an office in Paris – not on our official plans but not a crazy idea either. AVG Paris became the biggest and most successful of our international offices.

There was a best practice article on motivation in the Harvard Business Review many years ago. It is one of their most requested reprints. Basically it says that the two things that work best are recognition and rewarding people by offering things that enhance and enrich their job rather than just more money. But the money does matter as well!

## BENEFITS

So, what about the hard stuff – the money and share options?
Our view, and I would commend it, was that we aimed to be among the best salary payers but never the best. You could always leave the agency for more money. We built our competitive advantage in being a great place to work with really interesting projects.

As regards shares we did go down the road of giving both shares and share options. By the time we sold out almost half the agency was owned by people in the agency other than the founding partners. This was obviously skewed towards the senior team but we pushed share ownership deep into the business. If we had not done that we would have had to pay higher salaries and bonuses, I am sure, and I do not believe that we would have grown so big. The very biggest people businesses actually operate as partnerships. We were sort of a hybrid.

There are other ways to do this – you can offer phantom shares. This gives people a stake in the future value of the agency but keeps the actual share register and voting rights clean.

There are pros and cons and no fixed formula – it depends how things work out for the agency. No point in offering shares if you never intend to sell any part of the business. But no-one ever believes you won't so it is hard to hide behind this and keep all the shares for you and the founding partners (I did try but it didn't work!).

My view is simple – if you aspire to grow you have to spread ownership unless your margins are so big you can over-compensate for not doing so by offering very high remuneration and profit share.

## BONUS SCHEMES

As regards bonus schemes I studied what several other people were doing and we cobbled together our own version that worked quite well – not very well – for us.

This was our version:

- For every $1000 salary you earn you can in theory get 1 point.
- How many points you actually get depends on how you perform relative to your 6 key tasks for the year (see below) and some overall view of you versus your peers.
- So if you earned $50,000 you would hope to get 50 points. If you had not hit your key tasks or others were seen to have done better you might only get 45. If you did brilliantly you might get 55 or 60.
- The value of a point depended on the achievement of the profit target – typically a point was worth $150 but of course less if we had a bad year, more in a good year.

Great in theory, not so great in practice for two reasons. Everyone did well (or at least we thought so but we were soft markers as you might have gathered) so there was not much difference in the points spread. Also, however hard we tried, outside the senior team, no-one really felt connected (able to hugely influence) the value of the points. I don't think our bonus scheme was that effective in retaining or motivating so why am I telling you about it?

Well, at least we put thought into it and at least we made it very transparent. We tried to reduce to a minimum the arbitrary nature of bonuses. I would certainly recommend you do the same even if you devise something simpler and/or more effective than our scheme. (Interesting that it is always called a bonus 'scheme' not a system –people don't trust schemers!)

## Motivating people

A lot of this has already been covered. The point to make is that it is the stuff that does not cost much money that works best. Recognition, gratitude, making it a fun place, personal development opportunities, pride in the company and its reputation – these are the big motivators.

We were a project based business and not everyone – however hard we tried to make it so – was responsible for selling the projects. The results of the projects – typically 6 weeks – in terms of client delight and desire to award more work were fairly evident as the year went on. Issues and problems were rectified along the way – mostly.

Over and above this we introduced what I later discovered was the best practice in performance management – a 6 key task system. We just made it up!

### PERFORMANCE MANAGEMENT

We started with the overall 6 key tasks for the business and every division and then we cascaded that down to every individuals' 6 key tasks. These normally included tasks related to client work (if they were client facing), tasks related to their particular function, and personal development tasks. These formed the basis of the appraisal system (done twice a year) and as already noted the bonus scheme. All of this was done very transparently – everyone knew about (and most were involved in deciding) the company 6 Key tasks. Personal key tasks were no secret either. When this system works well there is a clear connection between the company and the individuals' key tasks – they are mutually supportive.

It is a great system but it needs to be implemented in a determined and consistent way. It also needs to take account of changes that happen through the year.

If it is done well it also underpins all the ‘soft’ aspects of motivation and the hard aspects of the remuneration system by giving everyone a clear sense of what they need to do and how well they are progressing.

The killer point for me is that I would introduce this system if the company had only 10 people in it. By the time you have 50 or more it is essential. I must also stress that it applies to the senior team and CEO as well – they must have their 6 key tasks and they must feel responsible and accountable for them.

## WHY DIDN’T I GET PROMOTED?

People are ambitious and in a small business like an agency they have a very clear, very personal view, of where they stand versus their peers. Titles matter – the move from account manager to account director, getting a place on the actual board, make a big difference to your self-esteem not just your take home pay. In a big corporate they understand this but they do not need to over-react to it. If someone in BP is disappointed they did not get promoted this year ‘tant pis’ as the French would say. Sad if they leave, pity if they lose motivation for a while but not the end of the world. In an agency people leaving or being demotivated is the end of the world because it has a direct and immediate effect on your business.

You can’t promote everyone all the time but we did find a way to mitigate the effect of people not getting promoted. Firstly we ensured we had several layers so the leap from one title to another was lessened (although making it on to the board always was and always should be an important jump). Secondly we set out very clearly, under a series of criteria, exactly what was expected and required for each level. This was made very transparent. At appraisal time, if the person was not to be promoted we made it clear why and what they would need to do over the following year to change this.

## SECTION 3

# Get out there and hustle!

HOW TO WIN NEW BUSINESS. HOW TO MAKE A GREAT PITCH TO A PROSPECTIVE CLIENT.

I used to take every opportunity when chatting to people running other agencies to ask about new business. How do you go about it? Do you have a New Business Director? What works for you? How do you market and promote the agency?

Everyone had a point of view, no-one seemed to have the answer.

By looking at what other people did and generating some ideas of our own we tried a lot of stuff. We ran ads. We did brochures. We did cold calling. We published special surveys to get PR. We employed (wasted a great deal of money) on PR agencies. We attended trade shows and conferences. We targeted a particular client and 'went after them'. We tried just about everything.

Once we got in front of someone, and especially if we got as far as writing a proposal (which we always put a lot of effort into) our strike rate was good – 75% or higher. So what do I think really worked in terms of getting in front of people and how do you make the all important 'great pitch'?

Let's look at it in terms of the target response for the prospective client. You want to hear them say one of two things:

**"I have heard of these guys, they seem different and they seem to be on the up"** . i.e. Receptive

**" I need this and I hear they do it really well, I should see them, and see if I like them"**. i.e. Interested

The best way to achieve the first of these – receptive (or as we say in marketing, "top of mind awareness and brand salience") – is through thought leadership. You need to publish lots of stuff, get on as many platforms as possible and of course if possible, you would like to top the league tables and win the awards – but publishing and platforms are the most reliable and are within your gift to achieve. Have a point of view about issues that people want to write about and that interest clients. Look for opportunities to develop points of view.

## Thought Leadership

A client once asked us to give our opinion on what was a typical budget for 'a brand like ours'. It would have been so easy to say "how long is a piece of string' and give them all the theory and best practice on budget setting. Instead we used one of our people who had a little spare time to do a short study and as well as telling the client we published the results. For the next year we had loads of offers to speak at industry conferences and lots more column inches – simply because we had a point of view about a topical area.

## Interested

The best way to achieve the second target response – interested – is through word of mouth recommendation. Study after study has proved this and I know it from my experience on the client side – the most important thing is that your clients rave about you. It is as simple, and of course as hard, as that. Without you asking or even knowing, your most enthusiastic clients will tell their mates about you – they want to! They want to show off that they are working with great people. And if their mates have an issue on their mind they will ask them – "Who do you use for design work?" And they will happily tell them and sing your praises – because people like doing that in just the same way they like to tell you about the latest, best restaurant they have visited.

If you find yourself in a bit of a new business lull you can always 'activate your reputation with clients' and ask them to recommend and introduce you to their mates. If they do really like you they will be happy to do so.

At AVG we used to say (it was in our mission statement):
"We treat every assignment as our first chance to show how good we are". Just keep doing great work for clients, exceed their expectations, smother them with love and attention, commit and over deliver. Business will walk in through the door and you will realize I was right when I said having great people is your single biggest issue – certainly it is not winning clients.

## The Pitch

So, if you have made people receptive and you have got them interested you may get invited to do a credentials presentation. Typically you get an hour although if the prospective client is interested they often let the meeting over run.

So what do you say in that hour to maximize your chance of getting an assignment?

The answer will surprise many of you – you say as little as possible.

So many agencies/consultancies, especially ad agencies, make the mistake of spending the whole hour of the new business pitch talking about themselves. How great they are, what makes them different, case studies, examples of their work etc, etc. They use all the time to talk about themselves. WRONG.

Use the first 10 to 15 minutes maximum to introduce yourselves and give the headline of who you are, what you do (big point, I will come back to that*) and what makes you different. Make it as brief as possible and just include "typically we do this for these kind of companies". Resist all temptation to expand – just be brief, enthusiastic and confident (not arrogant). Then get the client talking.

Ask them about their career, their CV. Ask them what issues are on their mind, what is going well, where do they have problems. Just get them talking and as they are talking find a few important places to show that you know something about the issue and have done some work in that area (if you actually have, if not just wait until they come up with something you can comment on).

The very best 'pitches' are where the client actually spends most of the time talking about themselves – the worst are where you spend all the time talking about you. As Bett Middler said "But that is enough abut me, why don't we talk about you and what you think of me".

Given the chance, clients want to talk about themselves and what you think of them.

* I said I'd come back to the point about being able to say, succinctly and upfront, exactly what you do and therefore what you are selling. This was really drummed home to me when I went back on to the client side. The number of new agencies who managed to talk solidly for an hour and never once say precisely what they did would amaze you. In the first few minutes when you do your introduction you must include some very clear statement about what you do. A good way to do this is just to say "A typical project for us is when we are asked to…."

A few more observations about the Pitch that might help.

If you make a statement about how great/different you are back it up with something. For example:

"We have really great people, the best in our industry".

Much more powerful if you can back it up with, for example:

"We have developed a really effective and thorough way to find the very best people, we spend more on training and we pay the highest rates"

Now I believe you.

"We develop great relationships with our clients".

Back it up with something:

"On average our clients have been with us for 10 years and I devote a day a month purely to check in with my clients about their business, how well we are doing for them and where we can improve."

If you must brag, be selective, make it brief and back it up.

