

The Agency Growth Roadmap

*Proven Tips to Master Your Financial
and RevGen Strategies at Each
Stage of Agency Life*



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Stage 1:

Creating the Business

Getting to \$1Million in Annual Revenues



Stage 1: Creating the Business | \$0-1M

When your agency is under \$1M, you're likely a team of 1-5 and your primary task is to create a solid foundation for your agency through specific market positioning (ie, niching) and relationship building. The most common challenges facing agencies in stage 1 is the agency identity crisis, of knowing exactly WHO, you serve and what need of theirs you solve. It can be hard for burgeoning agencies to go-to-market with compelling offers that delivering services based on what the market demands, usually opting to offer services based on what the owner and team want to be doing. A core mindset needs to be selling first, then figuring out how to deliver what was sold. The biggest risk to these agencies is maintaining cash flow during the process of building credibility.



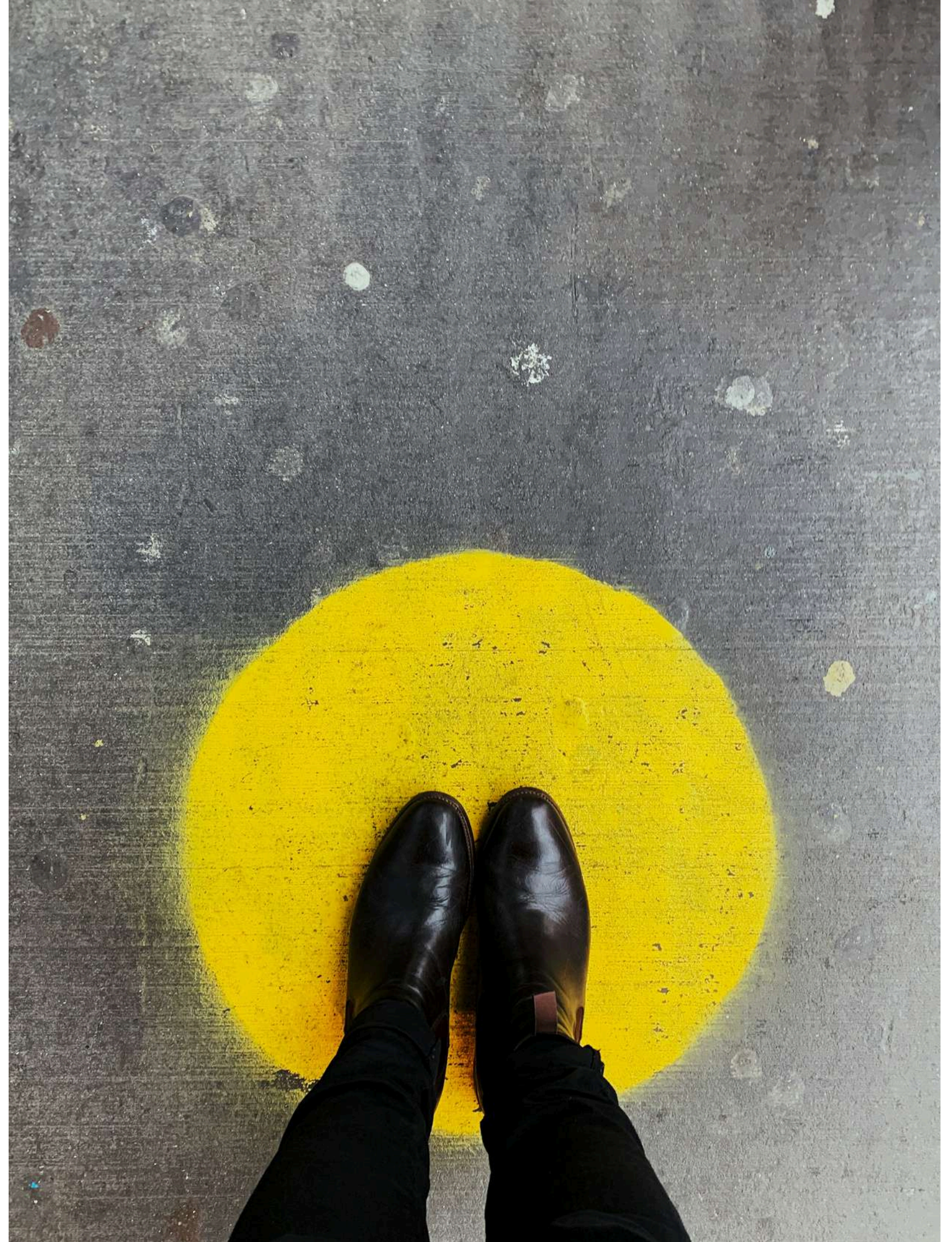
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"Zero to one" is about your business earning the right to exist in the world. Your two priorities are sales and service, and little else matters early on. As the business matures through this stage, it will need to solve for "crossing the chasm," aka, finding a way to provide a complete offering without the money or profit to afford a robust team of employees to do it. Financial management should be focused on avoiding expensive pitfalls, identifying your service model and break-even revenue, and keeping things as lean as possible.



