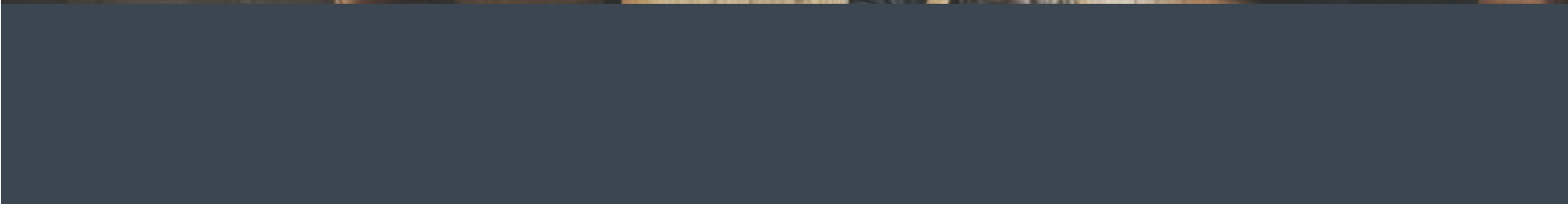


The Stay Creative Series

TIME-TRACKING



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The *Stay Creative Series* is a collaborative compilation of articles, providing resources and perspectives for small creative businesses from leaders in the industry.

CHAPTER 1

ACHIEVING TIMEKEEPING COMPLIANCE IN A MARKETING FIRM

BY David C. Baker, ReCourses

Well, this is typically the time when you make New Year's Resolutions, and maybe one of those is timekeeping compliance. But rather than starting with the thinking behind all this, we'll save that for last and instead dive right into some suggestions on how to get better participation. If you're an employee (vs. a principal) reading this, you might want to feather your own bonus bed by taking the lead here and rallying the troops. That sort of sucking up never goes unnoticed. (Though you may never again be asked to join your peers at lunch.)

Before giving you specific suggestions, though, let me note that these are presented in reverse order. That's because none of them have any teeth unless the last one (getting fired) is a legitimate possibility. That sounds harsh, I know, but there it is. There are many steps that lead up to that harshest of options, but it is there at the end of the steps.

The goal isn't to fire employees--the goal is to make money in an environment that doesn't kill creativity.

There are many steps that lead up to that harshest of options, but it is there at the end of the steps.

Here's what we've found to be effective in timekeeping compliance.

ESCALATING WAR ON DEADBEAT TIMEKEEPERS

8. Start with an assumption that you'll fire them if they don't do it. It really would come to that very rarely, but you have to be willing to do it (eventually) or the previous steps don't work. Building on that, you work backwards to come up with a plan. So just before this step...
7. Dock them a day's pay by asking them not to come in to work one day. Just before that...
6. Provide a written notice of discipline to put in their personnel file. Just before that...
5. Public humiliation in the town square, like a posted list in a prominent place stating who didn't complete their time sheet the night before. Just before that...
4. Peer pressure from missed goal. E.g., "if everyone does their timesheets, every day, by 6p, we all get pizza on Friday." So if one person screws it up, the others will be all over them. Just before that...
3. Throw the problem back to employees. "Timekeeping is very important. That much we know for sure, but what I don't know is how to get 100% compliance, so you as employees meet and let me know what you think will work. That'll be better than any plan I come up with and impose. I'd rather you work it out." Just before that...

2. Apply the policy consistently, which means the principal, too. Yep, unless there's compliance at the top, you'll never get anywhere with it. Just before that...
1. Communicate your expectations clearly. For example, what is the policy, and why is this important? More on that later.

So those are the steps I'd use. Start by asking yourself if you'd be willing to take the most severe step. If you would, start at the least severe and just work the list. Whatever plan you come up with, make sure it's consistent in application, it is collaborative as you seek solutions, and that you stage your responses, from friendly grandparent to ruthless czar.

And now that we have that out of the way, here's more about the thinking behind it.

BEST PRACTICES IN COMPLIANCE

There are endless details in a good timekeeping policy, but here are some of the basics.