In the final analysis, two things impress a client.

Firstly, enthusiasm – we all like enthusiasts. This is hard to fake but if you can convey a genuine passion for what you do it will get you most of the way there.

Secondly, confidence – we all like people who make us feel confident. Again very hard to fake, either you have a successful track record or you don't, but there are other things you can do to make the client feel confident:

- Pause and think before you answer a question.
- Show that you listen.
- Find something that you can get back to them on and then exceed their expectations by coming back ahead of time obviously having done a lot of work to address their question.
- Suggest, at the right point, that they might like to talk to one or two of

your clients off the record to get an honest view about you.

- You will also find that consistently doing great work for existing clients makes you confident – see point above!

## Who does New Business?

I have left until last who should be doing all this. Should this be the responsibility of the New Business Director, the boss or CEO of the agency, everyone in the agency or a few key, senior people?

I don't have much time for New Biz directors unless it is a purely clerical role – researching the targets, making arrangements for the meeting etc. Your best salesmen are your best people, your best practitioners. Prospective clients want to spend time with whoever does the work. Field the top team but also recognize that among them some will be better than others at 'selling' (which as I hope I have shown is actually about letting the client buy by allowing them to open up about what they really need).

We spent years bludgeoning all the senior team and most of the agency into 'doing new business'. In the end we recognized that more junior people were great at indentifying targets and you could incentivize them to do this. We also recognized that some senior people (me) really enjoyed selling and some did not – so we focused on the ones who enjoyed it and let their enthusiasm shine through.

SECTION 4

# The power of process

## THE NEED TO DEVELOP METHODOLOGIES AND HOW TO GO ABOUT IT.

Every great agency or consultancy develops their own set of processes and methodologies and invests the time and money to ensure that these are understood and used. They also improve and update these, they innovate, but they do this sparingly and selectively by using the people who understand how the current set of processes work before they set about changing them.

People think this is only the preserve of the management consultancies and their like but every good agency does it. Ad agencies may do it very informally (probably to their cost), they may be communicated by word of mouth and example rather than by training manuals. But every service business has to codify what they do well in the important areas of their business and somehow find ways to ensure that this is used consistently, throughout the business.

At AVG we were process mad – at least I was. We developed the AVG way of doing just about everything:

- How to take a brief
- How to run any and every type of project we sold
- How to interview and hire people (see above)
- How to think creatively and run an ideation system (which we branded Idea Generator)
- How to do financial forecasts
- How to run a training workshop

I worked with a small and very senior team to review all our processes and methodologies at least annually and we had lots of teams throughout the business working on developing new ones.

We even had a way of designing certain physical areas of the agency – like the Idea Generator rooms that we had in every AVG office around the world.

We were – I was – a process queen. We probably had too many and we certainly missed a few key areas – we had no time management system, for example, and did not keep time sheets (because I hated them). We also refused to use anyone else's system – we always developed our own.

It created a very strong culture – because as a very wise CEO once told me, your culture is in effect your operating system. The way we do things around here is effectively what it is like around here. It made sure that certain quality standards were maintained, it allowed us to induct new people quicker and more effectively. It gave clients confidence. And rather than stifling creativity – in thinking or in approach – it released it because it gave people a framework in which they could innovate. If anything goes then nothing is 'new' and nothing can be evaluated.

Most importantly, it got the margins up because it saved time and that is really your only big cost. If everyone does it their own way and constantly reinvents the wheel – inconsistently – you waste a lot of time and money.

Every successful people business – the professions obviously – have learned that they need process. If it is just a collection of individuals, each doing their own thing, then it is a co-operative with shared back office costs and you can never exact an economic rent on the people you employ.

## Process does not kill creativity

I sense I may be losing the interest of readers who run creative agencies – ad agencies, design agencies – because they see process as stifling real creativity. I have already said I do not, quite the opposite, although I confess my passion for process was never shared by our design agency. They hated process and resisted every attempt I made to get them to introduce more discipline. They certainly rejected the kind of processes and the way they were trained into people by 'the Added Value side of the business'. They were branded differently – Brown inc – and they ran their business very differently. But much to my quiet satisfaction, over the years, they developed their own very effective set of informal processes that were relevant to their work and their people and frankly their boss, the eponymous Dave Brown. And they did it brilliantly.

Process does not need to be heavy handed and if the agency is small enough it can be more informal, more word of mouth tradition. It does not need to be like McKinsey unless you are McKinsey (still the biggest and best at what they do). But there has to be process – a way of understanding what works and what does not and a way of making that your unique way of working.

## Be Selective

As I have said, AVG, thanks to my obsession, were a bit process mad. It is best to start by being highly selective – just figure out what are the critical success factors for you and focus on these areas to establish what you believe to be best practice. Spend some time identifying what works and why and then think about how best to capture and share this with the people who need to know. Maybe it is the hiring process, maybe it is the way you take and write up a brief? There are some obvious ones but every agency is and should be different. I know of one who focused very heavily on what it took to make their company the very best place to work – they way they treated people, the parties, the friendly feedback, the environment, HR policy – everything. They worked very hard at it, they won top awards as the UK's best employer (not just among agencies), they commanded fierce loyalty among their staff and they have done very well. That is a process although I suspect they did not call it that. They codified what being the best place to work really meant so they could deliver it year after year.

## Using experts to develop Process

I have already hinted at a little of 'how you go about this'. There is one thing I would add. This is an area where I would – and did – invest in outside help. There are specialists with specific expertise who can help you and often only an outside perspective is able to detect what you do differently – intuitively – and do well. AVG's idea generation and facilitation process were developed with an outside consultant (ex-Synectics) who eventually joined us. The approach to semiotics similarly involved an established outside expert who then joined the team. A lot of the HR processes really only took shape when we brought in a full time HR director.

## Steal with Pride and get clients to pay

As with many issues I also learned a lot by asking around. When a very successful mate of mine explained their bonus system we set about reinventing ours. One of our headhunters had a great process for offering sabbaticals which we stole with pride and rolled out across the group.

We also set about developing new methodolgies for projects by first analysing what other people were doing.

Most importantly we used client work to develop our processes. Until we won and did our first two market segmentation projects we had no methodology – we made it up as we went along but we very quickly figured out the best way to do it and then turned that into a really thorough methodology and set of processes which became a major income earner for us. We used work with leading fashion brands to help us develop a process for identifying trend setters.

The best agency innovation work is paid for by a real client – you just need to be able to bluff your way through it or have a really great client who backs you.

SECTION 5

# Bean counting

## HOW TO MANAGE THE BUSINESS FINANCIALLY AND HIT THE TARGETS. HOW TO CHARGE AND MANAGE PRICING.

Most agencies and consultancies are very simple to understand from a financial point of view. They have very simple P&L's, cash flows and balance sheets. Why is it then that they are very hard to run financially and indeed most are badly run commercially? Martin Sorrell understands the latter and that is his ace in the hole – as a bean counter himself he developed a way of squeezing an extra point or two of margin from badly run agencies by enforcing a few simple financial tools and processes. Good for him, but I never felt he understood the first point – they're actually quite hard to manage financially if you value people, clients and ideas.

I only ever presented our financial results to him once. He spent some time reading all the charts – we were told he did not like you to comment on them as he was quicker at reading numbers than you, which was undoubtedly true. So I just sat as he squinted at the figures we had prepared – they were not very good. After a few minutes he made his pronouncement – "Your margins are too low".

I replied – but thankfully only in my head – "Thanks Sherlock – any smart ideas on how to get them up other than raising prices or reducing costs without losing good people and clients?"

And that is the point.

You can forget about a balance sheet of an agency – there isn't one to speak of since nearly all your assets are intangible with the exception of cash in the bank. And you can even forget about cash flow – it really is not that complicated, you just have to get your payment terms right and enforce them. The only thing you need to focus on is your P&L and as part of that your forecasting.

So lets keep it simple.

Your P&L consists of 3 items:

- **Price** – what you charge
- **Volume** – how much client work you have
- **Cost** – what you pay people and how many you have (plus a bit for your offices and any 'disbursements' i.e. money you pay suppliers)

Lets look at each in turn.

## How much do you charge?

If all you sell is time this is fairly simple. Let me back this up with a simple formula:

- Take the cost of someone – their salary and all fringe benefits plus a bit for their share of the overheads (just add on 20% for sake of argument). Then add a further % for the profit you want to make. If you want to make a 30% profit then multiply by 1.3.
- Assume they can reasonably do 200 days a year after weekends and holidays. They will never be 100% occupied earning money from clients – there will be slack times, training times and new business times. Assume they are 60% occupied or 60% billable. (If you think this is soft then take a higher percentage). This will give you 120 days.
- Divide their total cost by the number of days and that is their daily rate. That is what you need to recover from a client project. If it takes them 10 days then you need to recover those days times their daily rates.

Of course more than one person works on a project and you cannot always accurately predict how long everything takes, but you have a basic system you can work to.

If you keep time sheets – which I hate – you can keep track of this. And that is precisely how all the management consultancies, who only sell time, do it.

All your effort has to go into predicting how long everything takes and ensuring you get your target % of everyone's time occupied e.g. 60%. All that stuff about methodologies we talked about comes in here – if for no other reason this is why management consultancies have set ways of doing everything.

I am not saying it is dead simple but it is fairly simple.

## Charging by value not just time

But what if you want to charge according to the value of an idea? Forget what it costs in terms of time, what is it worth to the client? What if you want to build in a success factor? What if it is worth selling one project at break even or a loss because you actually make your money with follow-on implementation work?

Examples: Accenture make a lot of money from IT systems; ad agencies used to make a lot by selling media for the ads they created; promotion agencies get a mark up on the widgets the consumer can win etc.

Most agencies neither are, nor want to be, purely time based. So how do they price things? The answer is normally some sort of hybrid, ad hoc, complex, intuitive way with a heavy regard for what their competitors are charging (who do the same). It is not easy.

Are you waiting for the answer? Pity – I don't have one. I think you have to behave as if you were time based and at least know you are always recovering all your costs plus some kind of profit margin. You have to make some effort to understand on average what various types of 'typical' projects involve in terms of time. From this you have to develop a price list or rate card, if only a notional one i.e. not published to clients. You then need to use this as a way of keeping track. If you feel you can charge more to reflect the value to the client and/or lack of competition, or you have to charge less to make sure you get the follow on implementation work, then you can but at least you have a baseline.

