

TONIC

FUTURE  POSITIVE

THE NEW STANDARDS FOR AGENCY SUCCESS

**CREATING AND MANAGING BUSINESS VALUE  
AN ESSENTIAL GUIDE**

# THE FUTURE IS NOT WHAT IT USED TO BE

Success in the past does not guarantee your future.

The world has changed significantly and agencies need to change with it.

The challenges of recent months have been a catalyst for real change in the agency sector that's long overdue and should not be underestimated.

At Tonic, we have relevant experience as a business consultancy helping agencies navigate this kind of significant change. And now more than ever we want to bring a level of clarity, colour and confidence to all founders and leaders looking to lead the way.

So, we've developed a series of Future Positive guides to support you.

This edition focuses on how to create and manage business value.

The guide draws together our frontline client experience, extensive research into changing expectations, and a range of expert perspectives from an industry going through and seeking positive change.

We share insight and practical advice across a range of areas, including profitability, growth, business quality and management capability.

We'd like to thank everyone who has contributed to this guide and encourage everyone to take a Future Positive approach to this new era of business.

# ~~NEW NORMAL.~~ NEW WORLD.

There's no escaping talk of the new normal. On one level the term feels apocalyptic and on the other completely unremarkable.

But the reality is that many aspects of how we live, work and behave – as businesses and communities – have needed an overhaul for some time.

This is especially true for agencies, with very few taking the initiative and action pre-Covid to adapt to changing client expectations and find faster, smarter and better ways to do and deliver.

The majority of agencies have become too elaborate, rigid and predictable, and new competitors have emerged with an edge.

If you've yet to act or change, you'll need to think more radically to compete in the future. And if you're looking for any kind of normal, you will be disappointed.

Now is the time to start as you mean to go on and commit to an approach that's more effective, more inclusive and more rewarding for everyone involved.

Expectations and attitudes are different across the board. Whether you're looking at better returns for clients, greater flexibility for employees or higher profitability for your business, things will need to be different and standards much higher.

You may not be in a position to change things quickly, but having a clearer and more positive view of the future will mean that every decision and action will be a step in the right direction.

Don't start by just looking for incremental improvements, otherwise you'll never engage with the bigger picture.

You'll need to look beyond the obvious and conventional and take the opportunity to raise your game.

FUTURE  POSITIVE

# VALUE

Creating and managing business  
value in the new era



# VALUE

In the past, business value has tended to be a subject people have only engaged with when contemplating the sale of their business, or when idly dreaming of the potential future riches their business could bring. And in those situations many owners and managers simply interpreted value as relating to revenues and profits, naively believing that a couple of years focusing on achieving decent results would suddenly deliver all their financial dreams.

But as we move into a new era, value will take on a very different meaning. It will have an ongoing and much deeper relevance to a broader group of stakeholders and should become an essential guiding light for leaders – regardless of whether they have any immediate plans to sell their business.

“We’re looking for businesses that really understand the concept of value – how to create it, develop it and protect it.”

INVESTOR – AGENCY SECTOR

Two key concepts are driving this change – choice and resilience.

All stakeholders will be more discerning in choosing agencies – whether that’s the best acquirers, investors, clients, talent or partners. Not only will they be seeking out those that are genuinely at the top of their game, they’ll be assessing which agencies have the depth of expertise, resources and management knowhow to fulfil their growth ambitions, stick to their principles and survive future market fluctuations.

Value will now be about always being highly valued and valuable – not just a set of financial calculations throwing out aspirational numbers on the odd occasion when it creeps onto an owner’s radar.

## NEW EXPECTATIONS

- More relevant, distinctive capabilities creating competitive advantage
- Better understanding of the future and a clearer vision
- Strong capability to sustain quality and deliver substantial results
- The know-how to anticipate and manage uncertainty and disruption

### NEW STANDARDS

These expectations will set new challenges for agencies. More rigour, better planning and greater attention to detail. No half measures and nothing left to chance in the way your business works and the way it's managed.

- A business model generating high profit margins with a protectable downside
- A rigorous plan for delivering substantial and consistent growth
- A range of distinctive and high quality elements to create and preserve success
- The management skills and systems to maximise potential and minimise risk

So while value takes on a new relevance, calling for higher qualitative and quantitative performance, it can't be considered in isolation.

Managing value will require a holistic approach across clients and talent – all of whom will have an emotional and financial investment and want to feel that the business is safe and in capable hands.

But that's not forgetting the potential investors or future purchasers of your business who will also have similarly heightened expectations.

But if you do eventually decide to sell, you'll receive a handsome premium on your value if you follow this guidance and become a winner in the new era.

Let's look at how to achieve these new standards in practice.



“The models used by acquirers are changing and this will create new challenges for businesses looking to realise value in the future.”