Ryan Watson
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Stage 1: Creating the Business | \$0-1M

Too often creatives get distracted by marketing what they *want* to do instead of selling what the market needs. This means they market an offer, often take on up-front risk to operationalize it, and then hope to make some sales by convincing people they need it.

That's backwards, and most of us trip more often when we walk backwards. Turn it around. Find market demand. Verbally sell an offer first. Then operationalize it. As what you sell hits the spot among your audience, then you are primed to market the offer more broadly.

Taking this sales-forward approach is one way to reduce your personal financial risk while going-to-market in a crowded competitive environment, especially if you would have to quit your job to do so. It's a lot easier to get business when you are speaking to the pain points that your ICP is already searching for solutions to and when you aren't overly tied to an offer that isn't selling just because you spent resources to market it already.

Don't waste your energy to build something that hasn't sold, and don't get swindled by a prospect into building something for them "in order to win their business." Avoid the trap of over-valuing what you want to deliver, and think your ICP ought to buy, and instead, focus on delivering what the market already demands.

There's another side to this common trap I see emerging creatives falling into, and that is trying to make sure that the operations and delivery of a service offering will be flawless, but not yet having a buyer even lined up! Before spending countless hours building something that you view as "amazing! that people don't even realize they need yet, but will!" first STOP; take a pause; and focus on selling first.

- Identify Market Demand Intersects with Your Core Strength
- Position in a Niche
- Sell Through Existing Relationships
 - Be Friendly, Be Thankful, & Be Helpful to Others
 - Network, Network, Network Among Those Who Also Serve Your Target Audience
- Emphasize Client Delight | Underpromise. Overdeliver.
- Start Building Your Audience
 - Build Your Email List Through Value Based Conversion Materials
 - Consistently Create Thoughtful Content to Build Your Audience (Unique Written, Spoken, Short-Form, Long-Form)
 - Religiously Prepare Results-Based Case Studies/Project Recaps/Portfolio from All Work (Including Testimonials!)

Ensuring market fit among a target audience is key when you're starting out.

Remember: Verbally sell an offer first. Then operationalize it. Once it is successfully selling, then you can invest the resources to broadly market it. Don't overspend. (*Read: stay scrappy.*) Allocate 10% of your revenues and half of your time into BizDev. And most importantly, don't borrow money. Fund everything you're doing with cash.



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Stage 1: Creating the Business | \$0-1M

One of the biggest challenges you'll come across at this stage is - I'm sure you've guessed it - generating revenue. No matter what industry you're in, this phase is all about **sales and service**.

A common trap of first-time entrepreneurs is “playing business” - doing the things that feel productive, like creating fancy financial models or complicated business plans, instead of selling services and perfecting your service model. Continue to ask yourself - what am I providing, and who am I providing it for?

Creating a staffing model at this phase is tricky. In the very early stages of the business, there won't be enough work to support a full-time staff, so you'll need to rely on freelancers. As the agency progresses through stage 1, replace those freelancers with a full-time staffing model in order to earn margin. This transition is delicate and will create client service and financial stress.

That isn't to say you should *neglect* your finances. Our first and most foundational recommendation is to get a separate bank account, and from that point forward, if it's related to your business, use that account.

As the business begins to generate meaningful revenue along its path to \$1M in revenue, we suggest managing to a break-even revenue target. No need to try to predict future sales - revenue is not predictable at this stage, so this is a waste of time. Instead, understand your expenses and make sure you're generating at least enough in AGI to cover it. If not, reduce expenses, reset your revenue target, and begin again.