- People should be able to track it any way they want (paper, the software application of their choice, etc.), but they should enter it into the enterprise system daily, before they leave.
- Entry options should include a browser interface that can be used for remote entry of time if someone is not in the office.
- Billable goals for each employee should be expressed as percentages of their worked hours, not a fixed number of hours each day, or people just end up working longer to meet the goal, which isn't a good idea.
- Billable time should be defined like this: "if the activity I'm doing on behalf of a client would stop if the client went away, it is billable."
- What's entered should reflect what's really happened, without fudging it up or down to make someone happy. The purpose of a good timekeeping system is not this job, but the next job. It's designed to improve your estimating next time, and that won't happen unless the records are accurate.

- Change the culture, first, and only then consider whether your software is supporting the environment described above. If the culture is appropriate, software solutions are very useful in supporting it. Otherwise they are just extra work. Remember that service businesses like yours made money before software was even a word in our vocabulary.

FOUNDATIONAL QUESTION

But really, why should you track time in the first place? Many of the firms that track time hardly make any money, so there's obviously no direct connection there. And some of the most profitable firms I've seen don't track time, or at least don't take it seriously.

Here's the thing, though -- until you're making a lot of money by submitting ridiculously high estimates with big round numbers, you've got to start with the basics so that your estimating gets better. And while money is the currency of respect in a business setting, timekeeping is the currency of making money until your positioning takes over and obviates the need for it.

CHAPTER 2

SAY GOODBYE TO BILLABLE HOURS

BY Paul Roetzer, PR 20/20

I spent the first six years of my marketing-agency career chasing hourly quotas instead of results. Yes, we cared if the client was happy and successful, but the fundamental economic driving force behind the firm's existence was the billable hour.

I discovered early on that the billable-hour model was a flawed, archaic, agency-centric system that wrongly ties agency performance to outputs, not outcomes. In 2004, four years into my career, I became highly motivated to build a more efficient and profitable solution that shifted the focus to client needs and goals.

The idea was centered on making services tangible, with clearly defined costs, features, and benefits, almost like buying a product off a retail shelf or signing up for a software service. My theory was that if clients understood exactly what they were getting, and agreed ahead of time what it was worth, we could remove the mystery from the equation and focus on delivering value and results.

Transparency would build trust, reduce friction between clients and the agency, and make it simpler to sell services to the mass market. The problem was that the billable-hours model was the only one I had ever known. How would I build an entirely new financial model and productize a service business?

THE ORIGINS OF STANDARDIZED SERVICES AND SET PRICING

My solution was to standardize services, and apply set prices based on a number of variables. In essence, I believed it was possible to achieve economies of scale in the production and delivery of services, much like a manufacturing company does with products. If we could lower the cost of services over time by improving efficiency, then, in theory, we could increase profits, possibly even above industry benchmarks.

“Set prices would enable us to bundle services into packages designed to fit specific market segments, and they would also dramatically reduce time spent building new business and account development proposals.”



Plus, we would be able to make marketing agency services more affordable and effective to the underserved market of small businesses.

The guiding principle was that set prices had to be value based, meaning we would determine them based on perceived and actual value, rather than the number of billable hours something takes to complete.

TIME TRACKING BECOMES EVEN MORE IMPORTANT

In this new model, efficiency and productivity would become the primary profit drivers, and the keys to generating measurable returns for clients. But this value-based pricing model does not eliminate the need for timesheets. In fact, accurate time tracking becomes more essential than ever in order to:

- Monitor efficiency and productivity.
- Analyze employee performance.
- Produce client activity reports.
- Evolve pricing.
- Ensure that future projects are completed on time and on budget.

A number of other agency-management solutions we use offer time-tracking features as part of their products, but we have always preferred FunctionFox. It is intuitive and reliable, and easily scales as new employees and contractors are added to the system. Even though it is designed to accommodate billable hours, we were able to customize it easily to fit our model of service packages and set pricing.