## Price Increases

There is another value in having daily rates and a price list – even if only used internally to help develop the proposal price. You can take price increases. We did this at AVG and every now again we would announce in the agency that we were putting prices up by, say, 5%. Somehow it worked, you would quite quickly see that the average project price went up by at least that amount – but of course that might mean we did not price it correctly in the first place!

## Peer group Review of Pricing in Proposals

We also instituted a system that worked well for a while where any proposal had to have both the work programme and prices checked by someone else senior not involved with the client. That way we kept an eye on quality and pricing. This kind of peer group review to keep you honest is highly recommended.

## Other ways to Price

There are many other ways of managing pricing. I have heard of agencies charging every client one price – $50,000 per month in fees which covered the cost of the agency team plus a fair profit and ensured that no client subsidized another.

I have heard of a PR agency – a good, full service one – that charges a set amount per column inch achieved. They do a lot more than just get column inches but they use that as a proxy for pricing.

Obviously people discuss an annual workload with clients and then negotiate a monthly retainer. Both parties accept there will be swings and roundabouts, light months and heavy months but over the year it all comes right and at least the agency has a predictability of income. True but in my experience one side or the other, client or agency, always gets screwed with a retainer. Retainers can be very tricky to set and police. They also only work for certain types of agency/client relationship where there is repetitive work.

## Conclusions on Pricing

So what do you take out of all this? Pricing is the first item on the P&L and it is not straightforward as it is in, say, a manufacturing industry. The only advice is that you MUST give it thought and you MUST monitor it constantly. It is also REALLY HELPFUL if you have some notional price list and or rate card so you can monitor it and so you can take price increases.

Revenue is what really interests you and revenue is, of course, price times volume ...

## Volume – how much client work you have and will have

I am tackling this before cost but let me make the point here that if you do not know how to price and cost your business it is very hard to know when to go after work and when to turn it down. It is very hard to know where you make most profit.

Because most agencies do not know how to price or cost their work they have a simple reflex:

Get as much work as you can and only stop selling when people start falling over through exhaustion and clients desert you because they feel neglected.

This is natural but not smart. So it is under the heading of volume that I want to talk about forecasting because that is the key. The problem is partly that it is hard to predict what will happen with a project you have won – it may take longer, one stage might get delayed, the client may ask for additional work – but much worse than that, you can't predict how much work you will win in the first place. You discuss projects with existing and new clients all the time – chances are if every single one came to fruition you would be stuffed and if too many fail to come through you are also stuffed. Agencies are therefore like airlines – they over book in the expectation that not every passenger will pitch up.

At AVG we developed, after much trial and error, a brilliant and simple system.

We had A, B, C and D lists. These were reviewed by the senior team every week.

The A list was ongoing work, stuff you have raised a purchase order for and were able to invoice. These were discussed first – how was it going, would the client definitely want to do the second stage and when, were there any resource issues, was it roughly working out as predicted in terms of costs and time employed etc? We also checked whether invoices had been issued and discussed any late payment problems

The B List were all the projects for which we had submitted a proposal. We had a good strike rate but we did not assume we would win everything (or more often win it and start when expected since there were often delays). So we assumed 60% would come through as predicted.

A lists and B lists were laid out over the months – we knew what our costs were so we could see where the shortfalls were likely to come and therefore how much we had to turn up the new business effort. Which brings us to the C lists and D lists.

The C list captured the hot leads – people we were talking to, or about to talk to, but who had not yet asked for a proposal – the new business pipeline if you like.

The D lists were the targets – new clients and new divisions of existing clients that we were going after. These always had someone's name next to them as the person in charge of getting our foot in the door. In fact every item on any of the lists had someone's name against it.

The A, B, C and D lists were all in one document (on a computer system eventually) and we spent 2 hours every week going through it. This worked very well and we got better at spotting where we had issues and where we needed to focus our attention. It also gave us the ability to run several international offices financially at a distance (although there was lots of face to face contact for other reasons). We knew what the costs and prices were – the real issue was forcasting the volume, and we could monitor that from the A lists etc.

At least we thought we knew what the costs were….

## Understanding, controlling and allocating Costs

A finance director – a good one – once said to me that virtually every business is inadequate at fully understanding and allocating costs. It must therefore be doubly true of agencies, not traditionally the most disciplined of businesses, and yet it is so easy if you try. It requires simple systems of job numbers and only the most modest procurement system (how much are we spending on taxis????). Most agencies don't do this well because they don't want to. They may have systems but they don't enforce them – because the senior team does not enforce them. I think I understand the psychology of this. I would highlight three factors.

1. Most people want to run their own agency business precisely because they do not want to work in the kind of corporate environment that counts every cost. They ultimately care about the quality of the work more than the cost and therefore profit. They are just fundamentally not cost oriented. They will commit more time than estimated if they think the client needs it, they will throw a lavish party if they think the staff need it. They will invest in unplanned new ventures, a new meeting room and yes, a new Porsche (been there, done that).
2. A excessively cost conscious agency environment is bad for business because it is bad for the staff and the clients. I have recently worked with a decent agency but a very cost conscious one – I did not enjoy it and don't think their staff did either. Cost conscious agencies feel like suppliers not partners.
3. There is a logic flow in all this – agencies are about people in every sense. Your single biggest cost is, directly and indirectly (nice offices, great parties, innovation projects etc), people. Your only real assets are your people and your processes, which themselves are largely people based. Good agency heads over-invest, unpredictably so, in people. Someone has a personal issue – you carry them for a while. You see someone great – you hire them whether or not you have work for them right now. You always err on the side of over-investing in people and that screws your costs but in a good way.

So what is the advice. Very simple – hire a really good finance director well before you think you need one. Do it early, go for the best and pay for quality. Let them manage – among other things – the costs. Let them keep you honest.

I would not recommend Martin Sorrell – he would be way too expensive – but it is of course how he got started. The Saatchi Brothers brought him in and I feel sure he did a great job for them but of course he spotted the chance to do it for himself. So maybe hire someone with less ambition for global domination. However, WPP are very good at KPI's.

## KPI's

... are of course key performance indicators, the set of measures you use to run the business including the financial KPI's. The typical KPI's that are used in agencies are:

- Income per head
- Profit per head
- Fixed costs (offices etc) to income ratio
- Average length of tenure per client
- Average income/profit per client
- % of proposals won
- Average service time per member of staff
- Staff churn (leavers to joiners ratio)

There are lots more and many variations on these. You can initiate certain measures, like some measure of client satisfaction, preferably one conducted by an independent person. Best practice in this area (for any industry) is to look very hard at client "delight" – the % of clients who say they would recommend you to a colleague, who feel you exceeded delivery expectations. This will never be 100% but studies show that if you raise it from even 10% to 15% it has a huge effect on your bottom line – it is truly a key performance indicator.

There are a few pieces of advice about KPI's I would offer:

- You really must have them!
- You must actually use them to help you manage the business. That means they should be in some way linked to incentives.

- It helps to be selective and very thoughtful – you don't need to measure and track everything, just a small selection of the right things (see point above – these are not complicated businesses).
- You will need to be able to measure and allocate costs with a reasonable degree of accuracy.
- They should include KPI's that cover inputs and outputs. Profit per client is an output as is a measure of client satisfaction or delight. It is what you get as a result of doing certain things. You must also therefore measure the inputs – what it is that best achieves the desired outputs.

McKinsey measure and reward the number of relationship building meetings a partner has with a client. Interestingly, so a McKinsey friend always told me, they measure but do not reward income per client. Their theory would be that if all the inputs are right the outputs take care of themselves.

If you have been smart and hired a really good finance director this will be their area. They must form a point of view – based on analysis not just opinion – of what the KPI's should be. As a senior team you must be certain that they really relate to the success factors of the business so they must include a lot of KPI's to do with people.

Charles Broome ran the AVG office in South Africa (and then the Africa Asia region). At the start of his A/B/C/D list meeting every Monday he ran a 'temperature check' with his team. He asked them to rate the agency on 3 dimensions:

- **Stress levels** – how over-worked everyone felt, what was morale like.
- **Quality of work** – how happy were clients, how good was the work they were doing
- **Breaking new ground** – to what extent people felt they were progressing personally and to what extent the agency was developing better ways of doing everything.

It was a quick 5 minute exercise but it helped him keep track of what he felt were the key people issues before they tackled the financial KPI's.

## Time Sheets and the alternative

This is an interesting debate – I have already said I hate them. Finance directors of course love them and point out, with some validity, that it is very hard to measure and allocate costs if you cannot track the single biggest cost – people's time. Management Consultancies (and all the professions) live by them, Ad agencies laugh at them. But some management consultancies do not use them and there is at least one ad Agency – BBH – that does always use them.

So what is the answer? My answer is do not have them but I have advice to offer if you go this road.

You have to break the business down into small units, preferably 20 or less people. At that size the head of the unit always has a pretty good idea what everyone is doing and can, with an acceptable degree of accuracy, estimate what time should have gone in to a project versus what actually did. For the first 5 years AVG was effectively less than 30 people, it was a business I could completely 'get my arms around', I did not need time sheets to tell me what was going on. As it grew, we kept it in small units (all very interconnected) and this seemed to work.

Periodically you can audit a few things. Every quarter or so you can dip into a project and do a check on what happened versus what was estimated in terms of time spent and therefore costs. This lets you spot if you are going badly wrong in terms of the income returned on time invested.

We did look at income per head. I would not suggest you describe it like this to the team in the agency but this is your return on assets employed and it has to be monitored over some time period. It depends a lot on the type of business you are in but a quarterly monitor of this should be adequate.

## Moving Average Totals

Your eyes may be glazing over but I promise you MAT's are your friend. They are simple to do and very informative. You use them for income (gross or nett or both) and costs (variable or fixed or both).

Here is how you use them.

- Look at income by month. What is the true Moving annual total i.e, the last 12 months (the next month you add on that month and knock off the 13th month).
- What is the 6 month MAT? Take the last 6 months and double it to give a 12 month MAT but based only on the last half year.
- What is the quarterly MAT? Do the same with the last quarter but of course multiply by 4 (am I being patronizing here?)
- Now stick all three on the same graph. If your quarterly MAT is higher than your 6 month, and the 6th month MAT is higher than your 12 month MAT you are in great shape – in fact your biggest issue will be growth pains.
- If the quarterly slips below the 6 month which has slipped below the 12 month you are in deep shit.
- You then do the same thing with costs and compare the two. It is the simplest, purest way I discovered to keep a constant eye on business.

