

# People based, brainy businesses

From brand consultancy, to DevOps agilists and marketing gurus; these are businesses where the talent walks in every day. Intellect, ideas and personal contacts are more important than machines or buildings. This guide explores the unique challenges these businesses face, sharing helpful hints to overcome obstacles and make the most of opportunities.

## They are...

- Digital, Tech and Media Agencies
- Specialist Consultancies
- Business Services
- IT Services
- Retail Consultancies

## KEY BUSINESS FINANCE CHALLENGES:

People based brainy businesses share a number of common challenges. From how to build the best team at a manageable price, to the very real problem of getting paid. This guide aims to address some of those challenges head-on and help small businesses find a way through.

1. **Handling project costs**
2. **Keeping the client love**
3. **Dealing with the unexpected**
4. **Building the best team**
5. **Growth plans**

## WHAT IS OUR BUSINESS FINANCE GUIDE?

Our Business Finance Guide is a collection of challenges and helpful hints from business owners and their accountants around running a People Based Brainy business, including:

- Maximising the relationship with your accountant
- Running a long-term, sustainable business
- Strengthening your balance sheet

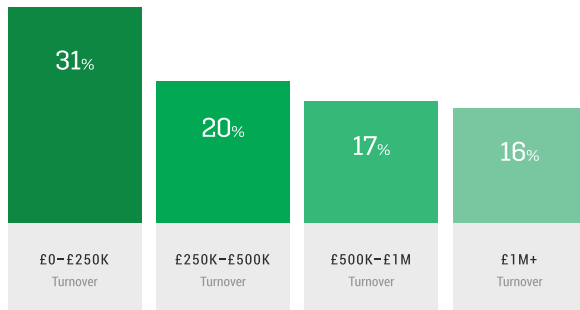
Tell us what you think of the content at [Capitalise.com](https://www.capitalise.com)

# Digital Agencies

According to Creative Skillset, 153,000 people are employed within the marketing and advertising industry, with graduates making up more than 70% of the workforce.

2018 financial data shows that the Top 100 digital agencies have grown on average 20% year-on-year from £2.3bn in 2017 to over £2.8bn.

## AVERAGE NET PROFIT



### Read more:

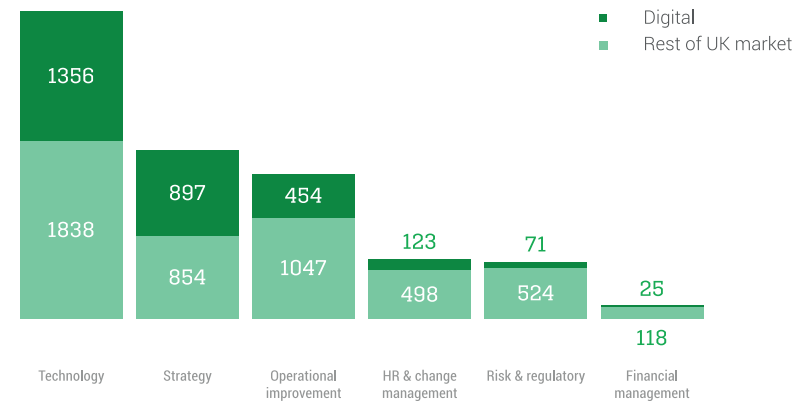
- [DRUM](#)
- [Econsultancy](#)
- [The Wow Company](#)

Source: The Wow Company's Bench Press 2018

# Consultancy Industry

UK's consulting industry employs circa 63,000 professionals, making up a significant proportion of the digital transformation market of UK.

