Mastering Expense Management and Cash Flow for 2021 and Beyond

A study into client project management practices across the professional services sector

accelo

Forward thinking

It's easier to launch and sustain a small business during prosperous economic times. After all, work is more likely to flow in, and it's less of a challenge for clients to pay the market rate for services.

However, small businesses in 2020 did not get the luxury of operating in prosperity. Even in the best of times, 29% of small businesses fail due to lack of capital and cash flow. This year, many found themselves having to get very creative to keep client work coming in and make sure they could pay their bills.

During difficult times, being forward-thinking and keeping a careful eye on your cash flow and expenses can be what carries your business to better days.

Long-standing businesses have the luxury of historical data to look at in order to determine their current viability, but more and more companies are realizing they need a snapshot of what their company's expenses and cash flow look like right now.

Only when you understand your current earnings and manage your expenses can you accurately project the coming months and ensure that you make wise choices about which client work you take on next.

We've shared information about the profitability mentality in our eBook, and we believe that thinking from this perspective helps you move your business forward.

However, cash flow and expense management are key components of that work, and they cannot be discounted in favor of historical data on your business. What's happening now is of incredible importance, especially in a volatile economic time.

Here are some actionable steps business leaders can implement to master cash flow and expense management as an agency leader. Read on to see how to foreground expense management and cash flow analysis in your leadership choices.

Understand the Difference

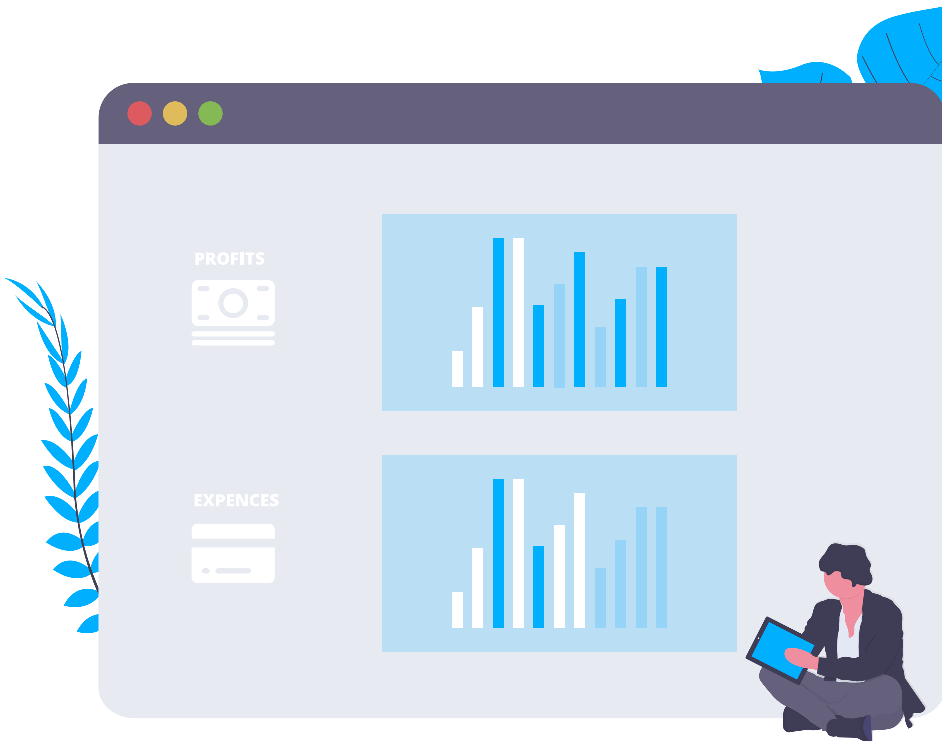
Both expense management and cash flow are important, but they each emphasize different elements of what you need to monitor in order to achieve a profitable business.

Cash flow focuses on when you receive payments versus when you must pay your bills. While most agencies have predictable monthly expenses such as office rent or labor costs, they often have “lumpy revenue,” where more money comes in some months than others.

Managing cash flow involves keeping cash reserves that help you still pay those periodic bills during the drier periods between payouts. It’s most effective when you set clear payment terms that require a percentage to be paid upfront or periodically throughout a large project.

