How to Build an Agency: What We Wish Someone Had Written Years Ago

ABSTRACT What does it take to build a national public relations agency in a deeply competitive industry and a recessionary environment? David Kaiser, in collaboration with Anne Lachance and Dan Madge, provides his insights on how to be a successful entrepreneur through the lens of his personal experiences of co-founding an agency in Toronto, Canada. Founded in 2011, Kaiser Lachance Communications Inc. today is a rapidly growing firm that offers a full suite of strategic communications services across a wide range of sectors and practice areas. According to the principals that started the firm, the three necessary components for being entrepreneurial are “having the knowledge, finances and confidence to take a substantial but calculated risk to exploit an opportunity.”

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The “Antecedent Conditions”

The life of PR practitioners is stressful. In fact, it ranks number five on the CareerCast.com’s 2013 Jobs Rated list of the world’s most stressful jobs (right behind roles in the armed forces, firefighters, and commercial airline pilots). The pace is frenetic, the clients challenge you to be better every day, and the sheer volume and complexity of work requires you to put your career in the hands of your colleagues. But the rewards are incredible and to see imagination unleashed is inspiring. The golden rule of creativity – do not criticize, build upon – is sacrosanct in an agency. This can be liberating when compared to a more conservative corporate environment.

“Big agencies,” the few dominant global players represent the top of the PR food chain. They have competitive advantages that smaller firms do not enjoy. By joining a large firm, a consultant can immediately gain credibility and leverage off of a strong reputation. Although there appears to be a trend in favor of boutique firms, clients generally still feel comfortable employing a well-known brand as an adviser. Big agencies enjoy economies of both scale and scope. With hundreds or thousands of employees, larger firms can spread costs such as marketing, technology, human resources, finance and administration expenses over a much larger base. And by offering each client a wide range of services, they can drive revenue growth with little added costs. Finally, large firms have diversified client risk. Individual client wins and losses have less of an impact upon the operations of a large firm than they have on a firm with few clients.

The competitive environment for all agencies deteriorated dramatically beginning in 2008 as the world transitioned from credit crisis to global recession. Advertising, PR and government relations budgets were cut in that order. And under this kind of pressure, flaws appear in any business model. The challenge faced by big agencies is their lack of flexibility. Larger agencies are managed by a central parent company, and tend to make sweeping decisions on process, staffing levels and compensation based upon the environment they face as a whole – and can be challenged to meet the needs of the individual practice groups or offices. The problems that arise are obvious yet difficult to avoid. A Chicago-based financial services team requiring additional resources to service a client would find it difficult to use an under-employed healthcare team member in Dallas. Restrictions on compensation are needed to weather the tough times, and it becomes difficult to reward consultants operating in healthy practice groups and offices. Smaller agencies are more nimble and can avoid the problems rigidity poses.

Small independent shops have an additional advantage as they control their own margins. Most large agencies are part of a conglomerate and have to contribute to the parent’s income. Individual owners by contrast can redistribute profits through ad hoc compensation, investing in infrastructure, hiring new staff and taking other risks that either improve morale or foster growth.

The opportunity lies in finding a model between these two extremes. A new firm striking a balance between big agency experience and a boutique feel should attract staff and clients alike.

A New Firm

At the heart of being entrepreneurial, is having the knowledge, finances and confidence to take a substantial but calculated risk to exploit an opportunity. In the case of founding Kaiser Lachance Communications Inc. (“Kaiser Lachance”), the principals had all three components needed to build an agency that took advantage of the gap between the personal touch of a small firm and the credibility and gravitas of a global PR firm. The next step was to determine how to launch and grow the business, and how to deal with the principle challenges:

- The first concern of a new enterprise is always sales, and as a corollary the last desire is to spend ahead of growth. But growth requires investment, and to wait for it prior to making a commitment to the vision of the business ensures you will never achieve it.
- People are the foundation for any quality PR and communications firm. This is not a soft motherhood-type of statement. In most industries, a salesperson sells a product, a customer service representative ensures client satisfaction, and the product delivers against its promised benefits. In this industry, PR practitioners are all three. In the first few months of operations, the biggest challenge was finding great talented partners to help with the work, not in selling services (in contrast to the bullet above). It rapidly became apparent that if the talent is there, the work would come.
- No one looks up “PR adviser” in the Yellow Pages. This industry is driven by reputation and relationships. Any professional services plan can have a marketing strategy, but it will be more important to look at emergent strategy and revising plans accordingly. As an example, Kaiser Lachance has an expertise in corporate, financial and transactional communications. The first client engaged the firm based upon personal relationships and the initial work (the first “stake in the ground”) was in big retail. In
building the team, the agency became known for change management, internal communications and marketing communications. This experience built internal capabilities and drove the firm in a new and unanticipated direction.

- Compensation for start-ups and partnering models for growing firms are a constant topic of conversation. As a new firm, with a very clear focus on people and a desire to build a business that rewards all employees and attracts senior-level talent, ownership structure can be an issue. It is not uncommon in this business to be approached by strategic investors for equity partnerships and there has to be some forethought given to these situations.

- The paradox of improving performance is that people are adverse to receiving negative feedback, but that is the only way to learn and reduce the probability of receiving negative feedback. As a consultant, getting unedited critical commentary is paramount to delivering exceptional results for clients, building a solid reputation for the firm and generating new business.

Acknowledging these issues allowed the firm to develop a set of “first principles” upon which any decision-maker could rely on for guidance. The five Kaiser Lachance tenets are as follows:

1. Assume growth: make decisions based upon where we expect to be, not where we are
2. Put employees first: happy employees make happy clients; happy clients grow the business
3. Be flexible: follow the plan, but seize opportunities as they present themselves
4. No equity: use creative methods to partner and compensate, but restrict equity participation
5. Pursue feedback: from employees, customers, and lost pitches

Finally, the agency needs to figure out what it wants to be. There are many happy PR consultants that work alone or in small teams for select clients with whom they have had long relationships. That is not the plan for Kaiser Lachance. The agency’s stated corporate goal is “to create a pan-Canadian multi-disciplinary service communications agency, recognized by clients as having the top talent in the industry and by practitioners as the most desirable place to work.”

Now that the agency has focused inward, it is ready to look outward.

The Market Opportunity

One of the fundamental truths of branding is that if you claim to do everything, you sound like you do nothing. As mentioned above, the founders of Kaiser Lachance had both broad skills in areas like corporate communications and internal communications but expertise in niches such as financial and transactional communications. In Figure 1 below, Kaiser Lachance maps out skills required, or anticipated to be needed, by clients in Year One, plotting them on a matrix examining broad versus narrow mandates and core versus non-core focus.

So the question is where to start. Does a firm brand itself in a niche role and risk losing consideration on a wide range of mandates, or does it go after anything and lose its sense of identity? Rifle or shotgun?

The answer of course lies with the anchor client. The number one way a start-up mitigates risk is to have a client lined up who is willing to work with a new agency (but not unknown practitioners). An anchor client is usually identified prior to the official agency launch, as it represents the foundation for future operations. And while the consultants need to ensure the anchor client is getting the best possible service, it is equally important to win new accounts quickly to diversify away the “single client risk.”

Unfortunately, this typically involves the attempt to poach clients (and staff) from a previous employer. Beyond the ethics involved, this approach is fraught with legal peril and should be avoided. As clients and colleagues reach out to the new firm independently, each situation can be judged individually. Courts appear to favour freedom of mobility over restrictive employment contracts, but even winning a legal battle is costly and distracting.
A firm’s first engagements are likely to be in the top right quadrant in the matrix above, winning narrow mandates based upon its core set of expertise. In the case of Kaiser Lachance, the firm was first engaged to assist a large retailer with a new CEO who wanted to ensure he developed a solid relationship with business and financial media. Engagements that followed included media relations for a well-known financial entrepreneur, crisis communications and change management for a retail design firm, investor relations for a mutual fund company and onsite support for an insurance company.

