

A network diagram with nodes and connections, featuring some nodes highlighted in red and others in blue. The nodes are connected by lines, forming a complex web. Some nodes are solid circles, while others are hollow circles with a red outline. The connections are thin lines, some solid and some dashed.

# How agencies should approach financial control during the pandemic

## Fully understand where you are now

In this time of crisis, it is more important than ever to have a full understanding of your agency's finances. Here's some advice on approaching a reassessment when you have no idea what's going to happen tomorrow.

The biggest thing you can do to avoid a threatening situation is to regularly review your business plans to keep a forensic check on the financial health of the business. Time should be spent as a management team questioning performance and ensuring that, in particular, your revenue forecasts are up to date and accurate.

The old adage of 'cash is king' has never resonated more than now. Managing your working capital starts by understanding your revenue profile for the coming weeks and months.

We are in a period where we have never had to be so agile, but alongside that we need to ensure we have the checks and balances in place to protect, respond and make the most of any inevitable opportunities we identify.

The biggest cost in the P&L are your employees. To protect them, the initial exercise should be to review all of the other costs.

## What you can proactively do

Where can you reduce spend that isn't going to be damaging to the business?

Naturally you would expect travel and entertaining to reduce in the coming months, but where else can you be more proactive in identifying savings to be made?

Next you should put in place some financial tools to accurately forecast financial performance. Keep in mind that historical data offers little: you need to be forward focused and in control of the financial destiny of your agency.

This means the following tools should be updated and referred to whenever there is an update from your clients:

**Weighted revenue forecast:** Not only confirmed revenue, but your revenue pipeline weighted according to the level of confidence of that revenue conversion.

**P&L forecast:** Linked to your weighted revenue forecast allowing you to manage resource according to the expected income.

**Cashflow forecast:** Linked to your P&L to map out your expected cash balance based on your income and expenditure.

## Look out for the triggers and take action

I am advising all of my clients to have triggers in place that provoke action. The first trigger should be when your forecasted revenue takes you below a profit margin that you feel comfortable with.

The result may be nothing more than a conversation with the management team to confirm no action is required, but equally it could lead to assessing the measures you need to make to reduce the cost base. These decisions should not be taken lightly – we have to believe we will get through this and there are plenty of options outside of straight redundancies.

Making informed decisions based on the revenue forecast will give you some protection over cash in your agency. In these exceptional times, I would advise having three-to-four months' cost coverage as cash – that's enough cash to pay for all salaries and overheads if you had no income.

It also offers protection to staff if the worst happens.

## Use this as the opportunity to refine your billing process

Other areas I would recommend you focus your attention on are:

**Purchase orders:** If you require a PO from your client, do not start work until you have this. Clients are communicating differently between each other and with you, and plans will be changed frequently and at short notice. Make sure you have the paperwork there to ensure you get paid for the work you do

**Billing:** It may sound simple but go back to the basics. Invoice as soon as the work is confirmed, or the PO is issued. Don't wait until the end of the month.

**Credit control:** Make it a process. Contact clients a week or two before the invoice is due to be paid to make sure it's approved and on their system; basically, don't wait until the due date to find out there's a problem. Chase debts as soon as they become due, and review aged debtors lists at least once a week. Remote working will likely cause delays to payments and you need to be on top of it.

## Utilise experts to lead through this

These are turbulent times, and the uncertainty is just as relevant for your clients as it is for your own agency. But the duty you have as leaders of your businesses is to do the right things in order to protect and look after your employees.

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