## SHARE OF UK DIGITAL TRANSFORMATION MARKET IN 2017, BY SERVICE LINE (£M)



### Read more:

- [MCA](#)
- [Econsultancy](#)

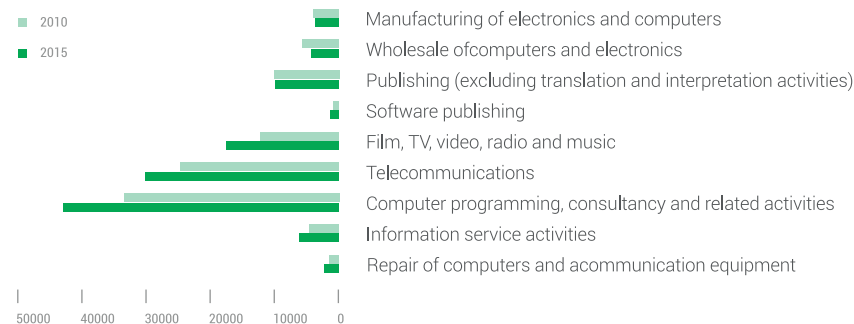
Source: Consultancy.uk

## MARKET OVERVIEW:

# IT & Software services

The UK is a market leading global player across software development, cyber security, ICT and other IT related activities. There were almost 1.5 million jobs in the UK's digital sector (by Standard Industrial Classification code) in 2016 – and almost 2.2 million in the wider digital economy.

### GVA FOR DIGITAL SUBSECTORS (£M, 2010–2015)



### Read more:

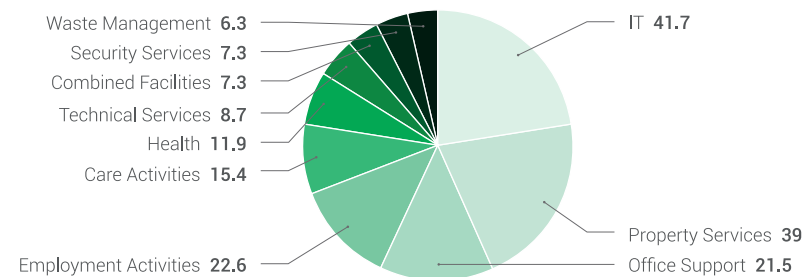
1. [Technology \(ICT\) Sector Report](#)
2. [Intel Store](#)
3. [Ibis World](#)
4. [Digital SME](#)

Source: [House of Lords European Union Committee](#)

# Business services

Business services is a diverse industry, broadly serving companies in five sectors: facilities management, construction services, business process outsourcing, IT and digital services and outsourced public services. The sector employs around 3.3 million people across the UK and is a major contributor of UK employment growth, with 12 out of the 50 fastest growing occupations falling within the business services sector.

### BUSINESS SERVICES BY TYPE (2009 £BN)



### Read more:

1. [Business Services Association](#)
2. [Deloitte](#)
3. [Lloyd's Bank](#)

Source: [Oxford Economics, referenced in Lloyds Bank report](#)

## CHALLENGES:

1

# Handling project costs

Whoever coined the phrase “revenue is vanity, profit is sanity” must have worked for an agency. In a business model where huge value is created by finding a margin between your team’s expertise and the price your client is willing to pay, looking out for costs is instrumental to sound finances.

## COMMON CHALLENGES:

- A. Keeping on top of project costs
- B. Working with subcontractors
- C. Losing a pitch because of size



Figure 1: The business life cycle mapped out with focus on stages in the project life cycle. Dark green sections relate more closely to the specified challenge.



Almost two thirds (64%) of business owners underestimated their expenses for the first business year.

## CHALLENGES:

### 1. HANDLING PROJECT COSTS

# Keeping on top of project costs

Time flies when you're having fun. Doing something you love makes it easy to focus on the task in hand and let time run away. In a consultancy it's important to keep a commercial head while delivering great work.

Having project and account managers who are accountable for the costs in a project is challenging but essential.

## HELPFUL HINT #1

## Be honest about resources

How much employee time is it going to take? Will it impede other projects? Does the business need additional resources—and if so, what is the cost of those resources (not just their time, but the time spent hiring them?). If the right resources aren't available up front, there is a danger the business spends more and more to repair the problem.



