

# AGENCY HEALTH ASSESSMENT

TAKE STOCK TO TAKE CHARGE

**saga** SMALL AGENCY  
GROWTH ALLIANCE

## Introduction

If you're reading this, you are probably curious about how your agency is doing and where you might be able to improve.

Perhaps you know there are things that you want to address already, or maybe you just have a feeling that you could do better in certain areas.

The goal here isn't to get a perfect score, but rather to give yourself a milepost you can use as you continue to grow and evolve your business and to identify those areas in which you should dedicate a more urgent focus.

The questions have been selected based on the work that SAGA has done with many small PR and marketing agencies to understand the drivers of (and obstacles to) growth and success.

This assessment is designed so that you can complete it on a regular basis – typically annually – so that you can identify the changes in your business over time. Just as we see in our own personal health assessments, you may find that some things improve while new issues emerge.

## How to use this assessment

The Agency Health Assessment includes 31 questions that will help you to evaluate the current state of your agency and identify areas for improvement.

Start by answering each of the questions. If you need more information to accurately respond, you can refer to the detailed explanations for each question that are included later in this guide.

Next, total up your score. This will provide you with a marker to compare your future progress against.

Once you have done that, you can review the additional detail provided about each question to help you understand why it matters and how you might be able to improve.

When you do your annual planning, print out a fresh copy of the questions so that you can complete it and compare it to your previous results.

## The Questions

### Ambition

Are you satisfied with the number of hours you work each week?	YES	NO
Are you satisfied with the kind of work that you personally do?	YES	NO
Are you satisfied with the amount of flexibility that you have to take time off?	YES	NO
Are you satisfied with the amount of money you earn from the agency?	YES	NO
Are you satisfied with how well-prepared you are for your retirement?	YES	NO

### Identity

Are you confident about your agency's positioning and how well you can articulate it?	YES	NO
Do all of your employees describe your agency using the same language that you do?	YES	NO
If you ask your clients to explain why they hired you, would they generally give roughly the same answer that you would?	YES	NO
Do you have a clear definition of the criteria for your ideal clients?	YES	NO
Does your existing client base largely reflect your current positioning and ideal client definition?	YES	NO

## Management

After paying you (and any partners) a fair amount of compensation for your work, does your agency consistently generate at least a 10% profit margin?	YES	NO
Have you worked with a lawyer to draft or review important documents, including client contracts, company formation documents, partnership agreements, and similar matters?	YES	NO
Do you consult with an accounting professional familiar with small businesses on a regular basis?	YES	NO
Are you confident about the accuracy and completeness of your agency's financial reports, including the Profit & Loss statement and Balance Sheet?	YES	NO
Does the agency have cash reserves equal to at least 3 months of operating expenses?	YES	NO

## Growth

Are you satisfied with the amount and quality of new business you have generated in the past 12 months?	YES	NO
Are you confident about your agency's business development prospects for the next 12 months?	YES	NO
Do each of your clients represent less than 25% of your agency's annual revenue?	YES	NO
Do you believe that your current pricing is competitive?	YES	NO
Do at least half of the proposals that you create turn into paid projects?	YES	NO

## Execution

Are all of your clients satisfied with the value of the work you provide them?	YES	NO
Do you have clearly defined processes that allow team members to cover for each other during absences?	YES	NO
Are you confident about your team's ability to deliver excellent results to clients for all of the services that you currently offer?	YES	NO
Does your agency have a well-implemented process for employee time tracking?	YES	NO
Do you keep most of your projects within scope and consistent with the time estimates you used to set the price for the client?	YES	NO

## Talent

Is it rare for any employee to work more than 40 hours in a week?	YES	NO
Are you satisfied with the level of staff turnover during the past 12 months?	YES	NO
Are you confident about your level of HR compliance, including employee handbook, hiring/termination processes, independent contractor status determinations, and related issues?	YES	NO
Do all of your managers (including you) have no more than 5 direct reports?	YES	NO
Are you and all of your managers consistently holding weekly 1:1 meetings with all of your direct reports?	YES	NO

## The Big Question

Do you believe that your agency is on the right track?	YES	NO
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## Calculate your score

Each “yes” answer is worth 3 points except for the Big Question which is worth 10 points.

**TOTAL POINTS:** \_\_\_\_\_

You will now have a score between 0 and 100 that you can use to compare yourself to in the future.