Once the firm has established a strong foothold in the first quadrant, it can move horizontally into the upper left quadrant. Winning broader (and often larger) mandates is usually done by expanding consultants’ roles within their current client base. In regards to the retail client mentioned above, Kaiser Lachance’s media relations support required close work with executives and internal communications staff. When the company laid out plans for an overhaul of its business, including restructuring its operations, it was able to leverage the agency’s niche success across enterprise-wide engagements including internal communications, investor relations and marketing communications projects. Not only was the firm able to provide a wider set of services and grow its staff base, but it gained credibility and was able to win larger projects with new clients.

Once a firm is solidly in the upper left quadrant, it is relatively easy to move down and across into the two remaining areas, broad and narrow non-core mandates. Expanding from narrow specific roles into broad engagements is much more difficult than finding ways to deliver value in less familiar territory once the consultants have earned their position as central trusted advisors. A solid position in the upper left quadrant allowed Kaiser Lachance to deliver on large and small mandates including social media, technology, graphic and website design, and government relations.

The problem to solve as the agency moves counterclockwise through the matrix is how to find the best people for the incremental work. The solution lies in the ability of management to use a well-established network in order to build virtual teams. Narrow core mandates (in the upper right quadrant) require the attention and commitment of internal agency staff. These are exactly the types of jobs those individuals are trained for and the margin contribution of internally staffed projects is always higher than those requiring outsourcing. The first operating tenet articulated above was “assume growth and make decisions based upon where we expect to be, not where we are.”

Broad non-core mandates (in the lower left quadrant) are often served by engaging qualified partners. Servicing clients here often requires both skills and manpower not imbedded in the new and smaller firm. By acting as a “general contractor” an agency can maintain its central role and deliver consistent and integrated communications solutions to its clients. At the outset, Kaiser Lachance had identified and connected with great industry partners all at the top of their game, in anticipation of the need to draw on additional pools of talent and expertise. Not only can an agency get specific skills and geographic coverage, but it also has the advantage of working with partners it knows, respects, trusts, and who like each other. One such partner used a particularly eloquent metaphor: “Leaving big agency is a little like dying; it is intimidating and uncomfortable but on the other side are all of the people you used to know but have lost over time.” PR is a close community, and professionals in this field have large networks, whether or not they realize it.

Staffing decisions related to the two shoulder boxes, broad core and narrow non-core (upper left quadrant and lower right quadrant respectively) should be made based upon the reliability and duration of the engagements. Virtual teams allow a firm to manage growth at the margin by adding capacity without the lumpiness of full-time hires (it is hard to hire onequarter of a person) or the need to cut back if work in these areas falls off (downsizing is devastating to morale). A core large mandate expected to last is a great reason to build the team, as new hires can take on the new work and will give management an opportunity to rebalance workloads. A small non-core mandate expected to last gives the firm a low-risk way to expand into new areas. For project-based work without expectation of renewal, contractors fit the bill best.

Managing the Bench

Every PR firm addresses the issue of trying to help employees maintain a work/life balance, but few appear to make it work. Every manager knows that increasing fees billed without increasing salaries paid will result in increased profits. This motivation, compounded by the fact that energetic and enthusiastic employees will continue to push themselves and deliver as needed for clients and the agency when asked, will often result in a busy, profitable, but wholly unsustainable work environment. The relationship between productivity and workload and the concept of “potential productivity” is illustrated in Figure 2 below.
Potential productivity is the sustainable volume of quality client work a firm is able to deliver with a given complement of staff. When a team is underemployed, members will focus on new business and networking with the goal of reaching and attaining a healthy billable workload (position A above). At this level, each team member is working on mandates that match his or her skill set, at a pace that is fast but manageable and enjoyable, and clients are getting smart counsel. Consultants have time to really think about their clients, and to complete the administrative work needed to support the business. And with the right number of mandates, consultants can focus on a single mandate for a meaningful period of time, and transition between projects smoothly with minimal stress and loss of time. Operating with a healthy workload feels good.

