The Complete Agency Management Handbook

Your Guide to Greater Success and Profitability

DARRYL SALERNO

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Managing Retainers

The issue of scope creep is more pronounced on retainer accounts because they are frequently not built on the basis of budgeting specific activities but more likely on a "gut feel" of what it will take to "do the job" and/or what the client is willing to pay.

Retainers have some advantages over other billing arrangements. They are excellent for cash flow and easy for the client to understand. In terms of cash flow, you can invoice the client at the start of the month, or earlier, and therefore receive payment close to the time you incur expenses. In contrast, when you bill the actual time you spent during the month, you must wait for the month to end, collect the data, put the invoice together and double-check the amount. This is generally at least five to six weeks later than a retainer invoice would be sent for the same period. It may also take the client longer to pay because they must review the time spent rather than having an invoice of a specific, agreed-upon amount.

However, although you are billing the client the same amount each month, that is not a reflection of the work you will do each month. The amount of time spent each month will be determined by the activities being worked on and the number of days in the month. The activities you are committed to execute each month will determine how much time will be spent. Even if you do the same amount of work every day, there will be great fluctuation in the amount of time logged. Monthly billable days generally range from 19 to 23, depending on weekends and holidays. That means that you will log 21% more time in a 23-day month than you will in a 19-day month.

You should not fall into the trap of thinking that you should be staffing each account based on the amount of the retainer. In fact, you should resist the urge to use the terminology "retainer." If you have a client that is paying you $10,000 per month, this is a $120,000 annual program.

It is best to build the annual budget by budgeting each activity and adding them together to come up with the total budget. You can then suggest to the client that you would be happy to divide the budget by 12 and invoice the same amount each month. The advantage of presenting it this way is two-fold. You will better identify the specific activities that the budget covers and educate the client regarding how the time may be spent each month.

For example, in the chart below, you will see a $20,000 per month retainer creating a $240,000 annual budget. Let's assume that in general the program calls for consistent work being done each day. However, the client will be announcing a new product in May and attend a trade show in September. These are separate activities that will take place at specific times of the year and will require a considerable amount of time during those months.

Month	Billing ($)	Spikes ($)	Billable Days	Staffing Levels ($)
Jan	20,000	14,000	21	14,067
Feb	20,000	14,000	19	12,727
Mar	20,000	14,000	22	14,737
Apr	20,000	14,000	21	14,067
May	20,000	40,000	22	40,000
Jun	20,000	14,000	21	14,067
Jul	20,000	14,000	20	13,397

Month	Billing ($)	Spikes ($)	Billable Days	Staffing Levels ($)
Aug	20,000	14,000	23	15,407
Sep	20,000	60,000	19	60,000
Oct	20,000	14,000	23	15,407
Nov	20,000	14,000	20	13,397
Dec	20,000	14,000	19	12,727
Total	**240,000**	**240,000**	**250**	**240,000**

As the chart indicates, you need to set aside $40,000 for the work in May and $60,000 for the work in September. Therefore, $100,000 of the $240,000 program will be spent in two months, leaving only $140,000 to be spread over the 10 months of the rest of the year (roughly $14,000 per month). If the work done each day is consistent, the amount spent in each month will range from a low of under $13,000 to nearly $15,500 based on the number of billable days in each month.

If you go through this exercise and create a similar chart, you can easily explain to the client how you expect to spend the budget for the year. Then, as you log the actual time, you can compare it to what was anticipated and act, if needed. For example, let's assume that you show this information to the client, and they agree that it makes sense. In January, you bill the client $20,000 and spend $18,000 in time. You did not *under*service this by $2,000; you *over*serviced it by nearly $4,000. You will need to determine if you will service it less in subsequent months or accept the $4,000 loss.

Your time-management software needs to track servicing in this way. It should automatically increase or decrease the amount available to spend in subsequent months based on what has already been spent to date and what is anticipated going forward. If you would like a demonstration of how that should work, please contact me.

Simply comparing spending each month to the amount billed will lead to lack of control and potentially significant losses.

We believe it is best to keep the client aware of how much was spent each month and year to date versus the anticipated spending in the original forecast on the chart. If you find that you are continually overspending as compared to the chart, and you are keeping the client informed regarding the increasing overage, after a few months you can approach the client to discuss ways in which you can bring spending more in line with the budget.

As before, when approaching a client about an overage and presenting ways to reduce overservicing, it is always best to present options to having the client pay more. As stated earlier, you may be able to suggest that some of the work be moved to a more junior person. Other options might include eliminating some nonvalue-added reports or activities, reducing the frequency or number of attendees at meetings or having personnel on the client side execute some of the tasks you are currently working on. The goal is to get time worked better aligned with the budget by getting paid more or executing work more efficiently.

If you and your staff are working too hard and not making enough money, you need to read this book. It explores many aspects of managing an agency including long-term planning, top-line growth, employee management and retention and improved profitability. It's based on decades of experience and best practices across agencies of all sizes.

DARRYL SALERNO has spent more than 30 years in the management of public relations agencies as chairman and chief executive officer at Magnet Communications (now Havas PR), chief financial officer at both Edelman Worldwide and Ruder Finn and chief administrative officer at Burson-Marsteller in New York.

He is currently president of Second Quadrant Solutions, specializing in working with professional service firms to improve business performance, profitability, systems and management training programs.

He is the developer of Staff Allocation Solution, a proprietary software system specifically designed for communications agencies to properly allocate staff and monitor client budgets to ensure reduced overservicing and higher profit margins. Darryl is a member of American Mensa, the Public Relations Society of America and the Counselors Academy. His current passion is doing stand-up comedy.

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