You shouldn't view this assessment as a traditional academic letter grade or even something to use to compare yourself against other agency owners. Instead it is designed to help you reflect on where you are today, set goals for the future, and measure your progress over time.

## Understand the questions and your results

While the 31 questions included in this assessment don't cover all of the opportunities and challenges that you may face as an agency leader, they do offer the ability to look at many of the key areas of your business.

For each of the questions included in the assessment, there is a more detailed explanation below that should help you to accurately answer and review your results.

### **Ambition**

#### **Are you satisfied with the number of hours you work each week?**

One of the most frequent complaints that agency owners express is the amount of hours that they need to put in to make their agencies successful. Being honest with yourself about how much time you are putting in – and how much time that you want to work – goes a long way toward improving your overall satisfaction.

#### **Are you satisfied with the kind of work that you personally do?**

Just as you should be working the amount that you want, you should also have the ability to do the kind of work that you enjoy and find fulfilling. We all have tasks that we would prefer not to do, but this question is designed to get you to think about how you spend the majority of your time. As the owner and boss, you should be able to create an environment that allows you to have the role you want and enjoy.

### Are you satisfied with the amount of flexibility that you have to take time off?

The stereotype of anyone who works for themselves is that they have total flexibility to do whatever they want whenever they want. Anyone who has owned an agency can tell you that isn't actually true. The question is how close to that reality are you today – and how much closer do you want to get to it.

### Are you satisfied with the amount of money you earn from the agency?

You're not just an agency owner, you're also an employee of your business. Often, owners will simply look at the business bank account and ask themselves how much they can take out for themselves. Instead, you should be setting a reasonable compensation level that both reflects the market value of your service to the business and helps you to meet your own personal financial commitments.

### Are you satisfied with how well-prepared you are for your retirement?

Your business can (and should) help to fund contributions to your retirement accounts. In addition, you may be considering selling your agency to obtain additional value for what you have built. The latter course of action is far from a sure thing, so agency owners ought to ensure that the money they can set aside while owning the agency provides for a sufficient retirement, with any sale proceeds only serving as gravy.

## Identity

### Are you confident about your agency's positioning and how well you can articulate it?

Adopting a clear focus for your agency can help you to appeal more directly to ideal clients, but it can also help you to improve your profitability as your team becomes more efficient. The deeper experience will also help to produce better results for clients. Your agency's positioning should be easily articulated, and it should set you apart from run-of-the-mill "full service" agencies that will work for anyone who has a check that clears.

### Do all of your employees describe your agency using the same language that you do?

Too often an agency owner may have a clear idea of the agency's positioning. They may even do a great job of articulating it in pitches or when networking. But the entire agency team should consistently use the same language. Agencies grow not because of the owner alone, but because the owner has harnessed the power of the full team to represent the agency's identity.

## If you ask your clients to explain why they hired you, would they generally give roughly the same answer that you would?

Sometimes we think of ourselves one way, but our clients may see us differently. Are clients hiring you because of your expertise or because you were the cheapest option? Do you describe yourself as a full-service marketing agency, but your clients call you a PR agency? Ensuring that you and your clients speak about you in the same terms helps to cement your identity and make it easier to attract best-fit clients.

## Do you have a clear definition of the criteria for your ideal clients?

It's one thing to come up with a tag line or even a 1-2 sentence positioning statement, but it is as important to build upon that foundation and develop a clear set of criteria that describes who your ideal clients are (and who they are not). That means honing in on things like company age and size, the marketing or PR department size, the title of the decision-maker, and more. It might even include more detailed criteria like whether the client has worked with an agency previously or not. A clear definition of the ideal client helps you to focus your efforts better and avoid clients that might not be a good fit.

## Does your existing client base largely reflect your current positioning and ideal client definition?

It is common for agencies to evolve their positioning over time. The communications landscape changes, the team grows, and perhaps even the owner's interests shift. That means that there will likely be times when your agency has an identity that doesn't match the existing client base because you are in a transitional period. Recognizing the shift that is taking place allows you to adapt your messaging, resources, and other activities to better prepare you for the road ahead.

## Management

### After paying you (and any partners) a fair amount of compensation for your work, does your agency consistently generate at least a 10% profit margin?