Before agreeing contracts ensure all deliverables are peer-reviewed.

**Resource Tools:**

1. [Forecast](#) and [ResourceGuru](#) for smaller agencies
2. [1000ft](#) for larger firms
3. [Smartsheet](#) and [Microsoft Project](#) for project planning

## HELPFUL HINT #2

## Track budget, for you and your client

Don't leave budgets to chance. If costs are mounting or the project needs to be extended, speaking with the client or sponsor sooner rather than later will help avoid a dispute.



Clear reporting with your client on budget utilisation prevents surprises.

**Project Tools:**

1. Apps such as [Harvest](#) and [Forecast](#) for time tracking
2. [Workflow Max](#) has a Xero add-on for project budgeting
3. Train your team to maintain transparent [Google Sheet](#) budgets for clients

## CHALLENGES:

### 1. HANDLING PROJECT COSTS

# Working with subcontractors

As your agency wins larger accounts, aspects of being a prime contractor often means there are other companies to subcontract. This adds downstream risk if your suppliers don't deliver so it's always worthwhile protecting your finances from some scenarios.

Also, it sounds obvious, but many businesses get caught having to pay subcontractors before they've been paid themselves. This is a recipe for cash flow problems. Ensure suppliers have payment terms at least as long as those with the client.



**HELPFUL HINT #1**

## Negotiate back to back agreements

Most large projects require some reliance on third-party vendors and suppliers. These relationships need to be defined by negotiating contracts. Profitability of major projects depend on getting those negotiations right.

Back to back agreements help protect uncapped liabilities from subcontractors that don't deliver.

*"A simple back-to-back subcontract for use in commercial situations when the main contractor wishes to subcontract all or part of its obligations under a main contract on a back-to-back basis. The agreement incorporates the terms of the main contract by reference."* – Practical law



Ensure your agreements are "back to back" with subcontractors.

**HELPFUL HINT #2**

## Ensure you pay when your client pays

Managing the payment from your client can cover the costs of your subcontractor. Ensure that your supplier has payment terms which are at least as long as yours with the client.

Without that you will be forced to either fund the cash flow or delay payment to your supplier.



Match payment scheduled with your subcontractors.

1. HANDLING PROJECT COSTS

# Losing a pitch because of size

“Nobody gets fired for buying IBM”. Using larger firms bring an aura of security, even if it’s illusory. Small firms can find themselves on the wrong side of risk aversion among major companies.

Winning a pitch that is more than 25% of your annual revenue is risky—high upfront costs could cause cash flow issues. Expand every factor that makes the business successful now. Secure your position in your niche and investors who support your firm.

**HELPFUL HINT #1**

## Letters of support and contingent fund raising

Winning a big project with a corporate client often means due diligence or facing the procurement teams. They are often looking for sound financial standings but they don't want to be the one client you depend on.

Calculate what working capital you might need then prepare for funding—even if you don't draw down. A letter of support from shareholders to invest additional capital or raising funding to bolster your cash reserves can help show a healthy balance sheet, ready for deploying capital into new projects.



Prepare to demonstrate your financial firepower to win a client.

## CHALLENGES:

2

# Keeping the client love

Love them and hate them, your clients are likely to be the source of both joy and hell when it comes to your business finances.

From late payments, to excessive demands, to bankruptcies, clients come with some major headaches. It's important to take control of the process where possible.



### COMMON CHALLENGES:

- A. Avoiding delayed payments from clients
- B. Clients refusing to pay or invoice finance facility removal
- C. Losing an anchor client or delayed project

2. KEEPING THE CLIENT LOVE

# Avoiding delayed payments from clients

One of the first areas to look at is your ratio of debtors (money owed to you by your customers) vs your revenue.

If your typical payment terms are 30 days then roughly you would expect your debtor book to be the same as your average monthly revenue or 12th of your annualised revenue.

