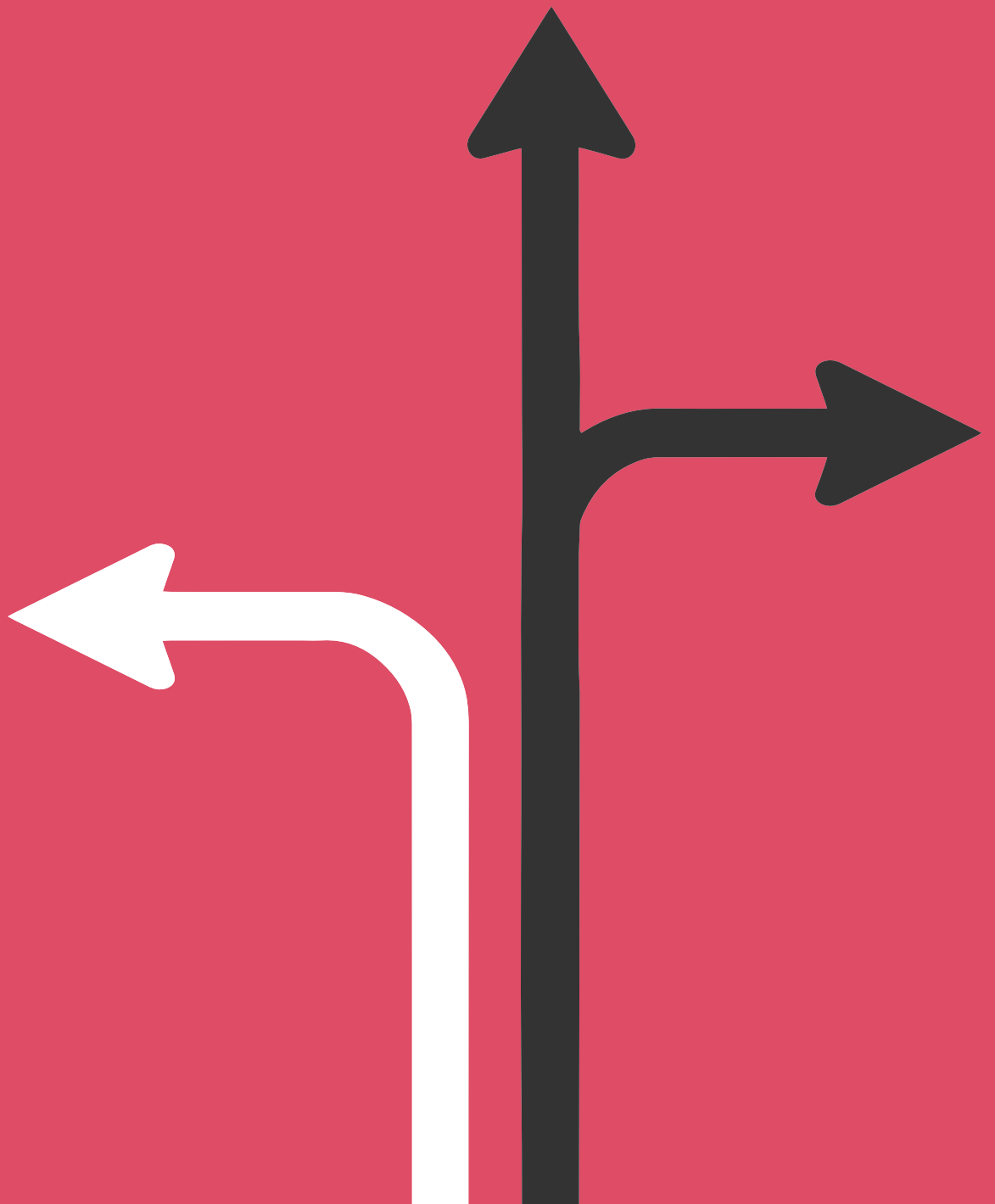


MAP.

SHOULD I STAY OR
SHOULD I GO?