MAT's – set them up and watch them like a hawk.

## Managing the peaks and troughs

Both peaks and the troughs are your nightmare if you run an agency. The peaks cause huge strain on everyone in the agency, the team gets stressed, you risk the quality standards dropping and losing a few good people and clients. But they are better than the troughs.

In a trough you may well have to let people go and they will often be your friends. The number of people I have had to fire – let us not use the euphemism –depresses me as did the 'exit' meetings. Troughs are shitty.

So how do you manage this. Much of the stuff already discussed holds the answer – A/B/C/D lists, KPI's, MAT's etc. The better you manage the business and forecast future volume of work the better you manage the peaks and troughs. But just like the boom/bust economy that we all thought we had said goodbye to, you never manage them out of the business completely.

## The value of freelancers

It took me a long time to discover that the only true safeguard is having circa 25% of your people as freelancers. I convinced myself that all our people had to be 'our people'. They had to be on full time contracts to maintain quality, to invest in training, to ensure client confidentiality (freelancers work for anyone). So they all were. Our design agency totally ignored this and from day one they used a high % of freelancers (up to a third at some times). Now I could argue that you can do that in design and other types of marketing service businesses like advertising. But the fact is they were smarter than me and eventually AVG went the same route. We were helped by the fact that after 10 years the agency was big enough and established enough that we could absorb a few hired hands without losing our culture or standards. We were also helped by the fact that after a while a few of the team wanted to go freelance and we were able to bring them back in to do a project seamlessly.

I have mentioned fixed and variable costs. The accountants will tell you that in the long term all costs are variable, every contract or office lease can be re-negotiated. But over a certain period some costs – like your offices – are fixed and in theory your staff costs are variable. But they are only variable if you treat them like an unfeeling bastard. If you have hired well and developed people with conviction then they are a fixed cost – you never, ever want to fire someone you really value, it is unbelievably short sighted. So you must make sure, through the use of freelancers and outsourcing that some of your 'people' costs truly are variable. I learned this the hard way.

I will stop here and move on to the next topic. But I will end this section with one admission – I was never very good at the financial side. A lot of what I have written is 'do as I say, not as I did' or it was done by better people in AVG than me. As a result of my actions or inactions I cost the business a lot of profit – but I was never much motivated by profit.

## SECTION 6

# Sex with the client

HOW TO DEVELOP THE KEY CLIENTS IN THE BUSINESS.

I hope you like these quirky, provocative little titles – I am trying to entice my reader into each section. I also hope you enjoy the odd war story – I can see I am turning this into a bit of an 'AVG memoires'. This was not my intent when I started out but it is hard to avoid since, as I said upfront, that is where all my 'running an agency' experience came from and with every bit of advice I offer it reminds me of things from AVG.

Anyway, in the early days, one of the senior team, a real character, said jokingly that if the agency ever needed it she would have sex with a client (I think she was joking). As a good looking girl she did get propositioned by clients, I suspect, but the one she told me about turned out to be another woman. She declined of course and it was a pity because it would have helped with that client at the time.

I never did get asked – neither male nor female client ever made a pass at me. But I gave them something better than sex – I gave them love.

I like to think most of my clients did love me. Some hated me (Haines, where are you now?) but that was deliberate – I hated them. Thankfully most of them were great and I will try to explain what I did to make them feel loved and committed both to me and the agency.

### Clients are people

I never saw clients as a company, only as an individual. We had Walkers as a client but I worked for Martin Glenn and Niel Campbell. If they had moved on the chances are, eventually we would have too. We always talked about clients as a corporation but we always knew that our success was based on probably just a handful of key people and we did indeed follow them around as they moved job, sometimes retaining their old company as a client, sometimes not.

## Make it personal

My commitment was very personal. I am very competitive and I always wanted to be the agency they loved most among all their partners. I was never happy unless they were really thrilled with the work. They were not, always, but I would always go the extra mile to make them feel we over-delivered. If we made a mistake – and we did – I never quibbled, we would re-do the work at our cost. I am not trying to make out I am some kind of saint – frankly my motives were not that laudable. I just could not bear the idea of a client saying I or we were a disappointment. I hated it when I heard them talk up one of their other agency partners. I took it very personally. I hate losing, I am a lousy loser – it really matters to me.

## Listen and learn enthusiastically

I spent a lot of time getting to know them and their business and did a lot of the kind of relationship building that McKinsey value and reward. I asked about their business, I listened to what was on their mind. I talked a lot too, but was always enthusiastic about things and keen to help even if it had nothing to do with our work for them as a client. On occasions I found key people for them to hire (and did not charge for this). I gave career advice when asked. I sympathized about the politics although was very careful to avoid taking sides – that is always a bad mistake.

## Build their self-esteem

Being a bit of a tart I always tried to make clients look smart. If they said something in a meeting that was ok but not great I would rephrase it and give them the credit. If they asked a question – even if it was wrong or irrelevant – I would take it seriously. "Have you thought of doing this" they would ask, sometimes a really dumb suggestion. “No we haven’t, good thought, we’ll think about it and get back to you” I would reply and we would find some of way of showing that it was, in fact, a good question which rather irritatingly it often was. Of course you want your client to think you and your team are smart, but they want you to think they are smart – and they are. So make it obvious.

## Let the team shine

I worked very hard to pass the credit of the work to the rest of my team. It was in my interest to do so. As well as motivating the team (I always endeavoured to let them present the work if they had done it) it meant that eventually you could delegate more – the client would gain confidence in the team and be happy to see them instead of you. That bound them closer into the agency.

## No such thing as a free lunch

Interestingly we did all our client relationship building in the context of business not corporate entertainment (with a few exceptions but that was only because the client was genuinely a friend). We did not often take them for lunch and I always told them it was better if they paid because we would only charge it back with a little extra for tax and admin. The nature of our work, and the way we worked, meant that we spent a lot of time with the client in work shops or at focus groups. So we did get the chance ‘to break bread’, to get to know each other, to have a laugh, to talk about lots of stuff. If not strictly business, it was still business. We did not give silly gifts – we sent out business books we thought were really good.

## Hire nice people who are better than you

I guess we did our hard work in choosing who we hired – they had to be bright and radiators so we all liked each other and therefore so did our clients.

I think it was David Ogilvy who once said "Be prepared to hire people who are smarter than you" and we did but they were also nice people, decent people with values and a sense of humour. Our clients liked that and gave us more work.

## Process builds loyalty

Our use – and overuse – of methodology also developed client relationships. They could trust us to repeat a piece of work on a new project or in a new division because they understood we had a process and trusted the quality standards. It must be hard if your client relationship is always based on individual brilliance, worse still if it is a black box i.e. the client does not understand how it works.

OK, OK, OK this is too soft, too hard to believe, too worthy. In my mind it is true but let me try to be more hard edged.

## You have to have a point of view

Let me pick up this last point about process. It amazes me that agencies do not spell out the fact that they have a process and persuade the client that they must be allowed to use it. Would you trust a doctor who said "I can see your knee is sore and I have a way of fixing it but we can do what you like. How would like me to fix your knee?" No you would not – you want the doctor to tell you what, in his expert opinion, is the best way to fix your knee, to have some kind of process and proven technique. You would understand that you cannot tell him how he must do his job and then expect him to do his best work. You might expect him to listen to you, to show some degree of flexibility but you would not expect or want him to be malleable, to bend to your wishes, to have no strong point of view of what it really takes to get the job done. So why do most agencies behave like that – presumably it is in the misguided view that it will engender respect and loyalty.

Take the brief, think about it and come back with a proposal, under-pinned by your processes, that meets the brief. Have a point of view about the way you do business and stick to it. If the client has a problem, for example it costs too much or takes too long, of course you must work with them to see if the proposal can be modified – but only up to a point. Treat the push back as a problem solving issue. "We know we have to do this stage of work but you say there is no time or budget. Maybe if we did it this way we could do it quicker and still get what we need to help you solve the problem".

To develop the relationship the client must like you and they will if they see you are enthusiastic and keen to do great work for them. But fundamentally they must respect you and therefore you have to have points of view about how you work, what you need to be able to do to deliver great work, and this must be principled. You will occasionally lose work but far more often you will develop a much stronger relationship.

## Cross buying versus cross selling

Let me now tackle the issue of cross selling which is often mistakenly used to try to develop client relationships. "You buy our research service, why not use our design agency?" Because that is inside out thinking –you are selling me your design because it helps you not because it helps me, the client. I already have a design agency partner thank you. If you have a relationship with the client and you talk about lots of things and they tell you they are unhappy with their design agency and why, then maybe you can introduce your design agency. In this instance it is not cross selling, it is allowing the client to buy. It is cross-buying and it is client centric not agency centric.

## Build up the proposal

The other way to help clients to cross buy is to build it into the proposal. Allow me to go back to the knee doctor. Your knee is sore and you want him to fix it. You know there will be an operation involved but he tells you very clearly that unless you agree to do the physio-therapy after the operation it will be a complete waste of time. It makes sense, you trust him – you pay for the physio, in fact you positively buy into the idea of the physio not just the operation. That is the best way to get clients to 'cross buy'.

In the proposal you must show you have understood the issue not just the task – this is what you are asking us to do but this is why, this is the issue you are trying to solve. In order to do this we must do both the research and the design. This works if it is genuine – in my design and research example it can be. The client gets one team who both develop and research the stimulus and the result is a better design brief at the end of the project.

At AVG we had an internal communications division. We tried hard to cross sell them with virtually no success. Then we changed tack. We built their work into the proposal for other projects. So for example, David Taylor, now at The Brandgym, started every proposal for a brand positioning with the statement that in our experience most of these projects fail (true) not because the positioning was not good but because there was insufficient internal buy-in. Cue for the offer to include the services of our internal comms team in the proposal.

There is a strategic angle to this of course – which is that you should only add on new services, like design or internal comms, if they do indeed allow you do to your core work better and the add-on services are themselves improved by the core offer i.e. there is a virtuous circle. If your motive is "Our client spends a lot on design so if we had our own design company they would spend more with us" – wrong, this is inside out thinking. As I always used to say "They spend a lot on taxis too, should we start a mini-cab company?"