- Establish an operating agreement & tackle compliance.
 - Register with federal, state, and local agencies
 - Maintain tax compliance
- Separate your finances
 - Establish a separate check account and only use that
 - Avoid co-mingling funds
- Understand your “unit economics” and project profit
 - Target a bill rate = 3x your blended cost rate
 - Consider full-time hires at 50% utilization of their time
- Understand break-even targets on path to \$1M

As long as you have a clear idea of what your monthly obligations are and how much AGI you need to pull in, or even simpler, how much you need to collect from your outstanding invoices, you can intuit your way through the finances until you get to the half million dollar range.



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Stage 2:

Building the Business

\$1 to \$3 Million in Annual Revenues

Stage 2: Building the Business | \$1-3M

I often say most agencies scrape their way to \$1M in annual revenue on shoestring and bubble gum - they've inherited 17 hats and have become the proud owner of a job, not a company. But the good news is - that's perfectly okay! There are ~~very~~ few operational challenges created in Stage 1 that we can't fix in Stage 2. This is the time to delegate work, progress through your hierarchy of financial needs, and emerge a profitable, sustainable business.



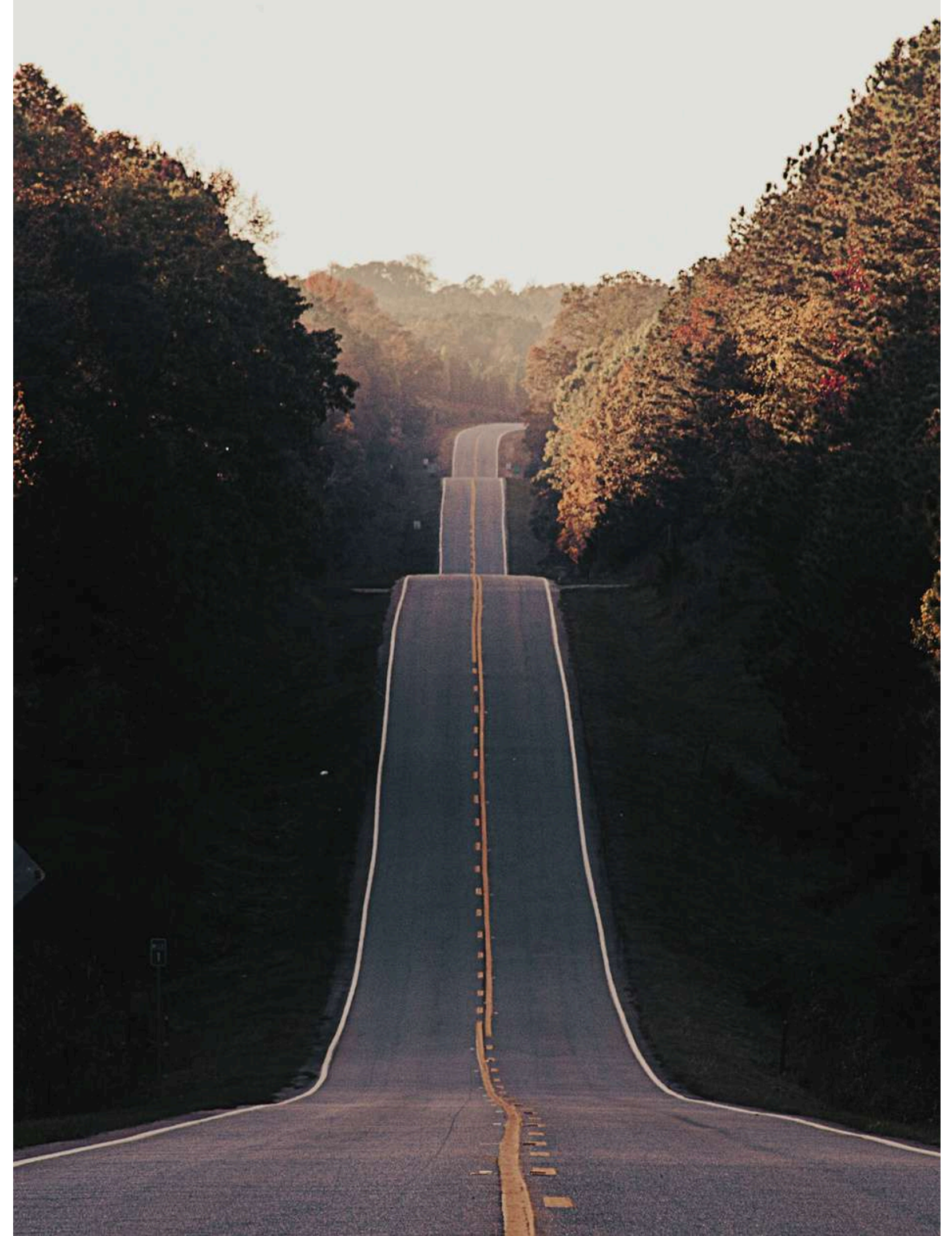
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During this season of agency life, you and your team will be experiencing the first round of growing pains and you'll find that what used to work isn't cutting it any more. In this phase of your agency, your focus needs to be on earning the right to growth. Get a sense of direction by answering three core questions:

1. What do we need to do to earn the right to growth in our chosen market?
2. What do we need to do to earn the right to growth with existing clients.
3. What do we need to do to earn the right to growth via new clients.



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Stage 2: Building the Business | \$1-3M

You've hit the mark in solving a need for a specific audience. Now, a solid way to scale at this stage is by expanding your offerings among your existing client base without increasing your payroll expenses. Narrow in on what you can deliver to existing clients and your target audience that would add additional value to them. Stay extremely customer focused in this exercise!

At this stage, you'll also find that your business brand is no longer the same as the owner's brand. Lean into the challenge of building a company brand that can be embodied by not just you, the owner, but by others as well! When it comes to delivering professional services, the people make the place, and so adding a healthy dose of humanity to your branding and marketing efforts will go a long way. Further, as an owner, don't handcuff yourself to being the only face of the agency. Leverage your team.

A common challenge here is feeling like you're at a point where you need to really level up the outward facing presence of your business, but having to make trade-offs in where the resources get spent. Those trade-offs will look different for every agency.

In terms of day-to-day activities, keep the wheels of your relationship and inbound marketing train chugging along. As client load increases, it's all too tempting to let your own marketing efforts slide, but don't give in! You'll want to begin delegating the day-to-day marketing tasks to team members or outside of your direct team to ensure your focus remains on working on the business, rather than in the business, without the ball dropping on these activities.

- Evaluate Your Pricing
- Expand Package Offerings Among Existing Clients
- Separate Operations From Sales Functions to Avoid Conflicting Incentives and Motivations
- Press Into Your Business Personality & Team Personal Brands
- Continue to Press Into Relationship Marketing Tactics
 - Form strategic partnership/referral partnerships
 - Get Visibility to Wider Audiences on Others' Platforms (guest podcasting, guest posting, resource collaborations, etc)
- Instill the Mindset of Lead Generation as a Team Sport Into Your Emerging Team
- Build on Previous Inbound Marketing Efforts, but Outsource and Delegate Those Efforts to Team Members

Out of a healthy profit margin you'll finally have sizeable dollars to allocate to bigger initiatives and monthly commitments. You'll still face trade-offs in where to spend most, or first, and that's normal!

Half the battle in building your business is just showing up. Then, be authentic, and helpful, as human to human, in every client interaction and outside interaction.



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Stage 2: Building the Business | \$1-3M

Success requires building a small leadership team and a change in thinking from “Let’s build an agency” to “Let’s build a profitable agency.”

The hierarchy of financial needs is a way to approach our financial KPIs sequentially, treating them as stage gates - meaning you don’t think about the next stage until you’ve cleared the stage you’re currently in.