In practice it might vary and so working with your accountant can help keep track of this variance.

## HELPFUL HINT #1

## Master services agreements and statements of work

Project with a **Master Service Agreement** (MSA) have a single client contract with separate pieces of work under the terms of that agreement, often called Statements of Work. Most of the agency and consultancy world use MSAs and Statements of Work and clients will probably expect them.

A **Statement of Work** (SoW) details the actions for work. This is typically 'Fixed Scope' or 'Time and Materials' i.e. getting paid for work delivered or hours worked. Using a clear approach during the sales process will help contract negotiations.



Use a Master Services Agreement and Statements of Work.

**Useful Services:**

1. [Rocket Lawyer Services Agreement](#)
2. [LawDepot Services Agreement](#)

## HELPFUL HINT #2

## Tighten up credit control

In the UK there seems to be a culture of paying only when asked. As a result, if you don't ask your clients to pay they might assume that you're in no rush to collect your payment. Nice assumptions, huh?

Research from Bacs Payment Schemes shows SMEs in the UK lose more than £2bn every year due to late payments. They have up to £14bn of payments still outstanding. That's a lot of credit that small businesses are providing to the UK economy.

Your client manager will be able to direct you to good software and processes to help you with reducing your debtor days.



Your client manager can direct you to software and processes that can reduce your debtor days.

**References:**

1. [Chaser](#) is a great add-on to chase up your invoices.

## HELPFUL HINT #3

## Setting up and selecting invoice finance facility

Modern, flexible invoice finance providers will allow you to browse through your debtors and select specific invoices to have payment advanced instantly, less fees.

Having this facility set-up can be a great way to be ready in case you need to make use of it. Speaking with your accountant will help you identify which providers are suited for your firm.



Ask your accountant about selective invoice finance through [Capitailse.com](https://www.capitailse.com)

**Look for Integration with:**

1. Xero
2. QuickBooks
3. Sage



## HELPFUL HINT #4

## Full facility invoice factoring and discounting

Where your business works a significantly large debtor book a full invoice finance facility may be more suitable. You'll be able to go with a full ledger facility.

## INVOICE FACTORING

## VS

## INVOICE DISCOUNTING

When the lender collects the payment directly from your customer. The invoice financier handles the credit control directly, and could also potentially negotiate terms with your customers. This means that customers will know you are using this method of raising finance. Factoring is usually easier to secure for less established and small to medium businesses.

When you handle your own credit control. You can avoid a third party (the invoice financier) dealing directly with your customers, they will not know that you are borrowing against their invoices. Discounting is usually only available to larger, more established businesses.



Ask your accountant about selective invoice finance through [Capitailse.com](https://www.capitailse.com)

2. KEEPING THE CLIENT LOVE

# Clients refusing to pay or invoice finance facility removal

Sometimes clients are not just late in paying but they are not planning to pay at all. In this scenario, it's likely that you are in dispute with your client and therefore action may need to be taken. Asking for advice this point is worthwhile as there are some products in the market to look at.



**HELPFUL HINT #1**

## Dispute resolution services

For minor disputes, consider using a dispute resolution service before taking more serious (and expensive) steps to recover costs. For bills less than £10,000, it's possible to make an online claim through the UK courts. The threat of a County Court Judgement is often enough to spur recalcitrant payers into actions.

Getting help with disputes doesn't need to cost a huge amount in legal fees. Product such as Escalate can help you with a dispute with a client.



Ask your accountant about [Escalate](#) or [find a partner online](#)

**HELPFUL HINT #2**

## Litigation funding

Litigation funding is where a third party provides the financial resources to enable costly litigation or arbitration cases to proceed. They will take a share of any proceeds, but the litigant obtains all or part of the financing to cover its legal costs.



Ask your accountant about litigation funding solutions.