MAP – Should I stay or should I go?

Contents

| | |
|--|---|
| Should I carry on? – the owner’s dilemma | 1 |
| Coming to an informed decision | 2 |
| The situation many find themselves in | 2 |
| The options | 2 |
| Understanding the financial health of your agency | 3 |
| The key questions to ask from the data | 4 |
| Appetite to continue | 4 |
| Scenarios – thinking about the way forward | 5 |
| Stop: winding down your agency | 5 |
| Exit: now or in the future | 5 |
| Continue: planning for future growth | 6 |
| Your decision to act | 7 |
| How MAP can help | 7 |

A person wearing a green jacket, blue jeans, and a brown messenger bag is walking away from the camera on a paved road. A large white arrow is painted on the road, pointing towards the person. The text 'Should I stay, or should I go?' is overlaid in large white letters on the left side of the image.

Should I stay, or should I go?

Should I carry on? - the owner's dilemma

For digital agency owners, the impact of Covid-19 on their business has been swift.

As consumer and business habits have shifted dramatically online, some have managed to adjust or come into their own. However, this has largely depended on their clients having the confidence and ability to market and trade effectively themselves.

Taking advantage of the government support schemes, such as those to furlough staff, has provided important breathing space for agency leaders to take stock and plan for the future without having to lose important talent in the short term.

The question now, especially for those who have been able to build good businesses and healthy balance sheets in recent years, is whether or not to capitalise on this good run and close the agency down (and consider a new venture), or continue and use the cash to support the business until the market picks up.

Although circumstances are bringing this into sharp relief, having a plan for building the future you want is something that you should consider even in normal times, and perhaps have found it too easy to put to one side.

This is a rare opportunity to take stock and consider your options.

Coming to an informed decision

Not all the components are going to be hard facts, indeed some of the most critical will rely on emotional and deeply personal responses, so it's worth breaking down to ensure the two are separated out as much as possible:

- Business dynamics, and the financial health of the agency
- Scenarios - understanding the steps that can be taken, and their financial impact
- Self reflection - your personal motivation and response

Whatever your conclusion, you should seek professional advice before choosing to act. You may even find it useful to work with us as you go through this evaluation process as we can bring our market experience of working with other agencies through similar scenarios.

We're also a compassionate ear, and only concerned in achieving the best outcome for you and your future.

The situation many find themselves in

The situation generally is quite clear. Although softened by the ability to furlough, there is still anxiety around looking at sustained losses months into the future. This is not a reflection on you, your team, or the quality of your clients and work, but the reality impacting businesses across the board.

As an agency owner the business can often be a big part of your life, and the economic impact of Covid-19 has for many been a sudden shock to the system. Good work that has been done over many years, has been fundamentally put at risk overnight by something outside of your control.

If the business has had good years in the past and built good reserves, watching this potentially eroding away can be a difficult thing to face. Other factors may come into play such as how well staff have stepped up to provide support and leadership, gaining an accurate view of client intentions, and whether it is wise to invest in potential new opportunities.

In the current circumstances, and in a very live environment, it is right to question and explore your options.

The options

The list is not limitless, but finding the *right version of the right answer* will be specific to your situation:

- **Stop** - liquidate the agency and return as much capital to shareholders as possible
- **Exit** - find a suitable and viable option to pass to others through sale or other means
- **Continue** - bare any losses, capitalise on opportunities and plan for renewed growth

If exiting the business is an option, you should also consider what you will do next, and what capital may be required for your next venture.



Understanding the financial health of your agency

To begin with it's essential to separate out what you think the position is, and what you know the position to be.

You can do this by looking at the financial health of the agency objectively, using the following as bedrock data:

- Management accounts - up to date as possible, including balance sheet
- Hidden liabilities - a list of other outstanding financial commitments
- Profit and loss (P&L) forecast - next 12 months
- Cash flow forecast - 12 months, to include deferred tax.