A common mistake is for agency owners not to pay themselves an actual salary or one that isn't at market rates. Often this is done for legitimate tax purposes, but it is important for you to look at your agency-wide profit margin based on a fair amount of compensation for yourself. Once you normalize your results by adding in your fair amount of compensation to the expense side of your ledger, you want to see a double-digit profit margin – and ideally something closer to 20%. A sagging profit margin often indicates issues with pricing or staffing that should be addressed so that they don't hold back growth.



## Have you worked with a lawyer to draft or review important documents, including client contracts, company formation documents, partnership agreements, and similar matters?

Not many agency owners would tell you that they enjoy spending time talking with their lawyers about necessary paperwork, but there's no way to avoid it and run a business properly. Well-structured legal documents can help to solve or even avoid problems. Clear client contracts don't just set you up for success, but they also signal a level of professionalism to the client and their advisers. For agencies with more than one owner, legal agreements to manage the partner relationships are especially important and must not be overlooked. Your lawyer should be familiar with professional services businesses so that they offer you the most practical and appropriate advice.

## Do you consult with an accounting professional familiar with small businesses on a regular basis?

Many agency owners may have someone who they have consistently used to do their personal taxes. That individual may or may not be a good fit for serving the business, depending on what business accounting experience that they may have. There is no need to overcomplicate your agency's accounting structure, but you do want to make sure that you are complying with all relevant laws and regulations, as well as maximizing the benefits of being a business owner while minimizing your tax burden.

## Are you confident about the accuracy and completeness of your agency's financial reports, including the Profit & Loss statement and Balance Sheet?

Proper bookkeeping helps you to better manage your business by giving you the information that you need to make important decisions. It can also help you to more accurately forecast expenses so you never find yourself in a bind, wondering how you are going to make payroll. Good bookkeeping doesn't need to be expensive, but it should be done by someone who understands your kind of business and can provide you timely and accurate reports.

## Does the agency have cash reserves equal to at least 3 months of operating expenses?

A huge source of stress for many agency owners is the fear of losing a major client or the inability to grow the team out of fear for not being able to meet payroll expenses. If you are able to have at least 3 months of your basic operating expenses in the bank, it provides you with the runway to make more thoughtful decisions when you lose a client, need to hire a new team member, or need to fill the gap left by a departing employee. It is important for this reserve to be in cash in the business bank account – not a line of credit or money in

your personal account that you would need to loan into the business. The latter options may get you through a crisis but they aren't sustainable options over the long-term.

## **Growth**

### **Are you satisfied with the amount and quality of new business you have generated in the past 12 months?**

Take a realistic look at how your business has grown over the past year. Did it meet your expectations? At the same time, was the revenue the right kind for your business? Did it come from ideal clients or did you feel forced to take on a client simply because you needed revenue? Ensuring that you have clients that you can produce consistently great results for while putting reasonable profit to your bottom line is the recipe for sustainable growth.

### **Are you confident about your agency's business development prospects for the next 12 months?**

What does the year ahead look like for you? Do you have a pipeline of prospects already in place? Do you have an action plan to drive growth or do you usually end up just waiting for the phone to ring? The better you can get at forecasting your growth, the easier it is to make decisions that will help you to scale more effectively. At the same time, a reliable flow of potential new deals helps you to keep your stress in check and your team's enthusiasm high.

### **Do each of your clients represent less than 25% of your agency's annual revenue?**

Many – if not most – small agencies have at least one “whale” client that represents more than one-quarter of the total annual revenue. In some cases, it can even be more than half of the total. While the revenue that these whales provide is welcome, they come with a lot of challenges. Obviously, when a client this large decides to leave (and they all do eventually) it creates a large amount of financial uncertainty for most agencies. Because of that fear, agencies tend to dramatically overservice the whales to try to keep them around — but that erodes the profit margin and makes the large revenue amount far less beneficial than it seems.

### **Do you believe that your current pricing is competitive?**

Most agency owners worry about pricing work too high. However, a race to the bottom from a pricing standpoint creates huge pressures on the agency and tends to inhibit growth substantially. To test your agency's price competitiveness, you need to look at deals that you have lost because the client chose someone to do the same work at a lower price. Don't just

take a prospect's word for granted when they tell you that you were too expensive. That's an easy out for many prospects, but only takes on significance when they find someone else who can do similar work for less money.

