

Insight, data and **compliance**

Mapping your digital agency's
finance function



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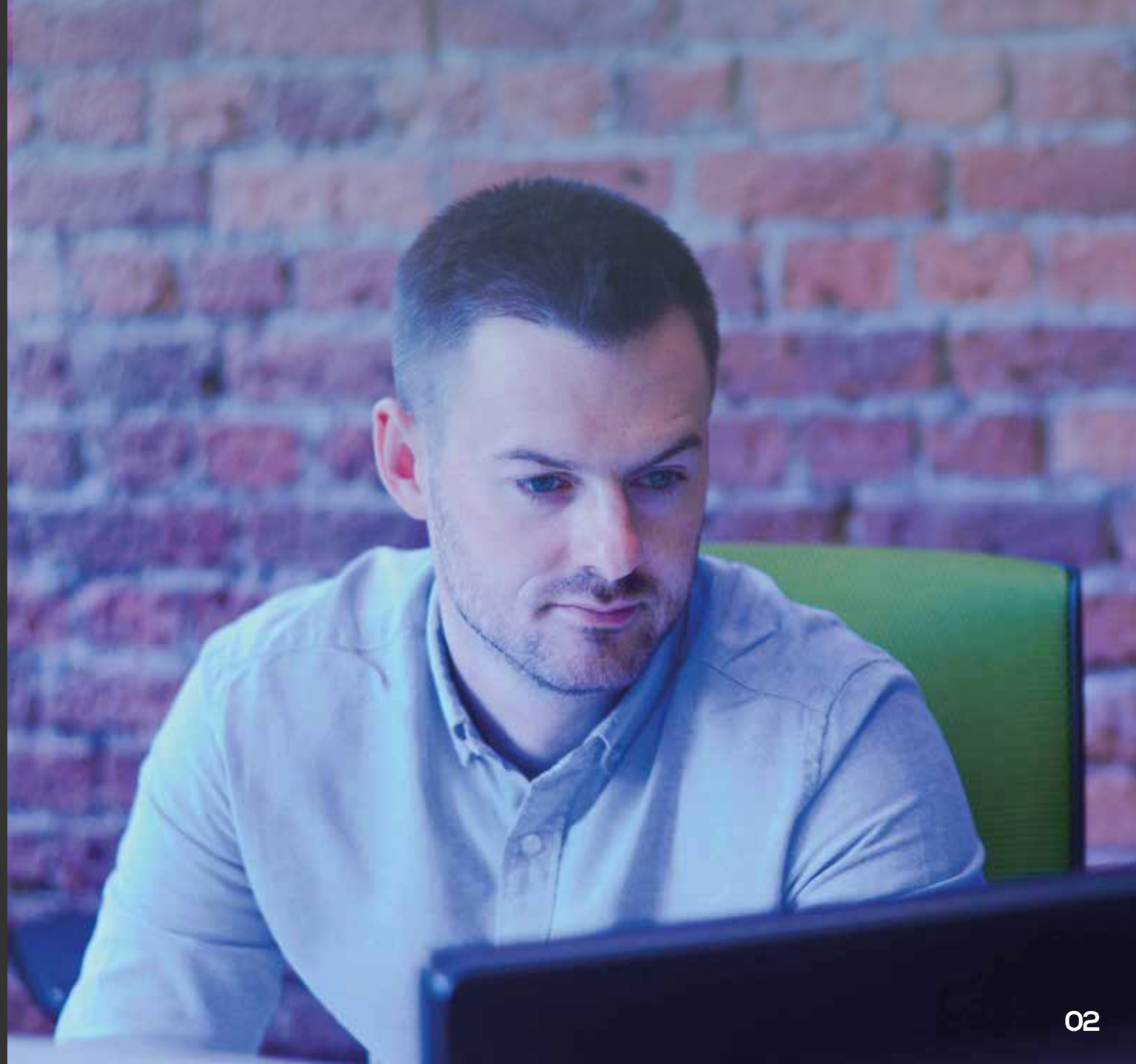
Essential elements of your digital agency's finance function .