In a business like PR, good work gets more work. And the additional work is often lumpy. M&A or transactional work for example is incredibly labour-intensive and demands a rare combination of skills – financial acumen, knowledge of legal and regulatory requirements, strong writing skills, comfort with the media and the ability to manage the logistics of a project that is constantly evolving. But these types of mandates are fixed in duration, and do not always lead to ongoing relationships.

In these “temporary” operating environments, like project work or new and uncertain client engagements, management is understandably wary about staffing up. Project leads have the natural tendency to staff accounts with team members they know and trust, and do not have time to recruit for new staff before the work begins. This results in team members operating at levels in excess of potential productivity. At peak productivity (position B above) the team is stretched to its capacity but can deliver great results for a short period of time. This situation is very profitable for a firm, and perfectly acceptable in short bursts.

The cracks begin to appear when a team operates above potential productivity for a prolonged period of time. There may be a number of reasons for not recruiting to staff the new workload. The most common reason is there is a reluctance to believe the new level of work will last. The nature of the projects feel temporary, the economy is recovering from a recession (and a firm may be gun-shy and slow to hire) or there is a shortage of talent on the market. The teams will quickly slide down the curve (to position C above) and hit the same level of productivity as a healthy team, but with much higher workloads.

In the new fragmented work environment consultants tend to “spin.” They lose focus, find it difficult to concentrate on single tasks, lose the ability to allocate their time properly and prioritize work, and spend time thinking (and complaining) about all of the work that needs to be done rather than doing it. Client teams can become too large, as everyone tries to help everyone else. Administrative tasks fall by the wayside, and this has the compounding effect of making it difficult for management to understand what happened. From management’s perspective, work is getting done but employees are inexplicably disgruntled. There is minimal effort being put to business development, and with no imminent new work, management is even more reluctant to hire.

The only way to break this is for management to realize they have forced higher workloads on staff without productivity gains (management needs to recognize they are at position C and not position A above). In the short-term, management needs to regroup and re-assign consultants to create tighter client teams. Fewer people on fewer accounts reduces “spinning.” By having smaller teams concentrate on their specific accounts, management can reduce the time consultants spend on time-management and increase the time consultants can give to billable work that clients value. In the long-term (and hopefully not-too-distant future) hiring staff can bring workloads and productivity back into balance.

The Cash Flow Gap

Understanding the market opportunity, selecting the competitive position the firm is capable of occupying, finding new clients, staffing the firm with the right numbers and establishing the optimal structure are all core components to operating successfully. However understanding accounting is imperative to provide the insight required to measure and manage the business. It is easy to oversimplify the financial underpinnings of the business. By generating more top-line revenue (consulting fees) than expenses incurred (salaries, rent,
office costs, financing costs and taxes), a firm creates profits (also called net income or earnings). What this model fails to take into consideration is the timing of the cash flow cycle.

Net income is for owners; cash flow is for operators. Figure 3 below illustrates a typical cash flow cycle. Balancing the needs of the business against financial constraints, paying staff and suppliers in a timely manner, building the basic infrastructure and managing clients through to collection of receivables requires a deft touch.

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Costs can be divided into three categories: employees, operating expenses and capital costs. Employees are typically paid on a semi-monthly schedule, and are relatively stable amounts. When budgeting for employee costs it is important to consider expenses above base salaries and bonuses. A good rule of thumb for estimating the cost of an additional employee is to add one-third of total target income to account for benefits, taxes and office and equipment costs.

Operating expenses can be divided into fixed and variable expenses. Fixed expenses such as rent and utilities are set amounts and more affordable when divided over more customers and more activities. Variable expenses are those that rise and fall proportionally with work levels and can include costs like office supplies, printing and travel, some of which may be reimbursable expenses covered by clients.

Capital costs are those that contribute to the infrastructure of the company such as computers, printers and furniture. While these require an outlay of cash, they are not viewed as expenses as the value of the purchases remain on the balance sheet as assets. The cost of these purchases only hits the bottom line as the drop in value over the period is recorded as depreciation.