### Do at least half of the proposals that you create turn into paid projects?

Most agencies create far too many proposals and waste too much time on them. Proposals should be at the end of the business development process after there has been an agreement on the framework of the work to be done and the price to be paid. If you only send a proposal when you have had that meeting of the minds, your close rate should be well over 50%. Never let a prospect push you into creating a proposal prematurely. Wait until you have the information and agreement you need to move forward.

## Execution

### Are all of your clients satisfied with the value of the work you provide them?

No agency can avoid all client complaints – many of which may even be justified. But if you find your clients consistently complaining about the work you do or the results you produce, that's something that you need to pay attention to. It's easy to write these off as clients having unrealistic expectations, but you need to set those expectations during the business development process and then continue reinforcing them over time.

### Do you have clearly defined processes that allow team members to cover for each other during absences?

Small agencies typically operate with far less support for day-to-day client work. Often a client may be served by just a single team member. Clear documentation and processes help to make it easier for any employee to take time off. Whether that employee is you or someone you hired, it is a huge drain on morale if you feel like you can't step away without things falling apart. Everyone should be able to have a sick day, take a vacation, or get called away for an emergency without an expectation that everything halts in their absence.

### Are you confident about your team's ability to deliver excellent results to clients for all of the services that you currently offer?

Many agencies claim a wide range of services, some of which they may have only limited experience in delivering. Sometimes this is done because the agencies believe it will sound more attractive to a potential client, while in others it may be a service that has been provided to a client in the past but there is no real in-house expertise to sustain it. If you offer a service in a proposal or on your website, you need to be confident that you can

deliver it in a manner that lives up to the expectations that your clients have. Ideally that means using in-house talent, but it could also be done by a trusted contractor with whom you have an ongoing and sustainable relationship.

### Does your agency have a well-implemented process for employee time tracking?

Nobody likes time sheets. But they are a necessity for agencies because the largest expense is almost always labor cost. If you don't understand how you and your team are spending your time, you can't price effectively and it makes it really difficult to staff appropriately. Using accurate time tracking enables you to do project budgeting to understand who your most profitable clients are and identify the profit leaks that you can fix.

### Do you keep most of your projects within scope and consistent with the time estimates you used to set the price for the client?

A lot of us who started agencies are people-pleasers at heart. We want to serve our clients and see smiles on their faces. Our teams generally reflect that same approach. While there's nothing wrong with that up to a point, it can be a serious drain on profitability if it means that we just do whatever a client asks without regard to whether it was included in the original price. Time tracking can help determine the magnitude of the problem, but the first step is to be aware of the fact that the work being done for a client no longer matches what was promised (and priced) for them in the beginning of the engagement.

## Talent

### Is it rare for any employee to work more than 40 hours in a week?

The agency community has a longstanding well-deserved reputation for overworking employees. Incorrect pricing and unrealistic (and unchecked) client expectations often drive agencies to lean on their employees to work extra hours. While there will always be the occasional crisis or major project that may require a little extra effort, there is no good reason for agency employees to need to work overtime all the time. When that happens, it is usually an indication that the agency has either not priced correctly or has not staffed correctly (or often both).

### Are you satisfied with the level of staff turnover during the past 12 months?

If no employee ever leaves your agency, that may not be a good sign. More often, the problem is that agencies feel like they are having too much turnover, especially among more junior team members. Understanding why good employees leave and developing plans to extend their tenure and reduce turnover can help accelerate growth. The time lost to

recruiting and training when you have an employee leave represents an especially significant cost for a small agency that typically doesn't operate with a large cushion.

### Are you confident about your level of HR compliance, including employee handbook, hiring/termination processes, independent contractor status determinations, and related issues?

Many small agency owners will tell you that they don't want to grow beyond a certain size because of the HR headaches that it introduces. The reality is that those headaches are there when you have even one employee, but they often get overlooked. Getting the right paperwork and processes in place will help to provide you with peace of mind and can even help with improving employee retention when done well.

### Does any manager (including you) have more than 5 direct reports?

It is not uncommon for agency owners to bemoan the level of bureaucracy at some agency where they worked before starting their own business. Just as we may pledge to not be like our parents, we also like to complain about the owners we have worked for in the past. That can lead to flat organizational structures that deprive employees of the support that they need to thrive. When managers only have a handful of direct reports, it makes it much easier to provide the feedback, mentorship, and direction that every employee needs.