Agency owners are as ambitious to grow and enjoy the success of their businesses as any entrepreneur, but facing the challenges of growth when working in dynamic and fast-moving industries can be demanding.

With growth also come layers of sophistication which make it almost impossible to stay on top of every moving part of the agency, let alone the financial administration.

But great financial processes are also key to looking after your own financial future and the long-term success of what you have spent years building up.

Understanding the essential elements of your finance function helps to prioritise having the right processes in place, a structure that meets the changing face of your client services, and operational insight so you can continue to engineer the business in the right way.



The big questions every agency owner should ask



- Are you working on the right kind of clients, at the right rates, doing the most profitable work?
- Do you know where your biggest profit leaks are, and how to stop them?
- Who and what is actually driving profitability?
- Are you led by demand, success or opportunity?
- How much growth do you actually need?
- And key to it all... **What do you want your reward to be?**

MAP Methodology.

This guide is a map for you to layer over where you are today, and to see how plugging the missing parts of your agency system could stop you from seriously missing out.

Spanning the four main areas of Insight, Data Collection, Compliance and Mapping we'll show you how to activate the data and intelligence locked inside your agency to maximise performance, value, and reward.



Insight



Budgeting.

Your financial blueprint for the year ahead. It's where your plans are translated into revenue and cost lines, and where you work on how to ensure your agency is a profitable and predictable business.

Yes, it's a numbers document but it outlines the importance of building a plan that dictates what success means, and helps keep you and your team focussed.

Management reporting.

Presenting key financial mechanics, monthly or quarterly, allows your management team to gain insight on performance and make informed decisions.

Profit and loss, an updated date balance sheet - as well as any other KPIs you're tracking - are the bedrock of your financial health. Answering questions like "How much have we made?", and "How have we made it?", may sound obvious but mapping this to your budget will help to see where you are against your plan, and open up where your strengths and weaknesses currently are.

Forecasting.

This live snapshot of your agency is based entirely on what we know here and now, and paints a picture of where you are likely to end up based on anticipated performance.

It's a shorter-term view but, when used in line with your budget, can show the reality on costs of increased sales, or what might happen to profitability if the number of pitches won is not as high as hoped.



Operational finance.

The commercial angle of your operations is best looked at quarterly, and should shine a light on departmental performance, the profitability of clients and even individuals.

It might show that you have good clients and staff, but ask whether you're making enough money from them. You might be winning overall, but is it masking under-performance in certain areas?

Operational finance can help you quantify the success of service lines, pricing and teams, so you can replicate in other areas or delve deeper into underlying issues.

Detailed cost reviews.

It's really easy to waste money and, without controls, these can mount up pretty quickly. Typical issues for agencies include having lots of software subscriptions which are no longer needed, and underestimating travel costs.

Having a quarterly review of your costs and looking at where to cut waste or drive efficiencies (like travel booking policies) can make a big difference and provide a quick win for profitability.





Data collection

Raising invoices and getting paid.

Credit control.

There's no point in having a profitable agency if you then run out of cash.

Agreeing payment terms and invoicing dates with your clients in advance is good discipline and helps to remove barriers to payment later, but it can only take you so far.

Invoicing promptly is important but so is credit control. Technology can complement humans by sending out regular, timely and well-written emails, going out in a controlled way, and providing an audit trail.

Building regular credit control into your financial process means you stop missing out, and keep a balanced relationship with your clients.

Handling suppliers.

Managing the purchase invoices and payments.

Agree the right terms with your suppliers and have good controls in place to keep on top of costs and cash flow.

Steer clear of paper and emails and adopt easy-to-use technology to automate getting invoices into your accounting software quickly and accurately. This can also help reduce the risk of fraud and human error, where one slip of the finger could prove costly.

Tight processes means you can manage your costs better, and give you the best possible view of where and when cash might get tight.

Bank reconciliation.

This is the one admin task that keeps everything on track.

Matching sales and purchase invoices with what is coming in and out of your bank accounts provides the checks and balances needed to create the building blocks of data to do everything else.

Without the reconciliation process you can't get the figures you need for all your other financial functions, including accurate cash flow, VAT reports and management information.