SECTION 7

# Ergonomics and Feng Shui

## CREATING THE RIGHT PHYSICAL ENVIRONMENT TO DO GREAT WORK AND BUILD YOUR BRAND.

Did you ever have a special pen, maybe one that your Dad or partner bought you? It felt just wonderful in your hand and the nib was ideal for your handwriting. The look, the colour, everything was just perfect. And you just couldn't wait to write something, something important, something worth reading, on special paper, thick and white. Better still to write something in your Moleskine, the notebook that Ernest Hemingway used, with the neat little elastic band that snaps shut.

No? Well you can skip this bit. Just get yourself a functional office for the best price in some anonymous tower block with good parking. This section is all about ergonomics – the physical environment you create for your agency. The space you create to inspire you and all the team to do great work. It is also about 'gizmos', little eccentricities that are special to your agency.

### The Physical and spiritual environment

I see only one audience for the office environment you create – your people. The only audience it needs to impress and inspire is them but as it happens, if you succeed, it will also impress and inspire your clients. It will convey your brand values and make you distinctive. But that is not why you do it. You do it because a special pen makes you want to write great stuff; your special jacket that you slip on to go to a party gives you inner confidence; you have a favourite table in a restaurant. Because this stuff matters.

I am not an interior designer so I am not going to go too far into specifics – to each their own. I like having high ceilings, big windows with views over water, fun bars and common spaces, rooms full of interesting stimulus, others with comfy sofas, pictures of good work you have done, nice reception but not too pretentious, offices that fit 6 people who form their own little community, big walls where you can stick flip chart sheets and post-it notes. You might like bare brick walls and exposed iron girders with lots of neon and an inner city clubby feel. Or you might like wide open spaces, minimal furnishings, lots of white and a calm ordered feel. It doesn't matter, it just matters that it matters.

I know it works. We used to have lots of workshops, sometimes in our own custom designed ideation rooms (called the Idea Generator) in our offices around the world, sometimes in some hired venue. The ones that happened in our Idea Generators or other really great venues that had lots of space and big views produced better work. The ones that happened in some crummy client meeting room or, worse still, some windowless bunker in the Intercontimarriottsheriton produced poor work.

The ergonomics make a statement about you – and that statement is we care about our people and great work.

On several occasions we over stretched ourselves, got ahead of ourselves, and took on offices or invested in facilities we could not afford. It always paid off – we all raised our game.

## GIZMOS

But there is more to it. Were you ever in a gang or a successful sports team? Did you have silly little catch phrases, favourite songs, nicknames, some daft piece of clothing you all wore, in jokes and secret handshakes? They matter too – they bind you together, they give you an excuse to behave in a certain way, they initiate newcomers, and other people recognize that. They may hate you but they see you have 'something special going', they remember you.

Some of these kind things just have to happen, some can be deliberately seeded, but a good agency has them. I am not just talking about AVG here – I have visited a lot of agencies over the years and I love and remember the ones that had silly gizmos that obviously mattered to them. One agency I knew had this thing when they started that they could not afford pens or paper pads so they always stole them from clients. Clients found out and thought it was really funny (they don't care, its not their money) so they started giving them the pens and pads. They would then make a point about having all this eclectic stationery.

Ogilvy in South Africa had this bee – there was a story attached to it, something to do with the fact that in theory bees should not be able to fly – and they used it throughout the agency. Even the conference chairs had bees on them and their bar was called 'The Buzz'. They had some legendary sessions in this bar that overlooked a roof, at the end of which was the skylight above the finance directors office. So there was 'The Roof Club' that involved taking off all your kit, walking out across the roof, drinking a beer and mooning the finance director.

At AVG we had smelly pens and specially designed post-it notes. We used them in every single meeting – each pen had some yummy fruit smell and we imported them, at some cost, from the USA. It was all part of our Idea Generator process, they were deliberately introduced as was a special way of discussing ideas. This jargon involved always saying what you liked about something before you expressed any concern about it as a 'how to?' ended up being used all the time, even when just chatting in the bar. I still find myself doing it today. We started every meeting with 'Celebrations and Irritations', a 10 minute session where everyone was given the chance to get off their chest whatever they were feeling good or bad about. This included personal as well as professional stuff. It cleared the air and set the tone. It was our thing.

It's all important – its about style and character, its about your brand, its about your culture and your people. It is eccentric, it is self absorbed – but we like eccentrics and you should be self absorbed in a people business.

**SECTION 8**

# Global domination

## THE PERILS OF AN INTERNATIONAL NETWORK AND HOW BEST TO BUILD ONE PROFITABLY.

There are only 5 reasons, aside from megalomania, that you would want to have an international network.

- To make more money because you can't make any more in your domestic market
- To service clients who say they need you
- To keep your people happy and provide opportunity
- To give you the excuse to travel to places you like
- To give you new perspectives and fresh thinking

### Make More Profit

Well the first reason – profit – is suspect for two reasons. Firstly, you cannot possibly have exhausted all the possibilities in your own domestic market unless it is tiny in which case you should look to adjacent countries and if at all possible service them from one office. Why? – Because secondly, international offices reduce your margins. There must be some exceptions to this but in my experience there are diseconomies of scale in international expansion, especially if you look at all the cost and opportunity cost. And be careful here, even when we had offices that 'made money' (and only roughly half did) this did not allow for the fact that some of the money, the projects, could have been done more profitably from the UK with only the additional cost of a few airfares. All we had done is move some income from one profitable office to another less profitable one.

## Client driven expansion

The second reason – client need – is fine as long as it is real. If it is, then you should get them to give some kind of guarantees. This motivation for international expansion underpinned the agency networks of businesses like JWT and Ogilvy with clients like Unilever enforcing their use by their local companies. Nevertheless, once Unilever or some other big multi-national has got you to open up in Singapore you better have a plan to make sure they don't end up your only client. That plan will probably involve sending some of your best people out there. Which brings us on to the third reason, one might say, opportunity, to open an international office.

## People Driven

The biggest benefit of an international network is that it provides opportunity for your people. If everyone remains in one central office it inevitably gets crowded at the top. Being able to send someone out to help start or run an international office allows you to retain and develop your senior people. As the network expands you find you have the hugely valuable option of 'succession planning'. You have a bigger pool of senior people – who have gained invaluable experience – that can provide cover for key roles around the group. This for us was the single biggest driver for, and advantage gained from, an international network of offices.

My partner and I had grown up in Unilever and our outlook was naturally multi-cultural. Almost from day one we hired foreign nationals and we had multi-national clients. This meant that initially we could run international projects with an international team from the UK but over time we had people wanting to go abroad and/or back to their home country to open offices. We had, if not strong client demand, then at least an initial base of clients that we could tap for new business in the new market.

## Excuse for Industrial Tourism

The late John Harvey Jones, former Chairman of ICI and the first of the TV Business gurus ( a lot better than Alan Sugar) once said that any business should avoid having subsidiaries in places no-one wanted to visit. His reasoning was that the subsidiary would always struggle through lack of attention. He was right. With apologies to any German reader, very few of us ever wanted to go to Germany and our office there struggled. On the other hand Paris, Cape Town and Sydney had people queuing up to visit, help on projects or get posted. As someone pointed out, our international offices looked like it was based on anywhere England played rugby – which happens to be a passion of mine. It wasn't, but I was head of the queue when it came to visiting and had a very strong influence on where we opened offices (Germany was never my idea).

## New Perspectives and fresh thinking

The other massive benefit we got from our international offices was the access to international ideas and thinking. Sometimes this was front and central to winning a project – our ability to tap in to a variety of international markets and what was going on, as well as our ability to work with several different divisions of a multi-national client. Sometimes the benefit was more subtle – at the idea generation and insight stage of a project we could tap in to a rich vein of stimulus from around the world.

Early on we realized that we had to open in the USA for this reason.
We had actually lost a couple of projects because we did not have an office in the States (Americans can be very blinkered and if your client is headquartered there they demand a stateside presence). But even if that had not been the case we just wanted to be in the USA – it is pretty much 50% of the world's market for anything and 50%+ of the action. We felt we could not credibly claim to have our finger on the global marketing pulse if we were just tourists in the USA. In the end we solved this by acquiring a

US agency after we had merged and gone public.

So, if you are thinking of opening international offices and building a network you need to think through your motivations. My advice would be to delay this for as long as possible and just make sure you have an international team in your main office. When you do finally take the plunge, plan carefully and don't make profit your only reason.

## Check out the Downside

We did very careful analysis – well, our finance director did – of our predicted cash flows for a new office. We were very conservative in doing this and looked at where our low point would come and how big it would be. We then took a view about whether we could handle this loss of cash, typically negative $250-500,000. In most cases it never got that bad because we beat our income targets but we had the downside covered had we not. When we did this analysis for the USA the figure was scary – well over $1 million. That is why we waited and entered the USA through acquisition.

When you evaluate the opportunity for an international office you must look at the downside in a pessimistic way and make sure you have it covered, that it cannot sink the whole business. Agencies have gone bust by getting this wrong.

## How to establish good international offices

Geographic expansion through acquisition is one way to do it but it relies on a number of factors:

- That you can find the exactly the right agency with exactly the right fit which is very hard
- That they want to sell to you, which is rare
- That you can finance it, which is risky if you are private.

It is very time consuming and requires certain skills that either you have or will have to buy in, which will be expensive. In particular you need to be able to conduct really thorough due diligence on the target acquisition. The accountants will do the financial bit but there are a lot of qualitative things you need to check extremely carefully.

- How good are their people, how long have they kept them, succession planning?
- How robust are their client relationships?
- What are the real motives of the people selling?
- How realistic are their growth plans, who are their competitors?
- Can you work well together? Is there cultural alignment?

All of this takes time, especially the last point. You need to invest the time to really get to know each other.

It is hard, I promise you. When we acquired our businesses in the USA and Japan it took me out of the business for nearly 6 months. I am not ruling this out but by far the best way to grow is to do so by creating the international network, not buying it.

So this bit deals with 'organic' expansion where you do it yourselves and build it from scratch.

At the risk of stating the obvious you need to have a strong culture, with distinctive competitive advantage backed up by established processes – otherwise you have nothing to export and no reason to believe you will succeed. You may be a great young design agency in the UK wanting to go into France but there are lots of very good design agencies in France – what makes you think you are better or different?