FINANCIAL ADVISOR — MARKETING SERVICES

# SPOTLIGHT ON

MANAGEMENT  
CAPABILITY

The strength of management is a vital element in determining your future prospects and value...



BUSINESS  
QUALITY

New and broader quality measures need to become everyday currency when building the value of your business...



GROWTH

The best clients, talent and investors are looking for agencies who will achieve significant growth...



PROFITABILITY

Be prepared to go against conventional wisdom and be brave in setting your own new standards...



# PROFITABILITY

Leaders and managers have recently learned a lot about the importance of cash. And they'll now need to give the same care and attention to profitability.

Agency profitability has been under pressure for some time as businesses have become heavy and inefficient. Many management teams have rationalised their declining profitability by reference to 'creativity over commerciality', 'commitment to quality' or 'investment in growth' – rather than knuckling down and sorting out the real problem.

Low profit margins have left many agencies very exposed during the recent pandemic. Those that have survived now need to recognise that a high level of profitability is an obligation, not an option.

**Think 20-25% not 10%. And be bold in making the changes required to achieve that standard.**

## SHARPEN YOUR MINDSET

Profitability is obviously influenced by client revenues, resources and ways of working – and we'll deal with some of those shortly.

But having all the right things in place won't get you to where you need to be unless you genuinely believe it's important and make it part of your culture.

It's down to business leaders to truly commit to it every day.

Profitability doesn't need to be your sole focus. You should see it as an outcome of doing many different things well – and something that's not in conflict with great ideas and creativity.

It's an essential element to fuel growth, to reward everyone properly and to give your business its rightful protection against difficult times.

## MAKE SMARTER REVENUE + PRICING DECISIONS

Every day you make important profitability decisions with the opportunities you decide to pursue and the projects and pitches you commit time to.

So get your offer and client targeting right – be clear on where you can deliver high quality and who will pay the fees you need.

Then if you can sharpen your approach to pricing, you'll be on a winning streak. It will really help to understand the difference between cost and price and to learn to interpret the client's view of value, so you can negotiate with confidence to find the win-win ground.

With proper analysis and determination you'll see a significant improvement in profitability even before starting to look at your structure and costs.

## LOOK AT NEW WAYS TO REDUCE COSTS

There are the obvious areas to achieve savings such as lower property costs and cutting out the salaries of people who aren't fully utilised. And it will normally be possible to trim a bit off most other budgets.

But to achieve significant improvements in profitability, you'll need to look well beyond these straightforward cost savings. As we've already discussed, you should ask yourselves whether you really need all the functions, roles and managers in the business. And by challenging all the processes and ways of working you can facilitate valuable savings without jeopardising the quality of work or client service.

Be prepared to go against traditional wisdom and be brave in setting your own new standards.

X2

**Most agencies have the wrong focus, they'll try to double revenue rather than working out how to double profitability.**

FINANCIAL ADVISOR — MARKETING SERVICES

## TAKE ACTION

### ONE

Define demanding profitability objectives clearly at the start of your planning work. Push hard to ensure these targets will be achievable – don't compromise.

### TWO

Look at every aspect of your business, don't be constrained by the industry norms or the ways of the past.

### THREE

Be prepared to plan and re-plan. To delve deeper, challenge and change until you get to a position you can be confident about. You won't want to be doing this again, so get it right once and reap the benefits in years to come.

In this uncertain and unpredictable time, many agencies have been focused on managing their cash and hoping to stay in profit – or, at least, not to lose too much money.

Sadly, 2020 is going to be a year that will dampen many good growth trajectories. But while leaders and managers are concentrating on holding things together, the expectation of future development hasn't changed. Acquirers and investors are still looking for growth. And the best clients and most talented people are looking to work with agencies who can grow with them to develop and shape the future.

So just getting back to where you were and maintaining the status quo isn't going to cut it.

## DON'T ASSUME CONTINUITY

Before the recent challenges you may have looked down on some of your competitors and seen businesses stuck at one of the key growth points.

With the changing marketplace and new expectations coming from clients and talent, it's very likely that many highly successful businesses will now also end up being stuck. Just because you've been successful and growing before the pandemic, there's no reason to assume your growth will automatically continue.

You'll need to assess your services, clients and geographic markets and be prepared to reshape your approach – not just to recover next year, but to give yourself a platform for growth in the longer term.

## BE BOLD + PREPARED TO CHANGE

It would be very easy to revert back to the things you know have historically worked well for you.

And then to throw all your energy at replicating your past success. But the opportunities for growth in influence, revenues and profitability have changed – and for the long term, not just for a temporary post-Covid period. So be prepared to re-think your offer, client base, team and culture. Of course, you should keep the things that can still help you to be brilliant – but don't hang on to baggage for old times' sake.