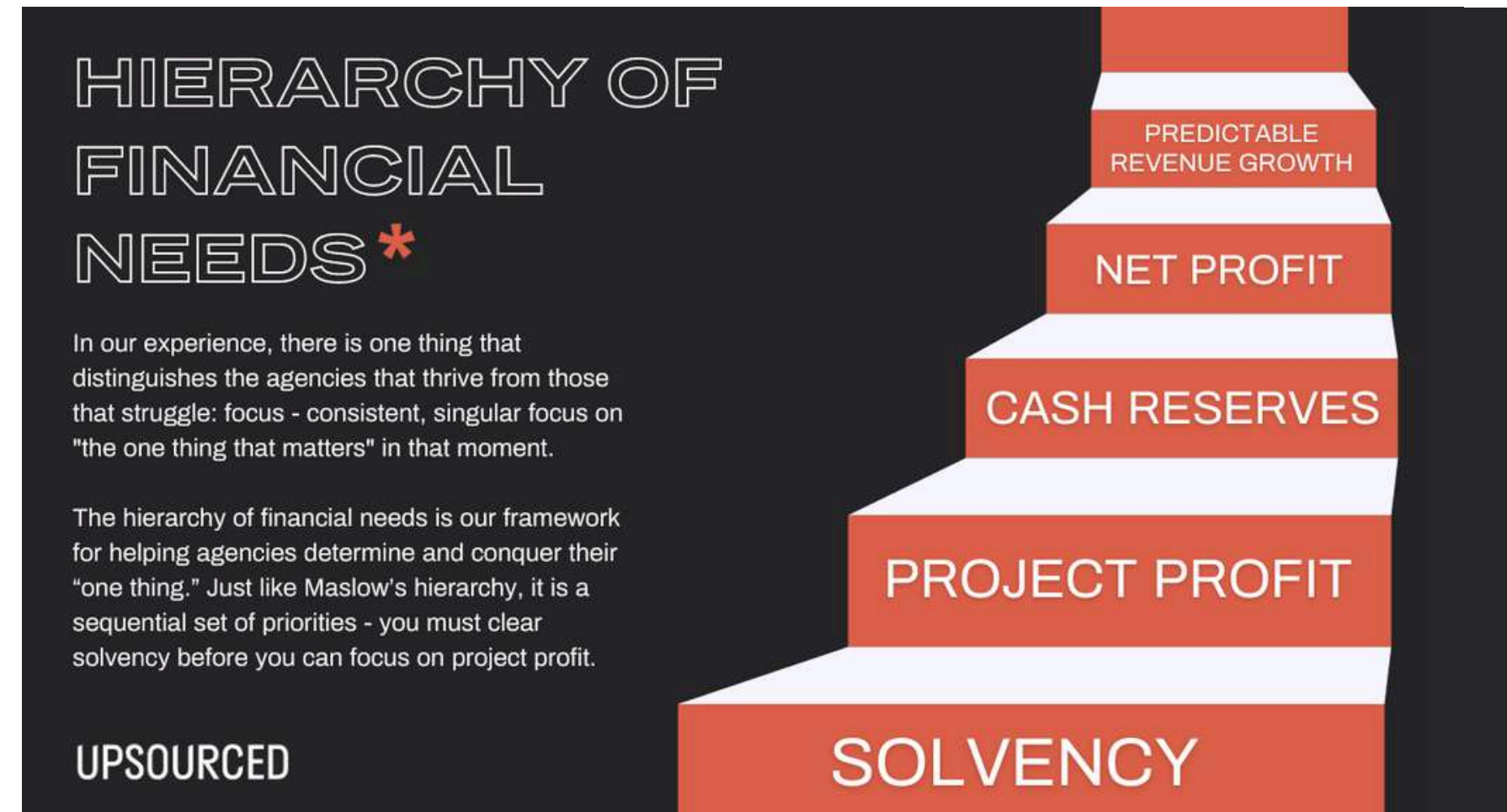
The first step of the hierarchy is solvency. Can you make payroll next week? If you have a solvency problem, your answer to that question is probably, “Well, I don’t know!” What can I do right now to get cash?

The second step of the hierarchy is project profit - aka gross margin. Gross margin is your AGI (net revenue) less your costs of goods sold. It’s the profit you make on your core service. We like to target a gross margin of 50% or more. If we’re below this mark, it’s likely to be one or both a utilization problem and/or a realized rate problem.

The third step is cash reserves - saving enough cash to sustain the business through the highs and lows of project-based cash flow endemic to most agencies. We like to target three months of fixed operating expenses in the bank as our cash reserve.

The fourth step is net profit. What’s our profit after paying for owner salaries and fixed overhead operating expenses? We like to target 20%.

The fifth and final step of the hierarchy of financial needs is predictable revenue growth. While revenue through referrals is great, we rarely see agencies eclipse \$3 to \$4 million in revenue without a revenue-generation engine.