Management accounts - A picture of the business as it stands today. This will often include a P&L of month on month income and expenditure by category and comparison with your planned budget. It will also include a balance sheet (a summary of your current assets and liabilities), and any key performance indicators that are used to guide the business.

Hidden liabilities

A list of outstanding financial commitments that don't appear on the balance sheet, including:

- Leases - e.g. premises, cars or equipment
- Estimated redundancy payments
- Outstanding tax not included so far
- Other fixed term suppliers, e.g. software or hosting

P&L 12 month forecast - An honest assessment of the income (sales) and costs over the next 12 months.

Cash flow 12 month forecast - A translation of the forecast in terms of cash in and out of the bank.

It's important that this is as accurate as possible, so ensure that your core bookkeeping data is up to date and all outstanding invoices and bills are sent or logged.

If you don't have access to this data, are worried about its accuracy, or are unsure about what it is telling you then don't guess, **we can help**, arrange a 'Discovery Call' with us today at: wearemap.co.uk/discovery-call

The key questions to ask from the data

To help prepare and refine your forecasts, some questions you should consider are:

Costs

- Can we continue with a smaller, or more flexible workforce?
- Can we make our costs more elastic - e.g. freelancers as needed
- Do we need to reinvest or double-down in any areas?

Services

- Pivot - is there another angle to what we are doing?
- Can we deploy existing 'in demand' services like ecommerce to a new client base?
- Should we stop some service lines completely?
- Would there be synergies joining forces with another agency?

Motivations

- Do each of the shareholders want the same thing?
- How do you feel about continuing and what the future might hold?
- Do you have the right team around you to provide leadership and support?

What would your forecast look like if you thought creatively?

Appetite to continue

Beyond the purely financial is how you are feeling about the challenges ahead.

We know that agency owners are driven by determination, but it might not be enjoyable or enough in itself to ensure you can make sufficient money. We also know that if you're not getting a break, just how stressful and disheartening it can be.

Having the support internally, and professionally, is important so that you are not facing the challenges ahead feeling as if everything relies upon you alone.

These are not signs of weakness or a lack of faith in what can be achieved, but recognition that you have a responsibility to look after your own mental health, preserving the success you have enjoyed so far, and preparing for the next part of your journey.

Scenarios - thinking about the way forward

There are only three real options

Stop: winding down your agency

You may decide that closing the business and returning as much capital as possible back to shareholders is your preferred option. There is a formal process that needs to be followed, and careful planning to ensure that you don't pay more tax than you need to.

If your agency is solvent (can pay all its liabilities) then the process is relatively straightforward. Working with an insolvency practitioner the business is placed into Member Voluntary Liquidation (MVL), all outstanding liabilities settled, any assets sold, and all goods receivables covered.

Don't forget that tax will also be due on the money returned. HMRC clearance is required to distribute this remaining cash as capital rather than as a dividend, as you may be eligible for entrepreneurs' relief.

It's important to work with a professional adviser like MAP as we have the experience in evaluating and actioning this process, and presenting the right information to HMRC.



Exit: now or in the future

Leaving your business doesn't necessarily mean closing it down. You also don't need to do it straight away, it could be that this is part of a medium to long term plan to leave on your own terms.

There are many ways you can achieve this:

- Pass to family
- Sell to your management team
- Trade/private equity sale
- Employee ownership trusts

Each has its own advantages which can be mapped against what you as the owner would like to achieve. For example passing to family will ensure a long term connection to the business and provides an asset to pass on to another generation, whereas a trade sale is likely to generate a cash lump sum.

Although selling during a crisis may not necessarily provide you with the highest return, the correct option is the one that most closely matches your personal goals.

Continue: planning for future growth

Given the passion that many agency owners have, your assessment could also underscore your desire and determination to continue - but perhaps with a renewed focus, a change in direction, or a collaboration which can pull on relative strengths.