Those agencies that have a clear view of the future landscape and are able to adapt to it will be the future winners.

## KNOW YOUR JOURNEY

It's not unusual to be trapped in a one year planning/results cycle.

That's evitable if you're part of a listed group, but if not, you've probably become a victim of tradition and the pressure from your accountant.

There's now a demand from all stakeholders for a clearer, longer term vision – and a well-considered road map of exactly how the business will grow and continue to deliver value for the next 3-5 years.

Without that clarity, it's going to be impossible for investors, clients, talent and partners to make a commitment to you. And very difficult for you to guide your business to fulfil its ambitions and value.

“The impact of Covid-19 has been varied depending on the agency's services and clients. But with the right planning and changes, growth should now be possible for almost all of them. Covid-19 shouldn't be an excuse.”

INDUSTRY COMMENTATOR

## TAKE ACTION

### ONE

Start thinking now about how you will be able to grow substantially and consistently over the next 3-5 years, don't just limit your focus to recovery in the next few months.

### TWO

Don't be daunted by 2020 being a depressed year – it will be for many agencies – but don't be too introspective, push to get back onto a growth trajectory quickly.

### THREE

Build a rigorous plan for how you will develop and grow in future years. Be clear about how your offering, clients, skills, people, ways of working, locations, culture and performance will evolve.

SPOTLIGHT  
ON VALUE

# HIGH PROFITABILITY IS AN OBLIGATION, NOT AN OPTION

Agency leaders and managers now have an enhanced responsibility to be able to support and protect the interests of all stakeholders.

# BUSINESS QUALITY

Quality is a concept that has always been well understood in the sector. And committing to high levels of excellence has been the source of success for many agencies.

The measure of quality has been applied enthusiastically to creativity, innovation, planning, data management and technology – but rarely to the business itself. Until now.

As we move into the next era, every business will be subject to a higher level of scrutiny. Not just for its ability to produce great work, grow and generate profits, but for being able to continually maximise its opportunities, optimise returns and fend off challenges and threats.

These new measures now need to become an everyday currency for agency leaders and managers in building the value of their businesses.

## FOCUS ON MAINTAINABILITY

As already discussed in earlier sections, positioning, offer and client targeting now need to be much sharper to support new business and client development.

But the value of your business won't just depend on your recent or imminent successes. It will be influenced significantly by your ability to sustain these achievements long into the future.

So, you'll need to think carefully about how to maintain your distinct status in your marketplaces. About the mix of your services and revenues. And about your types of client, sizes and retention rates.

You'll need to play to your strengths but avoid creating any over dependency. It will be a tough world where being highly successful in a narrow area or with a specific client can quickly be seen as a weakness.

## MANAGE TEAM DYNAMICS + CULTURE

The same principles of maintainability will apply to your staffing and your culture.

What will really count is not just the team you have today or the team you are now planning to have tomorrow – even though they may be brilliant. It will be about your ability to consistently retain, recruit and develop the best people for the long term. And to be sure you're doing the right things you'll need to measure commitment, retention and progression rates and act on them to ensure you stay on track.

You may be a fan of regular change and see recruitment costs as a normal price of doing business, but if so, you're likely to be hit in the pocket when investors and potential acquirers see things differently when determining the value of your business.

## SHAPE YOUR VALUE

Many agencies have clever and bespoke ways of doing things. But very few recognise the potential value associated with these capabilities and fewer still manage to capitalise on that value.

As skills, methodologies and systems become more specialised they can have significant value beyond their specific use in your own business.

They could be developed and licenced for use by others or used to create alternative revenue and profit streams for your business. Or, as and when you come to the point of looking for investors, partners or buyers, your unique capabilities can lead to high valuation multiples where the assets are of particular value to interested parties.

“Agencies recognise quality in their work for clients but they’ll need to apply the same quality standards to the commercial dimensions of their businesses.”

INVESTOR – AGENCY SECTOR

## TAKE ACTION

### ONE

Recognise that quality is an important contributor to value. And that maintaining it is an ongoing task. Don’t judge your success and value just in terms of your immediate client wins, revenue and profitability.

### TWO

Record and track the underlying measures of quality and actively manage your business to achieve high standards in each area.

### THREE

Look for opportunities to leverage value beyond your normal trading activities – but do so without losing focus on your core business.

# MANAGEMENT CAPABILITY

In many industries the strength of management is seen as a vital element in determining the prospects and value of a business.

But the agency world has been subject to a lower level of scrutiny and consequently much less attention has been given to the development of management skills and capabilities.

There are many inspirational leaders but far fewer individuals who possess really strong management skills.

This gap has really been exposed by the recent Covid-19 challenges.