People are the crucial ingredient. You may bring in some local talent but that has to blend with some of your own people that you send out to the new venture so that the DNA of your agency is preserved (and strengthened). If you only have a local person or small team to open your new office then bring them over to work in the parent office for at least 6 months first so they get to learn the DNA, the processes, the culture, the case studies etc. This is what we did with South Africa and it worked brilliantly, it is what we never did in Germany and it eventually nailed us.

You are going to want this new office to be able to stand on their two feet as fast as possible but you are obviously going to help them by leveraging work from existing clients. We developed the law of thirds. We made it clear – and measured– that the international office should have one third of its work as referred work from the parent office or other offices, one third would be local work in their local market and one third would be international work they would win but it would then involve other offices.

We measured this under the 3 headings:

- **Out/In** – referred work that they picked up.
- **In/In** – local work that they won and did themselves in their market (or markets i.e. adjacent geographic territories where we did not have an office)
- **In/Out** – Multi-country work they won and could then pass some of this on to other offices.

It wasn't scientific but you can gather that this magical law of thirds would mean you had a strong local office, able to stand on their own two feet, able to back up other offices and able to generate work for the group.

## Local offices with specific expertise

One thing that helped this enormously – especially the In/out part – is that the local offices developed their own area of expertise. Paris became very good at Luxury Goods and were a centre of excellence for the group and source of international projects. South Africa became very good at market segmentation and financial services. Australia did a lot of work in Wine and were experts in emerging China. The special talent can be sector or service area or geographic but it really helps if your various international offices do everything well (to a minimum quality standard) and then have some things they do exceptionally well. It helps the group and it helps them and their self-confidence.

## Common systems

It has already been mentioned but let me just hammer home the point. In AVG all the systems they used were group systems – all those methodologies and processes we had for everything were what the new international office launched their business with. Very quickly they would develop their own processes or tweak existing processes and we would try to export these back around the group. There was an AVG way of doing things – everything from hiring people, running the projects and managing the finances – and we made sure everyone was using them. This of course was made easier because a) we were sufficiently mature that we knew these processes worked and b) it was 'our people' running the offices who totally bought in to all the methodologies etc. Our AVG way of doing everything made possible our international expansion. It was the basis for our competitive advantage everywhere we went.

Just to give this point some extra credibility it is precisely how SAB (South African Breweries) grew from a small local player to global leader in less than 10 years. Almost all their subsidiaries were/are run by South Africans who grew up learning the SAB way of doing everything. Ditto Unilever, Shell, BP etc.

## Work in pairs

When it comes to the leadership of the international office, we tried to have a team of two people who complemented each other. One was the 'leader' but the other was a very close number two and they worked as a partnership just as I had with my partner, just as Dave Brown had with Peter Hollingsworth in the design business. Where we got this right it worked spectacularly well, where we did not we battled.

## New International Offices need high level support

The final point I would make is that someone at the highest level has to lavish attention on the new office. For AVG this was mostly me and for 5 years I had the most horrendous travel schedule as I went around the various offices as many times as I could. I tried to avoid making these 'state visits' – we would review the business of course, but I would always do as much client work with them as possible, getting involved in workshops, helping write proposals, chasing new business with them. I also spent a lot of time with the team in bars and restaurants – just as I did when back in the UK. The informal stuff is vital. Apart from the travel it was the happiest time of my life.

## Promote autonomy within a group framework

There is a lot more I could say about the hard practicalities of running the network especially from a financial point of view. But to keep it short we had very good senior teams and we tried to give them as much autonomy as we could. We never imposed financial targets – we discussed them and reached a sensible objective with some stretch so the local team really 'owned the numbers'. We were, for the longest while, a private company, which was crucial. If there were profit shortfalls – and there were, often – we were able to concentrate 100% of our time to fixing the issues with the team without just mindless cost cutting – we just absorbed the loss of income across the group and had no shareholders other than us to explain this to.

If the group is publically owned or in any way has controlling outside shareholders then the financial management has to be that much tighter and there must be a much more rigorous use of KPI's and early warning signals. This obviously has a motivational downside.

Which brings us neatly to the next section – selling out to outside shareholders!

SECTION 9

# Thirty Silver pieces

## WHEN TO CONSIDER SELLING OUT AND HOW TO GO ABOUT IT.

Let's assume you have followed some of the advice above, together with the advice of much smarter people with whom you have consulted about your agency. Let's assume you have worked really hard and that you are a great people person – if not brilliant in every respect yourself then at least clever enough to build a team around you who are. Let's assume you have an impressive trading record – 5 years of demonstrable, uninterrupted growth in income, profit and reputation. If these assumptions are all correct then you are able to sell your agency.

My advice? Don't.

I called this section "30 Silver Pieces" for a reason – Judas always regretted his decision and would have happily returned the money for a chance to go back in time and make a different choice. A lot of people who sell their agencies regret it in the same way.

There are valid reasons for selling out, and I will list them, but they are rare and limited. For most people, on most occasions, the day you sell is the day you admit you failed. Or if you don't, you must lie to yourself and everyone around you. Hold on to that thought and let me deal with the valid reasons.

### Valid Reasons to sell

- You are really hating running your own business and want to cash in to go and do something else (that you have identified and have really thought about) that will make you much happier.
- You have run out of ambition for your agency.

- You are forced to sell e.g. your partner has decided they have had enough and you can't afford to buy them out or can't replace them.
- You have always secretly wanted to work for bean counters and have them tell you what to do.
- More positively, you genuinely like the top people in this bigger group who want to buy you and want to work with them, maybe join their senior team and some day run the whole group
- You want to raise capital to fund further growth e.g. by selling some of the agency you want to raise money to make acquisitions.

In fact, on this last point, there are many good reasons to want to release some equity in order to reinvest for growth and maybe take a little for your pension pot. The problem is that selling a part of your agency is very hard and often leads, whether you like it or not, to you selling all your agency for reasons I will explain very simply.

If you sell a meaningful stake of your agency (25%+) to an outside party, particularly a trade partner rather than a pure financial investor, you take yourself 'out of play'. No-one else will be able to touch you, the only market for your shares is with the original investor. Therefore you have to establish the basis upon which any future sale of shares will be made otherwise you will get screwed. When you have finished doing this you have effectively sold your agency – you have just not determined the timescale. So you might as well sell the whole lot now and get the best deal. This is very simplistic and I could say more but suffice it to say any partial sale is effectively a total sale except in exceptional circumstances.

So lets focus on the 'sale' – the time you eventually say yes to one of the many who approach you to buy your agency. And if you are any good there will be lots of approaches to buy you out because that is the model for how the big communications groups grow.

A big marketing services group, in happy economic times, trades on a high multiple – they are valued at e.g. 20 times their profit. If they can buy you at 10 times your profit – and you don't mess up subsequently – the deal is value adding for them. So big groups like Omnicom and WPP have been voracious acquirers over the years.

But before we get in to exactly how this works, and what you might expect, let us examine the 'reasons for selling' that are used to justify accepting such an offer from a bigger group.

## Justifications for selling out

- It gives us access to a bigger group of clients and we will get lots of referred work.
- It gives us access to an international network that will help us grow internationally.
- Their brand name will give us more credibility
- It will provide bigger career opportunities for our people and us, the senior team.
- They can afford to invest in our business to help us grow faster
- We will be able to make acquisitions

One of these reasons is valid in some circumstances the rest are various shades of bullshit and every one of them requires you to acknowledge that you have failed and run out ambition. If any of them are true, and all but one is not, it is because you have failed. Why do you need more clients, why can't you get them yourselves? Why could you not develop your own international network (do you really need to)? What is wrong with your brand name? Why have you not created opportunities for your people?

Let's be honest – someone is prepared to put a large cheque in your hands and it is hard to resist. And lets be realistic, you do not want to admit this to your equally hard working team so you will use all these reasons to justify your decision. In fact you will probably tell your team that however it might appear in your minds you are not ‘selling out’ you are ‘buying in’ – buying in to this great new investor with their big group, endless resources and unrivalled opportunities.

Here is a test for you. If the senior team in your own agency could afford to buy you out for precisely the same amount that you are being offered would you rather sell to them? If the answer is yes then you are selling out. And if the answer is yes you should consider doing just that. You may not get quite as much money, you may not get it all at once, there may be more risk if you have to wait to realize the full value of your equity but it is almost always a better option.

I should explain why all the so called ‘reasons for selling’ are bullshit.

## The truth

Cross selling to another agency in the group is never easy and often fails to materialize. There are many reasons for this to do with trust and incentives. If I am an executive in another part of WPP or Omincom why would I push work your way – I can’t trust you not to screw it up and I get very little upside? As a general rule I will push the work your way only if my client (and I see them as MY client) will be so thrilled that if they had known about you they would have given you the work anyway. In a nutshell you will win only new work you could have won anyway.

You may get access to an international network, you will certainly be able to get some cheap space in their Paris office or wherever but at what cost – selling your agency and losing your autonomy? That is expensive office space you just got.

Their brand name will help you win more/bigger/better projects? Says who – have you asked your clients, can you prove this? And again this a high price to pay for new business. Anyway it is bullshit – most clients, most of the time, are delighted to work with successful independents.

You have the option to develop your own network in various ways that keeps you in control of your own destiny and in the process will create lots of opportunities for your people.

They will invest in your business? Exactly how will they do this? I once had to explain this to an agency we were interested in buying (after we had sold our business but at least could now afford to make the right acquisitions). They had an offer from WPP which pretty much matched ours but were inclined to go with WPP because "they are able to invest in our business". I tried to explain the fallacy of this and will try to explain it to you.

## The typical big agency offer

An offer from a big group typically looks like a version of this:

- You make $1 million Profit after Tax (or EBIT or EBITDA, get your accountant to explain but it amounts to much the same in people agencies because there are little or no fixed assets)
- "Big Agency Group X" will pay you $10 million for your business. They will pay you $6 million now and the rest over 3 years in what is called an 'earn-out'. In other words it is subject to you hitting certain pre-agreed profit targets.
- The good news is that you can exceed these targets and make even more money. If you 'shoot the lights out' you can make an additional $10 million, total now $20 million.
- Because you are certain you will do well in this new group (think of all the referred work, big network etc etc) you tell all your mates that you have sold for $20 million making them green with envy and just fudging the issue that you actually only have $6 million, after tax, split between all the partners, in the bank, right now.