Don't rush out of build mode; focus on each step of the hierarchy and build a solid foundation for your agency to live and grow on.



Ryan Watson
Partner
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Stages 3 & 4

Growing & Scaling

\$3 to \$10 Million in Annual Revenues



Stage 3: Growing the Business | \$3-10M

The progression through the hierarchy of financial needs is a long, but gratifying journey. As you reach the summit, business starts to feel easy. Revenue is predictable, profit is consistent, employees and clients are happy. Things operate almost as if they're on auto-pilot. Until they don't...

Suddenly things change. Wheels fall off. Tensions within the team build. Longstanding clients churn. And you start to wonder, "what happened to my easy business?"

As you enter stage 3, your business becomes too complex for your existing operating model. Your core leadership team is now too many layers removed from the work being performed and is a bottleneck to productivity. And it causes your progress to grind to a halt. But not to despair, the solution is straight forward - you simply need to adopt a new operating model.

At this stage, you, the owner, will NOT KNOW about everything that is going on related to your business development efforts. You won't have eyes on everything. And that's okay; delegation is required for growth and scaling your business.

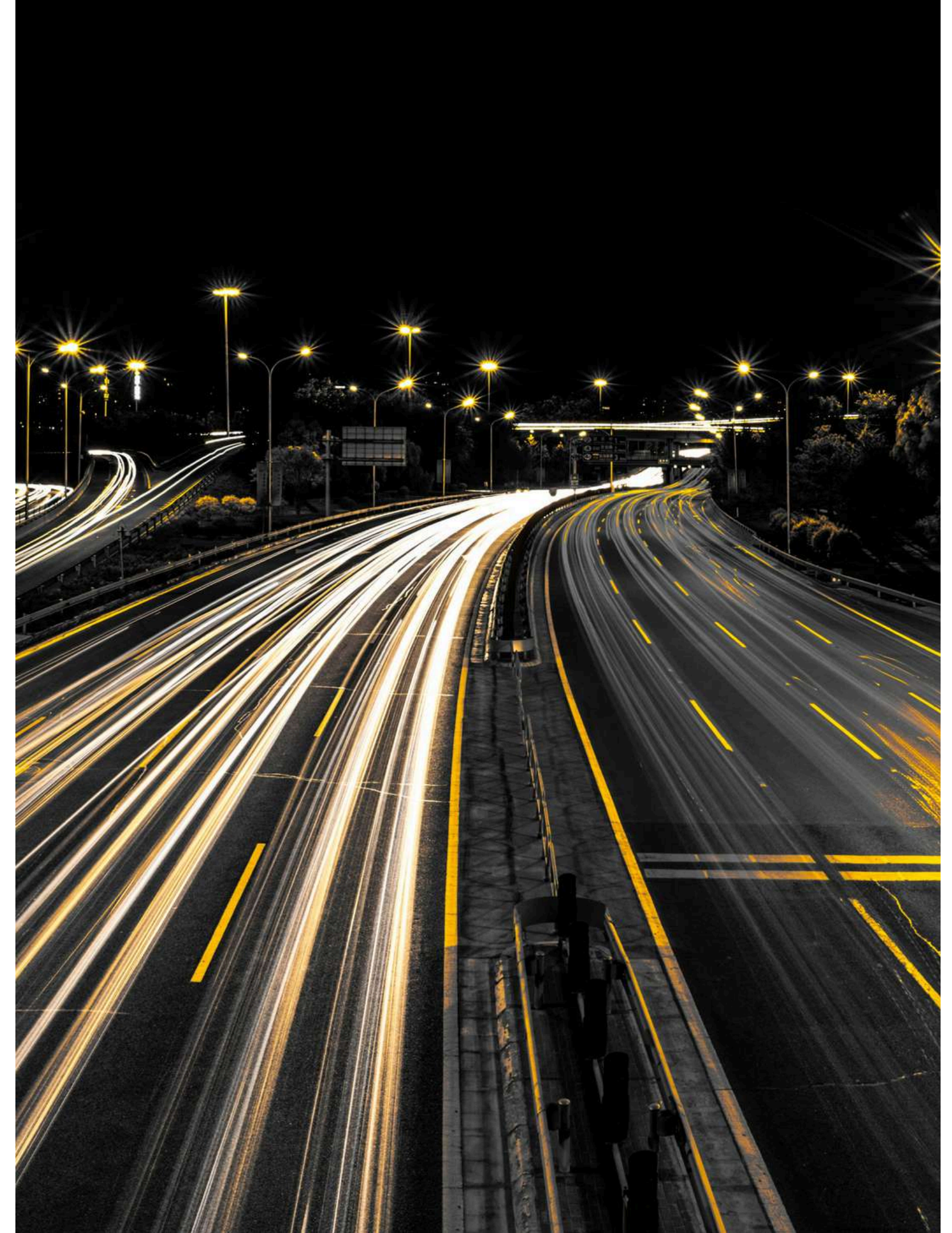
Your role becomes holding others accountable to keeping existing revenue generation systems running. At this stage, it's likely you function as a sales closer, but are not managing every sales function for each opportunity.