DISRUPTION IS COMING TO MARKETING SERVICES

Pricing strategy is a key component to disruption. Agencies motivated to change will shift away from the inefficient legacy system of billable hours, and move to more results-driven, value-based models. This presents an opportunity for agencies and independent consultants to disrupt the industry with lower prices, and potentially higher profit margins.



“As you move away from standard agency models, you must to be committed to efficiency, productivity and performance.”

That means using accurate time tracking to evolve your services and pricing, assess your firm's performance and forecast workflow based on historical data. Do it right, and your agency can be at the forefront of the coming industry transformation - and way ahead of the competition.

CHAPTER 3

TRACKING HOURS IS NOT ONLY FOR CHARGEBACK ORGANIZATIONS

BY Jackie Schaffer, Cella Consulting

In-house creative service teams with an hourly chargeback model must track their time—often to the quarter-hour increment. The discipline of time tracking can be off-putting for many teams at first, but the advantages of time tracking can't be ignored, and teams generally support the practice once they understand the potential outcomes. The advantages are so great, that it even makes sense for creative service teams who aren't chargeback departments to track project time.

Time tracking can help teams justify staffing decisions and client changes, plan resources, project forecasting models, and. In addition, time tracking provides creative executives with solid quantitative data to use when talking to their manager and CFO in the concrete terms required for business decisions.

CFOs understand supply and demand. If you have 15 print designers and 10 web designers, you have about 37,500 hours of supply (22,500 print; 15,000 web). Supply is determined by the number of work hours in a year (52 weeks * 40 hours per week = 2,080) minus the average number of hours each employee takes in paid time off such as sick days and holidays (I've estimated 25 days at 8 hours = 200 hours), which equals 1,880 hours in the office. But employees aren't working on projects 100% of the time.

There are coffee breaks, water cooler conversations, staff meetings, one-on-one development meetings, and what often seems like a million emails to read. A good productivity goal to aim for is **80%**. When you have acquired enough real data, you will be able to set a more realistic target for your team.

"So, of the 2,080 hours in a work year, your team can be productive for 1,504 ($1,880 * 80\%$)."



Understanding how demand (project hours) matches up against supply is critical, and the only way to properly measure demand is with time tracking. You could look at overtime reports (if applicable) or do a qualitative review of your staff's hours, but these methods aren't accurate because a team member may have worked **10 hours** and only been productive for 6, or they may have been productive for 9—you just don't know. You could also speak to the project backlog (if you track it), but if clients aren't actively complaining about cycle time or taking work to outside vendors, the CFO won't find this information compelling enough to justify increased staffing.

Whereas, if a Creative Executive can go to their CFO with numbers that speak to a demand higher than supply, the Creative Executive will be able to present a logical business case for increased staffing, whether permanent or temporary. Creative Executives should only seek additional permanent staff if they can prove a trend of higher demand; otherwise temporary staff is the appropriate augmentation strategy, as it allows for greater flexibility when demand drops or shifts to another work stream.

Tracking time by activity is helpful as it allows you to understand the shifts in demand within work streams.

Activities tracked should include your department's core functions: production design, graphic design, multimedia design, web design, proofreading, copywriting, project management, etc. If you learn that demand is higher or lower than supply, you need to understand what segment of your demand varies from supply. Are your web designers working 60 hours a week and your production designers taking 5 coffee breaks and leaving 10 minutes early every day? You will only know this if you segment your time tracking by activity. Data collection through activity-based time tracking empowers Creative Executives to make educated business decisions.

For example, when your department experiences a shift in demand from production design to web design, you can plan to hire a web designer when you experience attrition on the production design team. Or if you were lucky enough to secure new funding for a FTE or temporary staff, you will be confident in your decision to hire a web designer. In addition, you will be able to objectively justify your hiring decisions to inquisitive staff members who feel their group should have received the additional staffing. The simplicity or complexity of time tracking can vary based on the group and data collection requirements and desires.



“Time tracking can be done via a project management tool-either an off-the-shelf or custom-built solution-or excel spreadsheets, which allow you to start immediately but require more management and are more limiting.”