2. KEEPING THE CLIENT LOVE

# Losing an anchor client or delayed project

Sometimes a client may not just refuse to pay but they might not be able to or may cancel a project. Having a large client shift their plans can wipe out annual profits in one go so it's worthwhile taking action to try to shore up finances around that scenario.

## HELPFUL HINT #1

## Calculate your client concentration and impact on cash flow

Working with an accountant who has your accounts up to date will make tracking client revenue much easier.



Set up a dashboard to track your largest by revenue clients.

**More Reading:**

1. [Euler Hermes](#)

**Useful Tools:**

1. Dashboards e.g. [Klipfolio](#) is often used to track management information
2. Downloading credit scores on your client is also useful ahead of time

## HELPFUL HINT #2

## Get credit insurance ahead of time

Credit insurance can protect you against your client not paying if they get into financial difficulties. Buying credit insurance pools the risk against a large number of providers and so can be a cost effective way to protect against a risk.

Credit insurance will not likely be available if your client is already in financial distress so, like other insurance products, it must be purchased in advance.

“Trade credit insurance provides cover for businesses if customers who owe money for products or services do not pay their debts, or pay them later than the payment terms dictate. It gives businesses the confidence to extend credit to new customers and improves access to funding, often at more competitive rates. Trade credit insurance is for products and services that are due within 12 months.” [www.abi.org.uk](http://www.abi.org.uk)



Ask your accountant to speak to Capitalise about credit insurance products.

**HELPFUL HINT #3**

## Contractual clauses to charge clients for project delays

There is really only one time to reduce your risk for project delays and that is during your contract negotiations. Once you have won a pitch process, before sharing your Master Services Agreement there is an opportunity to nail those clauses.



Review your Master Services Agreements to ensure project delays by clients are covered.

**HELPFUL HINT #4**

## Invest in expansion

Sports people like to say offense is the best form of defense but in this case it might be a good idea to reduce your client risks. By reducing your client concentration you can derisk your business and use your cornerstone client to expand into new markets. Avoid resting happy with your large client but find resources to bring on new clients can help avoid the risks of that one client causing your cash flow difficulties.



Consider growth strategies and the ways to finance them with your accountant.

# Dealing with the unexpected

Sometimes, well, things just don't go as planned. Whether this is an oversight on tax due, projects going a little wayward or seasonal ups and downs, it's not possible to plan for all eventualities.

Costs change. The Federal of Small Businesses has found that small businesses today are spending around 15% more on taxes. HMRC may want more this year than it did last year. Unexpected bills can easily derail a company that hasn't laid contingency plans.



**COMMON CHALLENGES:**

- A. Argh, the tax man cometh
- B. Business ups and downs

3. DEALING WITH THE UNEXPECTED

# Argh, the tax man cometh

While a VAT-registered business has the relative luxury of a free credit facility on a 3-month basis ultimately, HMRC will appear to collect the accrued VAT. HMRC is as high a priority as paying staff so keep on top of it with your accountant.

**HELPFUL HINT #1**

## Forecast cash flow with your accountant

Forecasting tax liabilities is relatively easy, given the long lead time between making profits and corporation tax payment (corporation tax is due nine months after the end of the company year end). Submitting a corporation tax return as early as possible is against human nature, but can really help a small business understand its near-term liabilities. Making Tax Digital (soon to be compulsory for all business) should allow business owners to see their tax position at the touch of a button.

Maintaining a forecast to track what's due alongside your rent and salary bill is a good start to see if you have the cash flow to meet the demands.

At the very least, an up to date bookkeeping can help you see your draft VAT return in your accounting solution.



Ask your accountant to help with your cash flow forecasts.

**Useful Tools:**

1. [Float](#) is a great budgeting tool
2. [Spotlight reporting](#) helps with building up forecasts



**HELPFUL HINT #2**

## VAT and tax funding

There is a financial product which is specifically designed for the scenario of paying VAT and other tax liabilities.

Once you have done your forecasts you can check in with your accountant to see if they can help you with paying the bill. In general it might also be worth looking at a longer term loan if this is a frequent occurrence.