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Stage 3: Growing the Business | \$3-10M

At this stage, you should be hyper-focused on delighting your existing clients and securing more clients like them in a targeted, account-based marketing, kind of way.

When you are growing your business, it's also important to put in place a sales incentive and commission structure that makes sense within the 50-30-20 rule of agency financial management so that as you are building the business with others, you can remain profitable while having the ability to take owner's draws, even when others start doing the selling work and getting the reward for it.

At this stage, you'll probably want to promote from within or hire a person to oversee the marketing efforts and collaborate with Operations on CX and RevGen efforts. This person can also be responsible for improving the customer experience (starting with asking for their feedback about it).

As you're growing, the general mindset you and your team should press into is to make other people's jobs easier. In relation to clients, that means finding ways to solve more problems than you create. In relation to strategic partners, that means putting their interests before your own. If you're speaking at events, that means making the event coordination teams' lives easier.

- Increase Average Client Value
 - Introduce Additional Value Offers to Solve Clients' Problems
 - Fire Unprofitable Clients; Re-Allocate Team Time to Expanded Clients and/or Marketing & BizDev Efforts
 - Train AMs and PMs in Consultative Selling Techniques
- Focus on Improving the Client Experience and Spending on Client Delight Factors and Gifting
- Press Into Account Based Marketing (ABM) Strategies/Tactics
- Provide Unique Value to the Industry You Serve (Perhaps Through Market Research)
- Secure Speaking Opportunities - or Create Your Own via Hosting Event(s)
- Empower at Least 2-3 Others in Your Business to Represent Your Business at In-Person and Virtual Events in Your Niche
- Participate in (or Create) Communities Where Your Target Audience Gathers

They don't care until they know you care.

Lead with service in all of the relationships you're leveraging to build your business, for whoever brings blessing will be enriched, and one who waters others will themselves be watered.



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Stage 3: Growing the Business | \$3-10M

In Stage 2, you were a founder and small leadership team - “a family of employees” - but you’ve outgrown this stage and need a team of people with a focus on systems and process.

We recommend organizing into either departments or client portfolios. Departments are best for agencies with separate and discrete profit centers, like media, SEO, etc. Portfolios of clients, on the other hand, work best for more integrated or homogenous service delivery, like typical branding agencies. One is not better than the other!

Once you’ve carved off slices of the business and anointed their respective leaders, each leader should have accountability for their own piece of the P&L, and you, as the owner, need to empower them to manage that P&L. The leaders must understand the levers available to them to either grow revenue and/or manage costs.

But the secret sauce to make this really work is the feedback loop. Failed attempts at divisional reporting boil down to the same thing - a lack of accountability. Agencies create divisions, select leaders, develop reporting, distribute the reports regularly, and then....nothing. Business as usual. Exceptional divisional performance is not discussed or rewarded, and poor performance is not addressed, supported, or triaged. The exercise becomes nothing more than “playing business.”

A feedback loop is a regular means of reviewing the expectations with the leaders, determining whether we are on or off track, and using the established incentives to reward exceptional performance and support poor performance.

We suggest a Monthly Business Review (“MBR”). These meetings are where agency partners meet with their deputies to review their divisional reporting. The goal is to create an environment where leaders feel accountable to their expectations and, more importantly, can share what is working and support one another to improve what is not. Each meeting ends with a specific action plan and begins with a review of the prior month’s action plan.