### Are you and all of your managers consistently holding weekly 1:1 meetings with all of your direct reports?

One of the simplest things that makes the biggest difference in the performance of small agencies and their employees is the weekly 1:1 meeting. While we all complain about too many meetings, a well-structured weekly meeting between a manager and their direct report is one of the best uses of time. These sessions provide early warning about client issues, facilitate ongoing performance feedback for faster results, and offer a forum for employees to raise their questions and concerns. Every manager (including the owner) should have these meetings with every direct report every week without exceptions.

## The Big Question

### Do you believe that your agency is on the right track?

There's a reason why this question is last (and is worth 10 points on the assessment). Everything else focuses on a specific aspect of the business. While it does a good job of surfacing the most common challenges, it isn't all-encompassing. And even when there are items that can be addressed, it doesn't mean that things are bad overall.

You took on all of the risk and stress of owning and operating the business. You know what your expectations were at the beginning and how they have changed over time.

You also know how you feel about the agency today. Are you happy with where things are? Or do you have a feeling of discontent or concern? Perhaps you're even worried about the future?

On the other hand, you may be really excited about the path you are on and where you think the agency will be in 12 to 18 months. In that case, your "right track" answer here is far more important than any of the individual items that the assessment has identified for further focus.

Remember that you should be focused on building an agency that you are happy to own – and the Big Question helps you to think about that question in a very direct way.

## Next Steps

Now that you have completed the Agency Health Assessment to take stock of the current state of your business, you have the opportunity to take control of the future by addressing the challenges it has uncovered.

### Set your priorities

Start by looking at the questions to which you answer "no" and prioritize the ones that you want to address first.

Then decide what steps you can take to make progress on those priorities. In some cases, you may need to dig deeper and get more information before you can create a meaningful action plan.

Finally, start assigning realistic timelines to the priority tasks that you have identified. Generally, looking at these on a quarterly or annual basis will help you to spread your work out in a way that you can actually achieve the change that you desire.

### Renew your assessment annually

When you sit down to do an annual plan or budget for your agency, take a few minutes to complete the Agency Health Assessment. Compare the results to your prior responses to identify where progress has been made and where more work needs to be done.

Don't worry about new issues that have cropped up – that's entirely normal. The important thing is to be able to use the assessment to focus on those things that are most immediately needed to drive sustainable, scalable growth of your agency to help you have a business that you are happy to own.

## **Access additional resources**

The SAGA website offers a wide range of tools and information to help you to achieve your goals. Articles, podcasts, webinars, workbooks, and other resources can help you to accelerate your progress.

You can also join the SAGA Community to engage directly with other agency owners to get feedback and simply have others in a similar situation to talk with and lean on.

## **Get personalized help from SAGA**

While the Agency Health Assessment and additional SAGA resources are designed to help you make progress independently, you can also work with Chip Griffin to get more direct assistance.

An Agency Business Checkup builds on the results of the Assessment to dig deeper into your business. It goes beyond this high-level review to examine actual financial reports, contracts, and other documents. It looks at your organizational structure and growth plans. Chip can also help to refine your identity and positioning, set realistic goals, and uncover new opportunities.

With critical challenges and opportunities identified, some agency owners choose to work with Chip on an ongoing basis through customized coaching and consulting. These engagements offer ready access to a sounding board, accountability, and expert advice.

## About the AIM-GET Framework

The AIM-GET Framework for Agency Success was developed by Chip Griffin to help agency owners make key business decisions needed to generate meaningful results as part of the Build to Own mindset.

It establishes a planning and implementation process that ties personal and business objectives together.

The six pillars of the Framework are:

- Ambition
- Identity
- Management
- Growth
- Execution
- Talent



The first three pillars (AIM) act as a compass, pointing the agency in the right direction by establishing the vision and taking a 30,000-foot view of the business.

The second set of pillars (GET) transitions into the day-to-day work it takes to build a sustainable agency that continues to deliver results.

More information can be found at <https://www.smallagencygrowth.com/aim-get>

## About SAGA

The Small Agency Growth Alliance works with public relations and marketing agency owners to build better businesses. Through hands-on consulting, training, and advice, Chip Griffin uses his decades of experience to help agency owners achieve their goals.

To learn more about SAGA and how it serves the agency community, please visit [www.smallagencygrowth.com](http://www.smallagencygrowth.com).