Of course, a lot has been learned during this period. But in most businesses there are still significant shortfalls in the management skills and capabilities needed to navigate the uncertain world ahead. Identifying and implementing the best strategy while balancing opportunities and risks won't be easy.

A different way of thinking about management will be required if agencies are to realise their full potential and value.

“We'll look even harder at the capability of management – including how they managed things during 2020.”

INVESTOR – AGENCY SECTOR

## BUILD A STRONG TEAM + PLAN SUCCESSION

Gone are the days when one dominant individual will be able to do the job.

Management now needs to be a proper team game to provide the breadth of experience and perspectives.

Each member of your management team will be carefully assessed, not just by potential investors and partners, but also by clients and the talented people you have, or want to have, in your business.

They'll need to believe in your management team and trust them to achieve their ambitions for the business. You can't compromise on the quality of your team and there should be no room for anyone who only qualifies through friendship or length of service.

## IMPROVE EXPERTISE + EXPERIENCE

In the future, good managers will be really impactful on their businesses.

In agencies today, management is often rather passive, playing a co-ordinating role and hoping to keep all the plates spinning. Managers will now need to have a really good understanding of how all the elements of their businesses work together and how to change things to reach the best outcomes.

They'll need to know when to say 'yes' and when to say 'no' – and be able to act quickly.

But that capability doesn't just arrive by luck. The most talented strategists or creatives are unlikely to naturally have what it takes.

Nor are entrepreneurial agency founders. And the longer you've all been together in the same business, the narrower the experience you'll have to draw on when coming up against new situations.

So do take some time to assess your management capability and be honest about the depth of the expertise. Then commit to filling the gaps through recruitment, education and mentoring.

3%

Acquirers pay little attention to awards and fame. Only 3% see this as one of the qualities they look for in an acquisition – despite business owners often seeing this as validation of a premium price.

SI PARTNERS GLOBAL ACQUIRERS REPORT

## SHARPEN YOUR INFORMATION

Faced with a more variable and challenging environment, good, results-oriented management will rely on a balance of both art and science.

Experience and intuition will be valuable but alone won't be good enough unless supported by clear, insightful information.

You'll need to know the vital data from across your business to help you anticipate future changes, not just review the historical financial information from your accountant that can obscure what's really going on.

A smart dashboard that tracks a small number of key indicators in your business, coupled with some clever market and competitor intelligence, will give you the insight and confidence to act quickly and to stay ahead.

“This is a great chance for agencies to put themselves onto a new level for the future. Unfortunately, I fear that many will just tinker with what they've done before and not seize the opportunity.”

FINANCIAL ADVISOR — MARKETING SERVICES

## TAKE ACTION

### ONE

Clearly define the role of your management team, make sure it's linked into the business objectives and not just representative of departments or reflecting length of service.

### TWO

Take an objective view of the expertise, experience, personality and effectiveness of each of your senior managers – as individuals and as a team – and change or develop as necessary, without compromise.

### THREE

Define the key information that can promptly and insightfully inform your management decisions – don't just ask your accountant what they think you need.

## ABOUT TONIC

### **We're a business consultancy, specialising in the agency sector.**

We know what drives agency leaders because we've been there, but also because we're a trusted expert and guide to many across the agency world who want to realise the full potential of their agencies and teams. We've been in the thick of it with our clients over the last few months and we know it's not easy. This is why we've made it our mission to add more clarity, colour and confidence to the big decisions that leaders are now facing. Our goal is to help agencies succeed. It's as simple as that.

## HOW WE CAN HELP YOU

We recognise that agencies will have different levels of capability, time and budget to deal with their challenges right now. So we've designed all our services to give you different ways of drawing on our specialist expertise and experience.

Whether your challenges are specific to a particular area or more holistic, we can work with you to get the right results.

We can be a hands-on partner – applying our expertise and delivering specific programmes tailored to your business challenges.

We can also work as a mentor – you and your team will handle most of the work, we will review, challenge and add ideas to keep you on track to deliver your objectives.

In every case, getting stuck in and making a difference is our remit.

## GET IN TOUCH

Drop us an email if we can help. We'll show you a fresh perspective, challenge your thinking, and help you create a positive future for your agency.

✉ [hello@tonicpartners.co.uk](mailto:hello@tonicpartners.co.uk)

We regularly share insights, knowledge and advice on our website, where you can access more Future Positive updates and our Essentials Toolkit. You can also follow us on LinkedIn.

🌐 [tonicpartners.co.uk](https://www.tonicpartners.co.uk)

🌐 [LinkedIn](#)

## TAKE THE FIRST STEP

Hopefully, you'll have found this guide helpful and you have a better insight into how to create and manage business value.

For a more objective assessment of your business, we have a specific Future Positive service to help you prioritise exactly where to put your time, energy, and investment over the coming months.

Please get in touch – we're sure this will add value to your business.

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