- Introduce incentive compensation plans
- "Shrink" the agency through deputies over departments
- Empower them, hold them accountable, and incentivize them to drive specific targets.
- Build goals such that deputy targets ladder up to firm targets
- Create transparency through consistent department level reporting
- Create performance feedback loops through MBRs
- Drive operating leverage
- Transition from "founder led" to "organization led"



Entering Grow Mode can feel disorienting - for an agency used to winning, it’s uncomfortable to experience loss. But it’s a natural evolution of your growth. The answer lies in delegation. Once you’re able to successfully elevate and empower the next level of deputies to run your organization, you’ll be well on your way to Scale Mode.



Ryan Watson
Partner
UPSOURCED

Stage 4: Scaling the Business | \$10M+

This is the third inflection point for an agency. At this point, your agency has made the decision that they don't just want to be a successful business; they want to be a **big business**, too. Making this transition requires a fresh approach to thinking about systems and leadership. Your priorities and metrics are highly dependent on your goals for this stage.

You want to scale beyond seven figures in revenue.

Success at this stage is far less prescriptive than in previous stages. At this point, the experiences really start to diverge - some agencies choose to scale through horizontal integration (same service, different markets), others through vertical integration (same market, different services), and others still through acquisitions. There's no playbook. The choice is a function of the strengths of your leadership and your ultimate goals.

But if you're approaching eight figures of annual revenue and have made the decision to pursue growth beyond this mark, there are several things to consider and prioritize.

There is no single path through scale mode, but all roads start with preparation. Owners need to define their strategy and ensure the team is positioned to execute against it.



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First, do you have the right team for your growth plans? For instance, do you have anyone with acquisition and, more importantly, integration experience?

If not, you'll need a solution in that area. In scale mode, the stakes grow, as do the cost of mistakes. You'll want to bias toward hiring people who have "been there, done that."

- Next, do you have access to the necessary capital?
- Will you need outside debt or equity to finance your growth plans?
- Do you have revolving lines of credit to supplement working capital?
- Does your corporate structure support your plans?

These are critical components of the plan to resolve before you hit the gas pedal.

- Finally, does your infrastructure support additional growth?
- Is the service model replicable, and can it support a double or triple in client size?
- Do you have mature training, development, and HR to support rapid onboarding of team members?
- Are your processes documented, and are redundancies identified?

UPSOURCED

Upsourced provides best-in-class financial strategy and accounting services for creative agencies. We understand that running an agency is hard work, and our team helps to provide actionable advice, insights, and guidance to help make sure things are running smoothly. By serving as an extension of your team, we push the bounds to help creative companies evaluate financial progress and elevate performance. We work alongside you so we can make an impact at the strategic level and help you make confident decisions for your agency's future without losing sleep wondering where your agency stands. Learn more at www.upsourcedaccounting.com



GET MOMENTUM

When you get Momentum, you are able to discover and tap into the right revenue generation strategies and tactics for your agency. In each coaching and consultative session, I will challenge you to press into what's working well and stop wasting energy on what isn't driving your business forward. You'll get guidance and insights based on what I've seen work well (and not!) when it comes to generating revenue for your agency.

I've observed time and time again that **simply getting started is the hardest part.**

Direction feels unclear. It's hard to communicate your full value to existing clients, let alone prospects. Further, it feels like there's simply not enough time to "do all the things" you need to do, and create all the materials you need to create.

But, it's up to you to get your agency's business development act together if you want to get past stage one. When you and I collaborate on your BizDev and RevGen opportunities, you'll get an honest outside perspective with constructive ideas, accountability and the *loving* kick in the pants that you need to get started and keep going. Simply **book a meeting** to chat further.

**Stop neglecting your BizDev and RevGen systems.
Invest in yourself, your team, and your business.**



Book a Meeting

Danielle Fauteaux

Revenue Generation Coach

"Danielle is excellent to work with. She delivers as promised. I appreciate the way that Danielle asks questions to understand your situation before offering advice. **I've had a much, much better experience working with Danielle than other coaches or consultants.**"

"Danielle has helped us stay on course and maintain momentum (sorry had to) with our marketing. She truly understands the struggles a small agency can have sometimes. **Danielle knows how to keep us moving forward without being too pushy. Seriously, just hire her.** You won't regret it. She's been our secret weapon to success."