Ask your accountant about VAT and tax funding with Capitalise.com

**CASE STUDY: R&D TAX CREDIT ADVANCE****PURPOSE**

After a successful year this design agency needed to settle a large corporation tax liability. At the same time they were restructuring their team, and management were focusing on new projects.

**PRODUCT**

Working closely with its accountant, the design agency applied for 4 different loans through the Capitalise platform. One of the lenders, Funding Circle, got in touch shortly after requesting recent bank statements & accounts. Funding Circle approved the application for a £100,000 working capital loan within 7 days.

**PROVIDER**

Funding Circle has quickly risen to become the world's leading peer to peer lender that focuses exclusively on small businesses. Funding Circle has provided more than £1bn of funding to businesses across the UK, USA, Germany, Netherlands and Spain.



3. DEALING WITH THE UNEXPECTED

# Business ups and downs

Businesses are interconnected with the ups and downs of our economy, politics and business cycles. External factors can come from anywhere and so planning for different scenarios in your forecasts can help understand your outlook.

## HELPFUL HINT #1

## Holding enough cash

Good businesses that stop running typically do so because they have run out of cash. Holding enough cash to suffer a shock or project delays is essential. For example holding two months of expenses at the beginning of each month is a good indicator that your business is running in a stable capacity. Bad cash flow can destroy great businesses. Up to 90% of business failures are due to poor cash flow.

Building up cash reserves through reduced dividend payments in profitable businesses is a good idea. Otherwise, companies may need to look at external finance or flexible overdraft facilities as a contingency.



Work with your accountant to talk about cash reserves.

## HELPFUL HINT #2

## Invest excess cash to get returns

Consultancies and agencies sometimes are holding excess cash. Whether seasonality or holding back before a growth spurt, holding cash shouldn't mean cash-drag on your returns from a 0% interest rate from your current account.

Prudential Regulation Authority (PRA) regulated banks are typically protected under the FSCS scheme up to £85,000 in case of the bank being unable to give you firm your cash back. If you have over £85,000 and wish to get higher returns you can even split cash across different banks.



Ask your accountant about cash treasuries through Capitalise.com

**HELPFUL HINT #3**

## Flexible facilities and overdrafts

Prearranged facilities which allow you to use them when you need are a good contingent option since you don't have to use them all the time.

Be aware that they can be expensive if you use them for an extended period of time so if this is the case, you might want to consider switching to a longer term product.



Ask your accountant about overdrafts and flexible facilities.

4

# Building the best team

Your number one asset in a People based brainy business is your team. To grow in an agency or consultancy you will need to recruit more people. But hiring comes with costs – recruitment fees, new equipment, onboarding time.

Recruiting the right people, who share a business owner's ambition and drive, is a challenge to any business. For a people based business, it's the difference between success and failure. So hiring with confidence and visibility is essential.



## HELPFUL HINT #1

## Define and calculate your staff onboarding

The headline salary is just the start. The Society for Human Resource Management (SHRM) calculates that every time a business replaces a salaried employee, it costs 6 to 9 months' salary on average. For a manager making £40,000 a year, that's £20,000 to £30,000 in recruiting and training expenses. There will also be an impact on working capital. An accountant can help understand the true impact of new recruits on the bottom line.



Calculate the impact of new recruits on the bottom line.

**Helpful Resources:**

1. [IT Jobs Watch](#) tracks salaries in the technology space
2. Recruiters such as Major Players often [publish salary data](#)



## HELPFUL HINT #2

## Recruiter contract negotiation

Recruiters can lead a business to the right people, but for a price. Expect to pay an introduction fee of at least 15%. Ensure there's a rebate period in the contract in case the staff member leaves shortly after joining. Less than four weeks, it should be 100%. They are generally excellent negotiators, so don't be shy about pushing back for good terms.