If you aren't currently tracking project time, consider starting now. This will allow you to collect a few months worth of data prior to when most budgets lock down and will support your budgeting conversations, whether you are requesting additional staff, temp staff budget, or funds to research, purchase, and implement a project management solution.

CHAPTER 4

747,000 REASONS TO KEEP TRACK OF YOUR TIME

BY Vanessa Edwards, Creative
Performance Inc.

I've had the privilege of engaging over a 100 marketing services organizations (both Agency and Brand) throughout the country, ranging from 10-1,000+ employees, at various rates of growth and stages of maturity. The one thing that binds them together is their ongoing struggle with time tracking... and the multitude of cascading symptoms that poor time keeping creates.

If done properly (and with the correct software solution) timekeeping should give principals a detailed view of what is happening within their agency...not what they "think" is happening. Unfortunately, many agencies are not tracking time in a manner that provides actionable information. Worse, we've found that even among agencies that do track time, very few actually use best practices. Often, their data becomes inconsistent, inaccurate and useless for decision-making.

The only thing worse than not tracking time is tracking time inaccurately, and then making decisions using flawed data. Measuring time properly in your agency will give you three critical things needed to run an organization profitably:

1. Up-To-Date Project Actual Budgets
2. Utilization by Person
 - a) Billable Time, by Person-by-Service
 - b) Non-Billable Time, by Person-by-Service
3. Agency Realization

1 UP-TO-DATE PROJECT ACTUAL BUDGETS

One of the biggest gains from logging time properly is the ability to have up-to-date project actuals for the client services team. This allows them to see when a project is going over budget, and work with clients to get additional budget to complete the project or manage the over-servicing and over-delivering that might be happening from inside the agency, that has caused this project to go off-track.

“For small agencies this can be done manually by comparing basic time tracking software to manual excel budgets...”



However, with agencies over 10 people I highly recommend a software that can track estimates, budgets and actuals by both service (the rate you charge i.e., graphic design or project management) AND task (the phase of the project you are currently in i.e., discovery, concepting, production).

This additional insight is critical for empowering client services teams to catch scope creep in each phase of a project vs. just by overall project budget.

Workamajig and Advantage are great software solutions for this type of project management and timekeeping. *QuickBooks is not a sufficient time-tracking tool above 10 people*, and getting updated and accurate actuals from Accounting in a timely fashion is usually unlikely.

2 UTILIZATION BY PERSON

Utilizations are a critical piece to understanding how your agency is operating on the inside. People's time should be broken down between billable and non-billable services.

Most agencies have 20-50 billable and non-billable functional codes.

The more capabilities your agency has, the larger the functional code list. A capability-niched agency might only have 15 codes whereas a full service agency will likely have over 50. Some software solutions call these codes services (Workamajig) and some call them tasks (FunctionFox), but at the end of the day it is simply the function completed by an employee that is connected to a rate that you charge the client.

Believe it or not, it's just as critical to track non-billable functional codes as it is to track billable functional codes. For agencies that are tracking non-billable time, they're usually doing it in a single admin bucket, meaning there is no way to tell what any of the actual time is for. Most billable employees should have no more than 1-1.5 hours a day in admin, which would include non-billable company staff meetings, non-client related emails, and timesheet entry.



“You can only expect an employee to be 80%-90% billable if they are not participating in any other non-billable functions.”

There are other non-billable tasks that keep employees from being billable that should be measured like HR and Management time, Business Development or Marketing time, as well as IP Development for your own agency.

3 AGENCY REALIZATION

Agency realization is comparing the amount of billable time logged by your employees to the actual fee dollar amount that gets billed to the client. Agency realization is probably the biggest factor adding to low profitability in agencies and is often the result of broken workflow processes throughout the agency.

These agencies tend to have extremely high workloads amongst their teams; however, many are fighting just to stay profitable. How is this possible? Agency realization is usually the key in these situations and is an indicator of low effective hourly rates. Meaning, you may indeed have high billable utilizations, but many of those billable hours are not actually getting billed to the client (thus giving you a lower effective hourly rate).