Expense management focuses instead on understanding where your cash flow is going in terms of expenses. While most digital agencies have a clear idea of their overall finances, they may not have accounted for their expenses on a granular level.

Cash flow and expense management, as you can see, are deeply interconnected, but recognizing that each one merits its own focus will help you organize the data and make key decisions for your digital agency.



Getting Extremely Clear on Costs: A Key to Digital Agency Profitability

The offers you give to your talented candidates outline their salaries and benefits, but they don't encompass the entire picture of costs you sustain in order to pay those employees and keep your agency in the black.

Talent costs for you as an employer can range from payroll taxes to health insurance premiums, 401(K) contributions to yearly bonuses.

Beyond talent, you have rent or a mortgage on your office space, subscriptions and costs of tools and software, technology purchases and support costs, and utility payments.

While every digital agency may have additional costs driven by their particular service model, knowing all of these costs as they relate to your hourly billing rate is important.

If you just take a percentage onto the hourly rate you pay an employee and call it "profit," you're ignoring all the other costs you incur as an agency leader.

Calculating not only what your costs are but how they relate to the available hours of work you have to deploy is key to developing the right billing strategies to stay profitable. You also need to know when these costs go up so you can see the impact on the bottom line.

Tracking Employees' Time: More Than a Management Strategy

Digital agency leaders need to keep track of their employees' time in order to naturally get the best work out of their teams. If team members feel like you aren't paying attention to anything they do, there is always a greater chance that work won't be done efficiently.

However, tracking employee time is important even when every team member is stellar and turning in amazing, efficient work. A variety of issues can arise if you don't track employee time:

- You can accidentally bid on projects for a low rate, a low retainer, or too few hours.
- You may not notice that one team member has too much to accomplish and another is waiting for projects to arrive.
- You might not know you can adjust your hourly billing rate up because you're awash in work.
- All of these pieces of information are hard to discover without knowing what every employee is doing with every hour.

Share with your employees that tracking their time isn't just a way to manage them. If anything, you want to avoid micromanaging great employees. Instead, it's a way to make sure you always have a good supply of great work for them because you know what kinds of projects are coming in the next weeks and months.

Cash Flow Depends on Strong Payment Terms and Procedures

Some digital agencies feel like they are at the mercy of their feast-or-famine cash flow. They don't know how to smooth out project payments in order to ensure they get some consistent revenue each month.

The prevalence of cut-rate companies who are willing to deliver the entire project before getting paid makes it feel like you have to compete with those outrageous payment terms. However, digital agencies can push back on this pressure and insist on clear invoicing and payment terms.

Rather than assuming that the client will be on the same page as you are for payment, outline your payment terms from the beginning. Consider one percentage as a down payment, another percentage when certain milestones are reached, and a full payment promptly after the project is delivered.

Get these terms in writing and mention them on your invoices. If your clients are surprised by an invoice for a progress payment on the project, you can refer back to the documents they signed.

It's understandable that not every client will be open to your payment terms, but consider whether they are willing to compromise (changing percentages, rather than demanding the whole project before payment).

The reactions you get to strong invoicing strategies help you avoid unscrupulous clients who want to get something for nothing. Remember: all work isn't good work, and if you waste company time on a project without getting paid, you affect your overall profitability.

Remembering to clearly invoice on time is key to making this practice work. Don't rely on your own memory for it — use automation tools!