- **Introduction Fee** – often 15% is the standard in the agency world
- **Rebate Period** if your client leaves. Aim for 4 weeks or more of 100% rebate
- **Payment Terms** – try to get this up to 28 days from the start date



Check your legal agreements with recruiters.

## HELPFUL HINT #3

## Raise funds to hire the best

Hiring new staff requires a considerable upfront investment before the business starts to feel the effect. Some studies suggest it takes over a year before a new employee is up to full productivity. Equally, there is no point hiring the best and then scrimping on training. Like any investment it's best to plan for some head room. An accountant should help a small business work out its financial headroom.

Costs sometimes forgotten:

- Training and travel costs
- Pension and other benefits e.g. medical health
- Annual bonuses which might be included



Work with your accountant to forecast costs for your expansion.

## HELPFUL HINT #4

## Tap your network

Anytime taken out of the business has to be worthwhile, but a business owner's network can be a rich seam, not only of new recruits, but of recommendations and references. A network can provide a vital filter, helping find the right people quicker and cheaper. Clubs, associations, sector organisations can all be a fertile source of new ideas.



Build up your company profile on social platforms.

**Helpful Tools:**

1. [Workable](#) to help track applications
2. [LinkedIn Recruiter](#) to reach out to candidates

## HELPFUL HINT #5

## Try before you buy

Around a fifth of new hires are temporary rather than permanent. In a world where workers are often permanently temporary or temporarily permanent, some flexibility on the terms can help a business attract the best talent. It also has the happy side effect of letting both sides see how well they work together.



Build up your company profiles on contractor recruitment platforms.

**Helpful Tools:**

1. [Yunojuno](#) for creative roles
2. [Snap.hr](#) for engineering roles



# Growth plans

Switching gears and looking at a new market, opening a new office or even acquiring another business is both daunting and exciting. The right funding can allow a business to improve margins, harness growth opportunities and attract the best staff. However, getting investment is hard. 48% of UK start-ups and small businesses have found it difficult to raise investment – most businesses don't secure investment the first time they go looking for it. How can businesses improve their chances?





5. GROWTH PLANS

# Going into new markets

Industries change and so it's important not to get left behind in a shrinking, overserved market. Take, for example, "mobile app" development which was a tiny market and then grow rapidly to become a huge market.

The early adopters would have had to try hard to find business and develop new processes — yet the rewards to pay off were worth the risk.

## HELPFUL HINT #1

# Be clear on the costs of expansion

Whether opening a new office or upsizing to a larger one, the costs of setting up a new base can make a major dent in cash flow. From fitouts to new tenancy deposits, smoothing out the cash flow is an important part of the overall success of expansion. Accountants will be invaluable here: they can help identify likely costs with a level of granularity likely to appeal to funding sources. Those who back a business need to understand the long-term market opportunity and the strategy to tackle it.



Build up cash flow forecasts for your growth.

### Helpful Resources:

1. [IT Jobs Watch](#) tracks salaries in the technology space
2. Recruiters such as Major Players often [publish salary data](#)

## HELPFUL HINT #2

# Strengthen your balance sheet with equity

Raising equity finance is a good move—providing external shareholders fit with the business. Equity participation can also be a way to bring in additional expertise at low cost. For established agencies and consultancies, an equity cash injection can help fund growth and may ultimately lead to an exit opportunity.



Less than 2% of businesses are successful in raising external equity finance.



Build up cash flow forecasts for your growth.

### Read More:

1. [FBS](#)

### HELPFUL HINT #3

## Quantify the size of the end market and the cost to access it

Don't assume. Analyse your own sales, the competition, the whole industry and the larger economy. Is there enough demand to support another branch, store, line of products? Attracting customers is the biggest challenge for UK SMEs with 79% of businesses listing it as their biggest challenge.