Poor realizations are usually a sign of:

- a) Over-servicing and over-delivering by agency employees
- b) Not issuing change order to clients
- c) Taking on projects outside an agency's core capabilities
- d) Principals/business development "investing" in a client by doing more work than is agreed to in the SOW (or by giving an unearned discount)

Tracking time correctly can help you identify which of these issues you might be facing. Over-serving and over-delivering is by far the most likely offender in most agencies. Many agencies have a culture where they will always deliver filet mignon steak even if a client is only willing to pay for a cheeseburger. It is critical for these firms to begin selecting clients that want and will pay for filet; otherwise they will continuously find themselves wrestling with realization and profitability challenges.

In order to measure your realization (at a detailed level) it is critical to have an integrated accounting and project management software.

“Once an agency hits 25 people, this type of integrated measurement and reporting tool is critical to managing profitable growth.”



Smaller firms experiencing explosive growth should consider investing earlier than 25 people to make sure they are making the right decisions for growth based on accurate data.

HOW IS TIMEKEEPING DONE PROPERLY?

SETTING UP YOUR SERVICES

As we mentioned above, it is critical to know what services/functional codes people are doing in order to effectively manage your agency to profit. This being the case, it is critical you take some time to set up your services/functional codes properly. The goal of setting up your services is to make sure you can effectively measure the duties that require different skill sets so they can then be managed properly.

A great example is that of a blended role client services person. It is valuable to know how much time this person is spending managing budgets and timelines vs. attempting to upsell and cross-sell their clients. Since these two things fall into different roles, it is easy to separate them into different functional codes, e.g. Account Management and Project Management.

However, it is not as clear when separating things like graphic design and production design. It is less important that you follow industry best practices, but that you apply your rules consistently.

What if you discovered your Art Director is getting bogged down doing production design instead of providing creative guidance to your designers and clients? This information allows you to either rearrange workloads or potentially hire someone to take the junior work off of your Art Director's plate. Either way, you now have the data to be able to make the right decision for your agency.

Also, I encourage you to have a set of service/functional codes for each department, and that they be connected to a specific rate.



“Having a blended rate or separate rates for each code doesn't necessarily matter.”

You might even have a special set of rates for certain clients who do significant amounts of business with your agency. Your services and rates should be based on the complexity of the work, not necessarily on the seniority of the person doing the task. You can't possibly charge your client Creative Direction service rates even if your creative director is the one doing the production design work!

ROLLING TIMEKEEPING OUT TO YOUR TEAM

Whether you are starting from scratch or just rolling out a few more services/functional codes, it is critical here to remind people that timekeeping is how agencies not only survive but also flourish.

You will never know how profitable you are, or how profitable you could be, unless you measure both non-billable and billable time in your agency.

Remind people that this isn't about micro-managing them, its about making sure they are servicing their clients properly and not over-servicing, over-delivering or burning people out. Remind them that the profit goes back into the company (in many forms) and it's even a good idea to consider both a carrot and a stick option for compliance with timekeeping.

But remember: if you will never fire talent over timekeeping don't pretend you will. It only makes principals look bad when employees don't comply and never get fired.

REMEMBER THE TOP 3 TENETS OF GOOD TIMEKEEPING

Whether you are starting from scratch or just rolling out a few more services/functional codes, it is critical here to remind people that timekeeping is how agencies not only survive but also flourish.

- 1.** Employees must fill out their timesheets every day. If they don't, it's impossible to accurately record what they actually worked on, and you won't gain accurate data to make informed decisions.
- 2.** Always log what you are doing, NOT what your title is. It is critical to know what employees are actually doing, not what you thought you hired them to do. Maybe your expensive Creative Director is doing production design... or so much HR management that they can't stay billable. Also, it's vital to let employees know that measuring time is not a punishment; rather it is a tool to manage burnout, onboard needed skill sets and to protect your culture.
- 3.** Enter your ACTUAL time worked, not a rounded up/down figure. It is critical to have people log their exact hours every day vs. a rounded up/down figure. This allows managers/principals to manage employee burnout and know whether their agency is running too bloated to stay profitable, or too lean to keep a healthy culture.