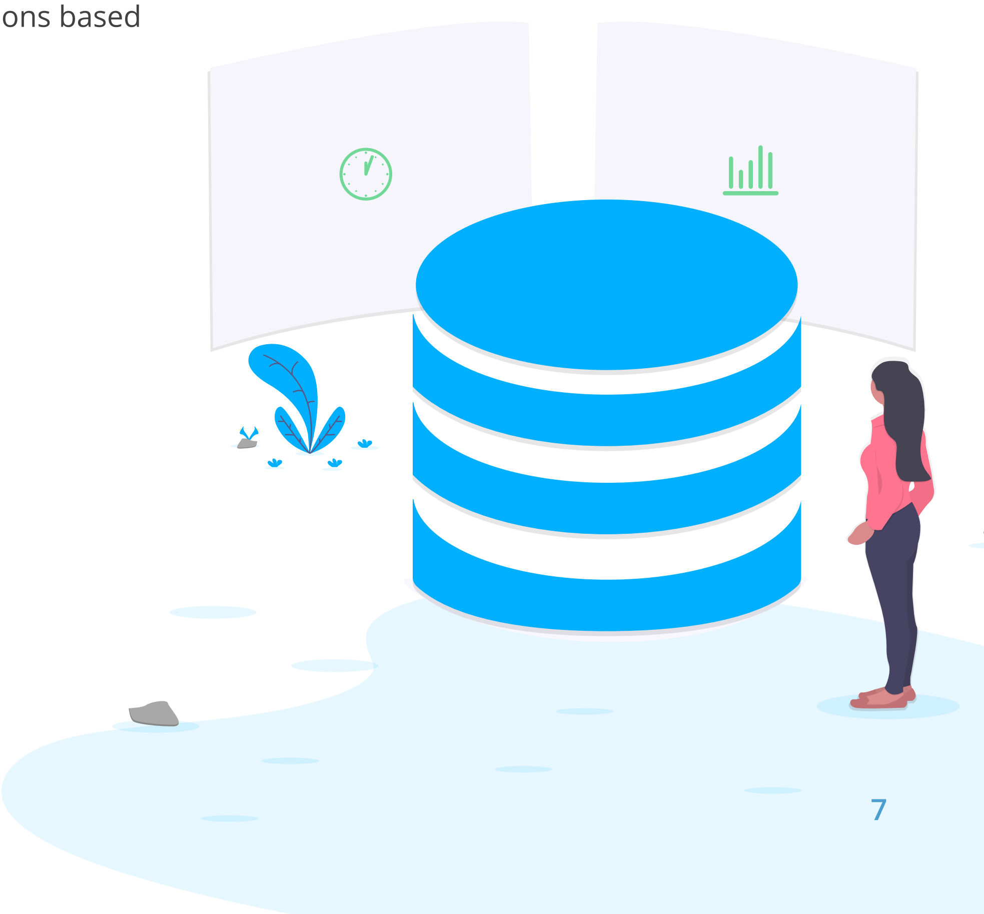
Cloud-Based Technology Tools Automate Time-Tracking, Expenses, and Profitability

Making sure your invoices are always accurate and arrive at the right time means relying on good cloud-based technology tools. There are now more tools available than ever before to manage both cash flow and expenses.

Using Accelo, for example, takes more of the burden off of both leadership and your employees by making it easy to automate time-tracking and keep a consistent snapshot of each project.

You'll know how many of your billable hours have been used already, whether the work is projected to finish on time and under budget, and when an employee is underutilized and needs more work to stay fully utilized.

You can also keep track of expenses in a holistic way that actually helps you calculate where your profitability stands and make projections based on upcoming changes.



Up-to-Date Cash Flow and Expenses Information Propels Your Agency Forward

The challenges of the coming year or two are not just industry-specific. They are unique to your agency. While we can suggest some of the sources of expenses and some ways to mitigate cash flow irregularity, your data is ultimately your own.

The unique challenges your digital agency faces are the reason why an up-to-date set of easy-to-use profitability dashboards like those of the Accelo system are so helpful. Rather than focusing on the past, your data is relevant to this very month, available to help you make decisions now.

The volatility of 2020 taught us all that our predictions need to be well-informed but also incredibly nimble. We need ways to project out what it will look like for our agencies if we change our amount of employees, modify which work we take for what rates, and scale up or down our overhead expenses.

Those projections help you to anticipate challenges in the coming weeks and months and make a few contingency plans.

As an agency leader, you've already shown extraordinary ingenuity to weather the challenges of this year. [Try a free trial of Accelo] today to see how additional data and up-to-date reports can inform your agency decisions and speed up your reaction time to challenges. You can also download our eBook, *Profitability Lessons for the Agency Owner: Book Two,* to learn more steps you can take to master expense management and cash flow to set your business up for long-term success.