For fear of getting sued – they are a litigious bunch – it was once alleged to me that only 75% of "Big Agency Group X" earn out deals actually made it to the end of the earn out. Perhaps I have it wrong and perhaps that is out of date? Or perhaps I don't and am not.

Now this could be because some new and better deal was renegotiated or it could be because the acquired agencies never achieved their targets and never got anywhere near what they were expecting. Who knows?

Anyway back to this point about the new parent investing in your business. How are they going to do this? What does investment mean in marketing services? Sometimes it means capital equipment, in which case this has a chance, but more often it means investing in people or development of new services by people or opening of new offices by people. This is a P&L item and the only way to invest is through reduced profits. Put another way, the investment is only required because you have to spend – cash – on people before the income for this comes through.

So how do you invest in a people agency – you reduce the profit target. And how can you do that as part of an earn-out deal? You can't and even if you did who suffers – you, because you won't hit the profit targets necessary to get your earn out let alone beat it.

There may be ways round this, you can negotiate the money to be "invested" but the acquirer will take that into account in their offer price, they have to since it is part of the 'total consideration paid' which is what they have to report. So, no, they will not be investing in your business – you will, so you might as well have borrowed it from a bank or a rich uncle if the banks won't lend.

If your motivation for selling is to get investment then you should consider gearing – borrowing the money. If you are so certain it will pay off this is by far the best way and you protect – indeed enhance – your equity. If you are not certain then why are you investing and why should anyone else?

## The only valid reason to sell

You have guessed it – the only valid reason (other than you want to get lots of cash for yourself) is that you will be able to make acquisitions. In fact you will be positively encouraged to make acquisitions for growth. If they are the right deals of course. And who do you think will judge that in the final analysis? Who will tell you precisely who you can buy, when, on what terms and at what price? Your new owners. You now have a boss – several bosses in fact. Is that what you want – really?

Don't be a sell-out, stay independent until the last breath in your body and then sell to the people coming up through the business. That is my advice.

However, many if not most will ignore me so let me explain how to get the best price and let me also explain the alternative which is to float your business on the stock exchange and why this is very hard and a very bad idea for all but the very few.

## How to get the best price for your agency

There are various ways of valuing a business but they are all proxies for predicted income streams. You pay X now so you can get many times X over future years. The most common methodology is therefore to apply a multiple of your profits after tax and depreciation and amortization are knocked off.

Depending on what part of the economic cycle we are in this multiple will vary as will the multiple – the PE ratio – of the acquiring company. They will always seek to buy at a multiple that is lower than theirs as noted above. However, they should always have a much higher PE ratio because the stock markets – who do not really understand marketing services businesses and never have – place a premium on scale and diversity (operating in different industry sectors and geographic markets). This is not rocket science. If a big group like Omnicom or WPP have lots of different types of businesses, up and down the food chain, in lots of different countries (right balance of developed and emerging markets) then the investors figure their profits are more secure as they can't all go bust at the same time. If you are just a design agency operating in one country with a few clients, then your risk profile is higher and your value lower.

Ok – got that? So your mission is to get the highest possible valuation you can. And although we could look at DCF valuations or Income ratios or several other methods we will focus on the central one – the multiple of profit after tax.

Let me start with some good news and bad news – which do you want first?

Bad news – the company acquiring you will (if they have any experience at all) look at what the senior team are paying themselves now, while they own the business and are often prepared to forgo a bit of remuneration because they have all the equity. And they will look at everything – salary, bonuses, dividends, perks such as cars … the lot. So it doesn't matter how clever you have been with the tax man, they will ask to see everything. If they believe this is less than you will expect to earn when you are part of a large group and do not own the shares they will make an adjustment – downwards – on your profit. So if you have been taking $100,000 but your true market rate as an 'employee' is nearer $250,000 they will knock $150,000 off your profits for their calculation. So you may say you make $1 million after tax but they may only believe it is $850,000.

Good news – you may be able to take home a higher salary package after the deal! But the really good news is cash. Chances are that as a private business you have kept some retained profits, you will have cash in the bank a reserve. They do not care about that so you can take it out before you do the deal and issue yourselves a big dividend. I suggest you do not do this until you are certain the deal will go through (because you will pay tax and therefore cannot just put all of it back if the deal does not go through) and I suggest you just quietly do it. Don't ask, just do it and look innocent.

There will be a perod of due diligence when the acquirer will ask you to open up all the books and if they are any good they will look at clients, key people in the business, succession and a host of other factors.

They will then come back with their offer – the multiple, how much up front and how much as an earn out. It will be expressed as an indicative offer so be careful, they are not necessarily bound by it and if it is made any more binding there will be lots of caveats (get out clauses) so it ends up the same – indicative.

Before telling you how to get the multiple higher I have to ask a couple of questions.

First question – How much money do you want up front, right now and how much are you prepared to defer for a future earn out?

If you want it all right now a) you almost certainly won't get it and b) it will be a much lower total offer than if you defer some.

If you go the earn-out route then you must negotiate the highest possible upside for the lowest possible profit targets.

For example, they will offer a certain amount now and a certain amount in the future if you grow profits, say, by 10% per year. You can negotiate a big upside if you grow your profits by 20% or 50% per year. In theory they should not care – if they have to pay out it is only because they are making lots more money. However, as you might have guessed they will want to set the base line high and the upside low and you will want to do the opposite.

So as a subsidiary question – how confident are you feeling about your projections? If you think you know things that make the targets look easy you are in a strong position. Be careful here because they will use your ambition against you. Imagine that, all in, they want to offer you $20 million with $5 million upside. You want $35 million for the agency. They will ask how much upwards scope there is in the future profits, you will give a big number because you are trying to get more money out of them. They will then use this against you and offer you the extra $10 million but only with some really stretchy targets – how can you refuse or were you bullshitting them in the first place? You want sensible targets with some good upside extra money coming to you for achievable upside on profits. But most of all you want the highest multiple of your profits as the basis of the offer in the first place (see below).

Second question – are they offering to pay all in cash, or some in shares? How do you feel about that?

Whether they are offering shares or cash depends on a lot of things but often how big they are and how big you are in relation to them (and of course whether they are a public company). If they are a huge public company and you are tiny and insignificant in comparison shares will not be offered – too much hassle, if you want shares then use your cash to go buy them from your broker. However, if shares are on the table then you should be able to negotiate a higher total consideration if you take some or all of it in shares. If you do take a % in shares (for your interest we took 70% in shares) then you are gambling on the success of the people acquiring you and it shows great faith on your part. You may win (we did, big time) or you may lose (we very nearly did!). But I have to ask the question since it affects what they may be able to offer – in some circumstances they are able to make their offer much better if it is paid for with ‘paper’ i.e. their shares.

So you can see that this is tricky. How much do you want up front, how much later, what upside in the earn out, cash or shares or a mix? In the end it will all be expressed in a set of numbers and those numbers will be underpinned by the base multiple – what number do they multiply your current (and historic) profit after tax by in order to get to the valuation upon which all of the above will be based? How can you make this as high as possible?

## Negotiating the highest multiple

Start by researching every deal they have ever done and every recent deal in your industry sector. Your advisors should do this for you but push them hard to get all the facts – knowledge is negotiating power. If you know they have done a deal at a high multiple (or a competitor has done a deal to another group at a high multiple) then this is great ammunition to negotiate them up. They will tell you they can only pay X multiple of your profits– you will show that this is wrong and they have done better deals or better deals have been done by others – maybe you should talk to the people who did those deals?

Make sure they know you have at least one other interested party. You don't want to tout yourself around everywhere but do actually try to get another party interested. In this industry, as in many others, there is ego involved. They do not want to miss out on a deal and then see another group do it. If they are this far down the road – discussing indicative offers – they are interested, they have invested time, they do not want to lose a deal.

They will start with an 'industry standard' offer – the average multiple level at which most deals are being done in your area and thus their view of the mutiple level, all things being equal, they are prepared to pay. You need to show that all things are not equal, that you have strategic value that should command a much higher multiple. These are the kind of things that have and are being used to argue a higher strategic value:

- You have a digital arm to your business and this is predicted to be a much higher growth sector.
- You have invested in an international network and are better set up for growth
- In particular you have offices in important emerging markets like China

- You have clients and senior people in the agency that have been with you much longer than the average – the quality of your client list and people resources are higher.
- On the client theme, you overcome competitive conflicts – i.e. you will allow them to work with a range of clients otherwise out of bounds with their current roster of agencies for competitive reasons.
- You can get the rest of their group into some big client ('we can get your ad agency in to Coke!')
- You have superior systems and several development projects that are of strategic interest.
- You have technology that underpins some of your work and can grow your margins through investment in it
- There are acquisitions you are uniquely placed to be able to make – they are not just buying you they are buying a deal flow they could not otherwise have got
- Some of your senior team are well placed to take senior positions in their group and provide succession planning

Essentially find out what their hot buttons are (what sectors, geographies, types of clients etc have they publically said they rely on for growth) and how you are unique to any of their current agencies or any of your competitors. Keep using the phrase "strategic value".

On the other hand, find out things that will sweeten the deal for them but are of less of an issue for you to concede. In our case we knew they were particularly keen to guarantee they could retain certain of the most senior people so we all agreed to quite restrictive contracts, which was no big deal as we intended to stay anyway.

## Typical multiples

To give you some idea of what you can expect, current multiples are running at 6-7 times profit after tax. If you wow them with your profit forecasts (which you think you can achieve), you are prepared to defer a big chunk of the payment based on those forecasts, you will take a big portion in shares, there are lots of people queuing up to buy you and you have many factors that should command a strategic value, you just might get the multiple up to nearer 20.

This is all salesmanship – theirs. They have to 'sell' this deal to themselves, their board, their shareholders and the financial press. You have to help them sell it by providing the arguments in a well-presented way.

## The option of floating on the stock market

People have taken the alternative route of flotation, often a partial flotation, where the senior team release a portion of the equity – normally a minimum of 30%. This is popular because investors like to see the senior team with 'skin in the game' – in other words if they retain a big part of their wealth in the group it shows faith in the business model.