HOW MUCH CAN PROPER TIMEKEEPING CHANGE MY AGENCY?

It is often easy for a principal or executive to see their team's utilizations by just spending time on the floor and seeing how busy everyone is. Unfortunately, agency realization is not something you can see easily and, as discussed before, is the culprit for most agencies lack of profitability. In order to determine what you could gain as an agency from accurate timekeeping, let's take a rough SWAG at calculating your billable realization.

Most agencies have a 60-80% average realization of all billable employees. Meaning, an agency is unable to bill for 20-40% of all employees billable work!


In order to determine what you could gain as an agency from accurate timekeeping, let's take a rough SWAG at calculating your billable realization.

Make a list of all the billable employees in your firm. In the column next to their name put their average billable utilization rate. If you aren't currently tracking time you will just have to take a guess based on how busy they have been working on client projects on average over the year.

Multiply each person's average billable rate by the total available yearly hours **1,880**, (taking out vacation and holidays), and then by their average billable hourly rate. You should get the total revenue number that should have been billed to clients for this person's work. Then multiply this number by **20%** in one column and **40%** in another column. Total each column (both low and high estimates) to see how much your agency has to gain in profit in one year from effectively managing operations and timekeeping.

Billable Employees	Average Billable %	Billable Hours Per-Year	Average Billable Rate	Total Fee Income	Average Loss of 20%	Average Loss of 40%
Julia Jetson	75%	1,880	\$200	\$282,000	\$56,400	\$112,800
Bridget Barley	50%	1,880	\$200	\$188,000	\$37,600	\$75,200
Mike Maddox	85%	1,880	\$125	\$199,750	\$39,950	\$79,900
George Grumman	50%	1,880	\$125	\$117,500	\$23,500	\$47,000
Murphy Mendel	75%	1,880	\$150	\$211,500	\$42,300	\$84,600
Doug Daisy	75%	1,880	\$125	\$176,250	\$35,250	\$70,500
John Jennings	50%	1,880	\$150	\$141,000	\$28,200	\$56,400
Paul Pilates	85%	1,880	\$125	\$199,750	\$39,950	\$79,900
Gina Getty	50%	1,880	\$150	\$141,000	\$28,200	\$56,400
Janet Jackson	75%	1,880	\$150	\$211,500	\$42,300	\$84,600
				\$1,868,250	\$373,650	\$747,300

As you can see above, this agency could potentially add **\$747,000** to profit in one year by managing to their realizations, not by working people harder!



Unfortunately, timekeeping has become a dirty word in agencies because it has always centered around working people harder instead of focusing on capturing the work people are already doing. A simple change in perspective with the right measurement tools allows principals to finally find the balance between the time needed by creatives to do award-winning design and an organization's need for profitability to create a stable environment for growth.

ABOUT FUNCTIONFOX

FunctionFox timesheet and project management software was created by an ad agency for creative professionals, advertising agencies, and in-house creative teams. Simple and powerful, it has more than 100,000 users in graphic design, advertising, marketing, multimedia, and public relations, and is ranked number one in North America. This intuitive, web-based system helps boost productivity, improve communication, reduce admin time, and increase profitability for users in more than 120 countries.

Get your FREE Demo at www.functionfox.com/demo

Two creatives starting an agency has one major point of fear—organization. While we fall on the type-A side of the spectrum, we weren't used to handling all project management and billing on our own.

Then, one day, FunctionFox popped into our lives. Cliché though it may sound, it changed everything. Invoices were created, projects were managed, and timesheets were properly kept without the use of spreadsheets or sticky notes. Thanks to FunctionFox, will never return to the land of horrible little spreadsheet squares.

- CARA MOYLE - PAPER LAUNDRY