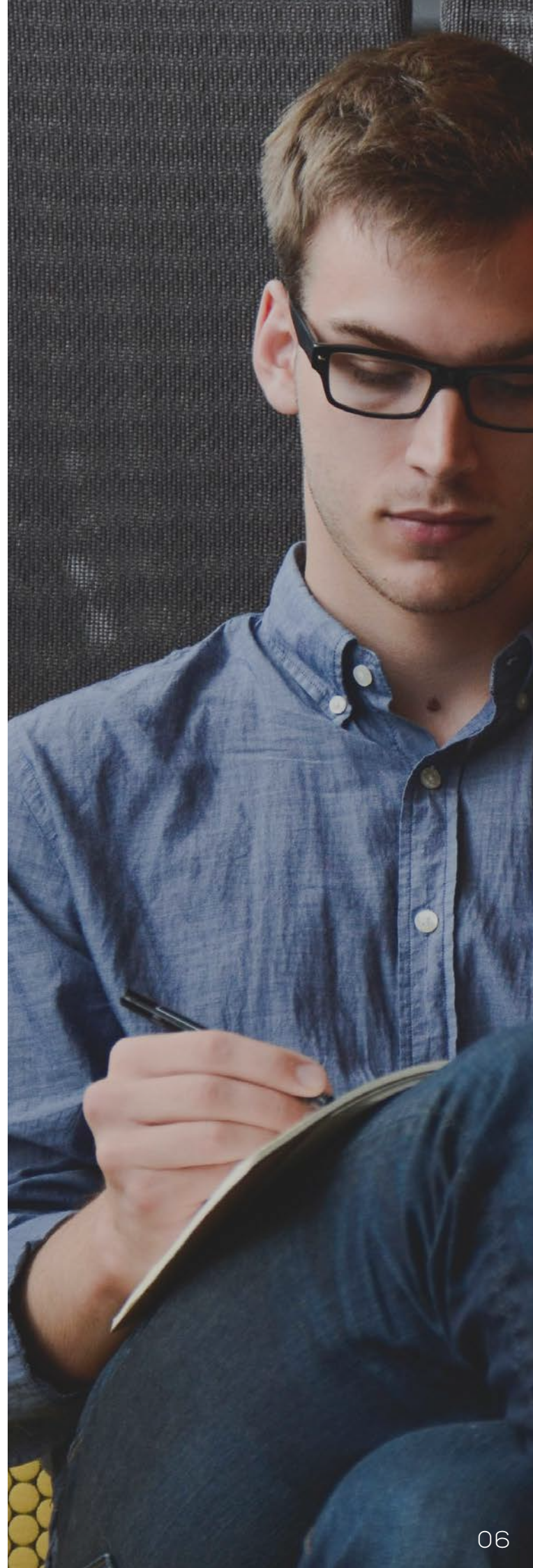
It's also worth considering what other operational changes could be made. Getting the bedrock data together can help reveal whether or not you have:

- Good financial controls
- Grip on costs
- Confidence in revenue
- Profitable business model

There also might be negotiations with suppliers that could have a material cash benefit, for example with the landlord, suppliers and even staff dropping down to part time.

And are there ways in which you can develop leaders within the team who can help guide and create buy-in for your plans, and reduce your stress? You should be looking for them to make decisions and not need your input all the time.

Thinking carefully about whether you have the right people in situ could prompt you to make a change that will transform how much is riding exclusively on your shoulders.





Your decision to act

The bravery and creativity to build an agency and have it play such an important part in your life can never be undervalued. It can be exhilarating, fun and stressful in equal measures - but you didn't start it for an easy life!

Being an entrepreneur is about knowing when to get out and play another game, and when to make the changes to take things to another level. And regardless of the factors outside of your control, you get the right to choose to protect what you've built up, or cut your losses and exit to start a new chapter if that's what you want.

MAP can ensure that you are supported in making the right decision for you - and that you are rewarded with the most value.

How MAP can help

Working with our team of accounting experts and digital agency specialists, MAP provides an outsourced finance function with FD style support to deliver:

- Financial data and analysis
- Strategic review
- Operational improvement

Get in touch with us today to discuss with one of our experts.

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