It is, however, very tricky for a number of reasons:

- If you raise money in this way you have to be able to demonstrate that you are able to reinvest it to deliver consistently higher than average growth. Think in terms of 20% per annum every year (the money boys like consistency not surprises) versus an industry norm of less than 10%. Can you really deliver this? Often this will mean you will be forced to grow by acquisition – can you handle this, can you do this while still keeping the current business profitable and growing? You cannot float in order just to secure your own financial future! You float in order to make shareholders rich.
- You have to be a certain size to float in order to be able to offer sufficient liquidity in your shares. If you are worth $60 million and you float a third of the business that gives you $20 million worth of shares to trade – hardly very exciting for the brokers.

- Flotation is very expensive to do. Think in terms of $5 million for advisors etc.
- Public ownership involves a lot of regulatory compliance that is both expensive and time consuming.
- After you have floated, the CEO and Finance director will have to devote 50% of their time to investor relations (presentations to potential investors, results road-shows etc). They may have to devote the other 50% to doing deals, making acquisitions, in order to 'buy' the growth they have promised. That does not leave much time to run the business.
- If the business hits problems they will have to devote more time to explaining this than to actually addressing the cause of the problems.

Fundamentally most marketing service businesses, unless they are a) very big diversified groups b) have very predictable income flows, are not fit for public ownership.

Floating the business does have its attractions. You may have a large number of investors to keep happy but they do not want to run your business for you. You don't have a boss. You now have a mechanism to raise finance, especially to do deals yourselves – you can become a player, the one that eats rather than gets eaten. You have liquidity in your shares – this means you can really use shares and share options to incentivize staff.

But it is expensive, time consuming and you put a monkey on your back. It is really only an option for already quite big businesses ($100 million plus) who are intent on global domination and who prefer the financial side of running the group to actually doing the work or dealing with clients.

## An alternative to Selling or Floating

I have been very negative about trade sales and flotation, deliberately so, but I do understand the need to ring-fence some of the value you have created in your agency and have the means to raise finance to fund future growth. In fact these are linked – if the people who started the agency never feel they can 'cash in' to some degree – enough to pay off the mortgage and college fund at least – they can eventually become very conservative in their thinking. They do not want to risk everything they have built with a risky venture like borrowing money to make an acquisition or launching some new service arm. So is there any other way you can take some decent money out of the business by selling your equity and yet retain control of your destiny by not selling out altogether?

I have already mentioned one option, which is to sell parcels of equity to the people coming up through the business. It is unlikely that you will ever realize full value this way but you can perhaps realize enough value with the added advantage of passing on the business to people you trust and who will afford you some continuing interest in the firm (both managerial and financial). Y&R for many years kept the ownership of the agency within the senior team of the agency although eventually greed took over and they sold to WPP. And that is a problem – if you sell at below true value to the next generation you cannot easily prevent them from themselves opting to sell out at full value unless you run the business as a partnership (like the professional firms) and even then the partners can all vote to sell.

There is another alternative that I designed a few years back. It involves a few – 3 or 4 – decent size but non-competing businesses coming together as a co-operative. They then acquire other smaller, high quality, agencies who have the motive of joining something bigger but do not want to be swallowed up by WPP and their like. The new group issues new shares every year and the amount of those allocated to any individual company in the group depends on their contribution to group profit growth. So top performers can increase how many shares they have while the overall value of the shares also increases.

I believe it would be possible to raise money on this basis, enough to give the owner-managers coming in to the group some kind of initial pay out and to be able to make acquisitions. It also relies on having a sensible head office with shared group resources that genuinely add value/save costs like shared HR, Finance/Treasury and procurement. I had one unsuccessful attempt at getting this off the ground (wrong people, wrong motives, wrong time, wrong place) but I think with the right 3 or 4 agencies with the right motives it might be possible. Anyone interested can contact me for more details.

If none of this appeals then continue to paddle your own canoe, pay yourself as well as you can to build up your retirement pot and don't be afraid to back yourself by borrowing to fund growth if you are confident it will pay off.

**SECTION 10**

# Bits and bobs

## RANDOM ADDITIONAL NUGGETS OF ADVICE.

I have added this section to be able to share some, hopefully, useful advice that did not have an obvious home in the other sections. To avoid this becoming 'War and Peace' I will just headline them. Again, if anyone wants more explanation, or wants to add some of their own, please contact me.

### Know your place

I hate it when I hear agency people say "We fired the client" rather than the more humble "We resigned the client" or the more honest "We lost the business". I hate it when ad agencies talk about their size in terms of billings, which makes them seem huge, rather than their operating income, which makes it obvious that they are really quite a small business. I am very cynical when I hear the head of a design agency tell me they are a strategic partner to their client "just like McKinsey" when what they mean is that the client CEO occasionally discusses the business with them and asks for their point of view. CEO's do this all the time with lots of people, it does not make you their strategic partner. Agencies need to know their place – humility is actually a virtue. Be proud and talk up the client work you actually do but be modest about our business. "We are effectively their brand guardians", no you are not and should never be – you only see part of the brand. They, the clients, are the brand guardians on behalf of their shareholders who own the assets. You are the hired help, just make sure you are their favourite hired help and you will be doing well. Agencies don't make important decisions – clients do. It is worth respecting that fact and them.

### Parallel ventures are dangerous – keep the main thing the main thing

I have met so many agencies over the years who have this great idea of using the resources of their main business to back new ventures of their own. “We reckon that rather than just helping our clients build their brands we could start building our own”. I have yet to hear of anyone successfully doing this. Stick to what you are good at and use your own money privately and silently to be an angel investor if you want to, but make sure if these start-ups want use your agency’s services they pay full price.

## Get good senior non-excutive directors

As early as possible get at least 2 really experienced people to be your non-executives. They will give you great advice, help you run better board meetings and will be great networkers for your business. To get good ones be prepared to pay way over the odds, it is worth it, and give them a stake in the business. Therefore choose very wisely!

## Be the first person to call a client if they are fired

At some point some of your clients will get fired. Get straight on the phone and offer sympathy and help and do this every week until they find a new job. Apart from being the decent thing to do – no-one wants to be your friend if you have been fired and one day that could be you – it is unbelievably good for business. They will get re-employed and guess who they will turn to?

## Fire people with dignity

You will have to fire people at some point. As often as possible I did this myself, rather than delegate, and tried to let the person leave the company with their dignity in tact. This often involved having to listen while they told you what a lousy boss you were, how you had failed to get the best out of them and where your agency was going wrong. You should agree and say that you expect one day you will regret letting them go. You should go on to remind them of all their strong points, wish them the best and offer any help you can. Again it is the decent thing to do and again it is good for business – they often crop up again as a client.

## Never hire people in the last 6 months of the year

Especially if the person is relatively senior – everyone takes a while to get settled in before they start to make a contribution. If you hire them in the last 6 months of the financial year you get all the costs and little of the benefit so all you do is suppress your margin. On the other hand, never miss out on an opportunity to hire someone that is exceptional!

## Be generous and creative with your perks

One of the huge advantages of running your own private business is that you are not bound by corporate Remuneration and Benefit schemes. If this person is into cars you can always relax the rules and let them have the old Porsche they want. If that person is really into surfing you can always just buy them the fabulous new board they want. If someone gets divorced and falls into financial difficulties you can just quietly pay their mortgage for a few months. It is your money and you can use it creatively and flexibly to make people feel valued. Yes it will set a precedent, yes there are tax issues and yes, this is why big corporates do not do this. You are not a big corporate – be sensible but be thoughtful and generous.

## Set up a library

Make sure from day one you keep good records of every piece of work and every project you ever do. For a while we made it a rule that you could not issue a final invoice (which people were under pressure to do) if the library copy of the project report and all material were not completed. After just a couple of years we had the most amazing bank of knowledge and stimulus.

## Get an excellent office and facilities manager

Your people are your most important asset and the environment in which they work – the offices and meeting rooms and equipment and IT –matter a great deal to them. Unfortunately they will be useless at doing anything to organize or maintain them so get someone really fabulous to do this.

## Throw celestial parties and do not invite clients

It may not be politically correct to say so but parties are the life blood of agencies and the best ones do not include clients. Get your best team on the case and throw a great party twice a year (not just Christmas). Sometimes this will cost a lot but it does not have to – our best parties were held in the room above a local pub and involved a 'show' put on by everyone in the agency where they mercilessly ripped the piss out of all the senior team and characters in the agency, most especially me. It was embarrassing, it was even painful but it was huge fun.

## Offer sabbaticals

Allow everyone in the agency to take an additional 6 weeks paid leave every 4 years to fulfill some dream (not just to lie on a beach). This works as a superb incentive and retention device and people genuinely get a lot out of it (some will learn how to fly a plane or climb Kilimanjaro). This life experience actually helps them when they come back to the business. After 4 years you often leave your job, not because you hate it, but because you need a challenge – the sabbatical takes the place of this.

## Be nice to pregnant women

You would be well advised to make sure at least 60% of your staff are women – sorry boys, but as a general rule they are better. Many will get pregnant and your natural reaction will be to get frustrated – this will be expensive, it is inconvenient. Yes, but if they are a man they can just as easily leave to get another job which is also expensively inconvenient– the difference is you don't get 6 months notice to make arrangements and they don't come back. We were very supportive and generous when it came to maternity leave and were rewarded by retaining the most talented and loyal group of women.

Indeed it is to them and all the AVG male team in touch with their feminine side that I dedicate this eBook. We learned a lot together and I hope you think I have done it some justice.

# About the Author

Mark Sherrington studied Economics and Sociology at Bristol University, which he thought would make him the worlds best marketer. He certainly conned Unilever for a while (1977 – 1988). They trained him in brand management, gave him a few big ones to run and eventually made him a marketing director of their Spanish business. They even brought him into their head office and put him in charge of the marketing of a few global product categories. But he left and with another Unilever maverick (they were rare) set up The Added Value Group. The history of AVG is explained in the introduction. It got sold as part of Tempus to WPP in 2002 after 14 years.

His pockets full of WPP shareholders' money he took up the offer to be Group Marketing Director of SABMiller Plc, a very large company (Footsie top 50 no less) that sells his favourite product – beer.

For some strange reason he gave this up in 2006 and moved to Cape Town where he runs an internet start up, his own, SOGiants.com that showcases business thought leaders much smarter than Mark. He blogs like a demon on both SOGiants.com and marksherrington.com.

Mark is author of "Added Value: The Alchemy of Brand-led Growth" (Palgrave) and contributed heavily to "That's all very well but…. 10 uncomfortable truths about business and marketing (same thing)" by his friend Stame Reilly.

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THE END