Thankfully, having bank feeds into Xero means reconciliation can be done quickly and easily, and means you can just focus on the information it releases.



Compliance

VAT.

VAT can get complicated very quickly and have a big impact on your agency's cash.

Make sure you are on the right VAT scheme and that you know what you should be charging VAT on, and what you can be claiming back and at what rates.

Get your invoices into Xero and reconciled quickly and you can make the process of digitally submitting more straightforward. But don't overly rely on the tech, making sure there is a diligent human process to check the data before sending.

Getting VAT right isn't easy, but understanding it will stop you handing over more money to HMRC than you need to.

Payroll.

It's easy as an employee to presume that payroll just happens, but it's complex stuff and easy to get wrong.

Even if most of your staff are salaried, there is a lot of data that needs to be checked and accounted for. Names, addresses, national insurance numbers, tax codes, and salaries change occasionally, and don't forget new starters, leavers, maternity, sick pay, holiday, bonuses, commissions, expenses, and student loan, as well as the reporting for HMRC and auto enrolment.

It's high risk, technical, and not an office admin task - so it's important to know what you are doing, especially with a growing team.



Benefits and expenses.

There are great ways to reward and enrich staff other than through salary. But strict rules govern how each has to be treated for tax. Get this mixed up or handle incorrectly and either you or the employee might get a nasty tax shock.

Some things are tax exempt - mobile phones, laptop, pensions - these are provided or paid with no tax payable.

Benefits in Kind like cars, health care, and gym memberships might not attract NI, but you still do pay tax on them. While client entertaining, lunches and mortgage payments certainly won't be tax deductible and could be classed as part of your salary.

An effective benefits and expenses policy will make sure that you can reward staff without aggravating the tax man or your wallet.

Statutory accounts.

At the end of your financial year you need to file key documents with Companies House and HMRC, some of which sit on the public record while others are used to determine your financial governance and liability for tax.

Best practice is to get everything in as early as possible, so you know where you are and have the right amount available to pay the tax due, and it also helps with claiming things like R&D tax credits.

Good financial processes and discipline throughout the year can really pay dividends here, helping to reduce the time and potential headache in painting the best possible position of the business.

Corporation tax.

The tax on profit is your reward for a successful year, and is a cost to be managed like any other business expense.

Provision for corporation tax should be seen in the Management Reports and tracked, and hopefully saved for through the year.

Planning in advance (and taking professional advice early) can help to reduce your tax bill by making sure you're using all the available allowances, and even help to reinforce policies and procedures for things like expenses.

Personal tax.

Every owner or director of an agency should be looking to legally keep as much of what they earn as possible.

It can quickly become complex but, with expert help and some planning, you can find the most efficient way of using the available allowances and means. Extracting money through salary, dividends, directors loans, expenses, pension contributions, and income splitting with your spouse are all tools that can be used if you know how.

You've also got to be careful around company benefits and even child benefit, which will have to be paid back if you earn more than £50K a year.

Plan on getting this sorted as soon as possible after April 5th each year, and seek professional advice before choosing to just fill in and return.



Mapping

What does good look like?

You should be building your agency as an intentional business, and not arriving some years down the line wondering where you ended up and why.

The process of planning is where the value lies. A structured process uncovers the vision and ambitions of the business and its owners, and allows you to understand the context for all your hard work.

Knowing your purpose is fine, but this then needs to be made real. The MAPping process is a collaborative one which underpins the elements of your finance function, and provides you with a solid financial plan, and model.

Knowing how to create a simpler, more streamlined and cost-efficient agency can release the management team from the stress of unstructured growth, and allow them to focus on the most important value-creating parts of the business, through building on less volume, and more quality.

Working with MAP.

Working with our team of accounting experts and digital agency specialists, MAP will deliver to you:

- **Operational stats that link to the key financial metrics**
- **Timely and trusted numbers at your fingertips**
- **A predictable blueprint of what you are trying to achieve**

Book a Discovery call
wearemap.co.uk/discovery-call

Try our free profit maximiser tool
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