Marketing can often be an afterthought: a recent report showed 58% of SMEs in the UK spend less than 10% of their revenue on marketing. At the same time, 27% of small businesses feel their existing strategies are less effective than they hoped. Spend right: content marketing can help keep your user acquisition costs down by continuously brings traffic to a website.

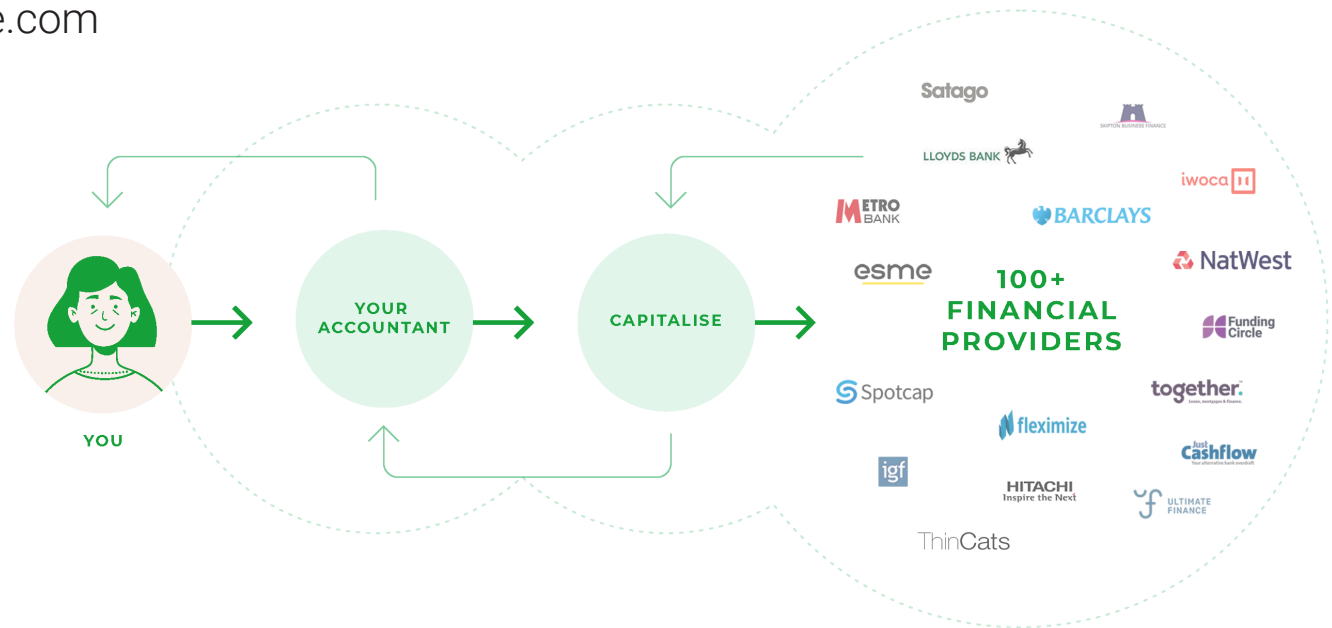


Speak to a business adviser to discuss market research for your market.

# Preparing for finance...

How funding works with Capitalise.com

1. Speak to your accountant about funding
2. Prepare for your application
3. Apply and get offers
4. Choose an offer
5. Receive funds
6. Track your facilities in Capitalise.com
7. Review every six months



# What's next?

## ACCOUNTING CHECKLIST

- Do you have a business forecast and annual budget?
- Have you got your books up to date?
- Do you get paid on time?
- Do you need debt collection services?
- Have you got your month-end and year-end accounts sorted?
- Have you analysed your customer mix?
- Do you monitor budgets and know expected overruns?
- Are required to pay corporation tax? If so, have you paid it?
- Do you need CFO support?

## PRODUCTS TO HELP YOU BOOST YOUR SERVICES

- [Invoice finance](#)
- [Long term loan](#)
- [Short term loan](#)

\*Most popular lending products used by People based brainy businesses, according to Capitalise lending data