While the firm has been paying these costs, consultants have been working and generating fees against clients and mandates. Either periodically or at the completion of projects, the firm turns work completed into invoices and accounts receivable. This is the mechanism by which work is translated to revenue. Consultants often balk at administrative work such as budgeting, time entry, worksheet review and invoicing, but every member of the firm needs to understand the importance of accuracy and timeliness of this process. Between recognition of the revenue and the profit it drives, and access to the ending cash lies in collections. Mistakes and procrastination in issuing invoices, delays from the client-side in processing payments, the need for currency conversion and generous payment terms can all cause delays in the collection of fees.

Incurring expenses before recognizing revenue, the treatment of capital costs as assets, and the lag between the completion of a billing cycle and the actual receipt of payments all contribute to the cash flow gap illustrated in Figure 4 below.

Assuming the firm has an anchor client and staff to deliver services, a PR firm can be profitable right out of the gate. If the principals are willing to sacrifice salaries and amenities in the early going, the profit margins are exaggerated and can be very high indeed. While it may be modest, start-up capital will be required to pay for the expenses outlined above during the first complete cash flow cycle, and net income may be positive.
even if cash flow is negative. Even as payments come in and cash flow is positive, net income will continue to lead cash flow. And what operators soon discover is that in a growing company, the cash flow gap will continue to increase. Costs will rise as the size of the business grows, while higher revenues will result in increasing amounts of money being trapped in accounts receivable. The management team needs to remain diligent to reduce the likelihood of getting behind in the cycle, by asking for up-front retainers and negotiating favourable payment terms, working with client procurement teams to ensure compliance with processes, encouraging vendors to bill clients directly and tracking down late payments politely and quickly.

Summary

In many ways operating a business is like flying an airplane; it is a rewarding endeavour, requiring education, discipline and rigor, intense planning, and the ability to keep an eye on the big picture while paying attention to a myriad of fine details. And like flying an airplane, one really learns how to operate in a small intimate environment. When flying personal aircraft every action you take will cause a considerable, immediate and sometimes violent reaction.

It is the same with small PR agencies. The consequences of decisions are felt in real time and have an exaggerated effect on the business. It is different with large agencies – with the heft of their balance sheets and client rosters, a mistake here and there can go almost unnoticed. Losing one client of 50 is an annoyance but quickly replaced and forgotten at a large agency. This is not true when you only have five or ten clients – the dent in revenue puts a squeeze on a small agency’s cash flow and its ability to handle fixed costs.

But as daunting as it may seem, building and growing a small PR agency can be an incredibly rewarding experience. You have the freedom to run it your way – go after the best clients, bring in staff that are accomplished and fit your corporate vision, and invest in the business according to your personal strategy and principles. And it is incredibly fulfilling to see your own business grow, and to share in the excitement that radiates through your team because they feel like they’re part of something special.

about the AUTHORS

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David combines his financial acumen and communications expertise as one of Canada’s leading financial and corporate communication advisors. His clients rely on his skill as a communicator to deliver on transactional communications, strategic business positioning, issues and crisis management, as well as both internal and investor communications. He works with companies and organizations across sectors and with regional, national and international operations.

Previously, at a leading global communications consultancy, David was a Senior Vice President, Partner, and Global Co-Chair for the Financial Services Practice Group. David has worked on high-profile transactions, including IPIC’s acquisition of Nova Chemicals, Cliff’s acquisition of Consolidated Thompson, PotashCorp’s successful defense of BHP’s hostile bid, Brookfield’s purchase of Prudential’s real estate assets, and the sale of MLSE by the Ontario Teachers’ Pension Plan.

Prior to this David spent six years with Toronto Stock Exchange and TSX Venture Exchange. During the commodities boom, David was responsible for developing the Exchanges’ mining and oil & gas listings business. David often spoke publicly on behalf of the exchanges, and was interviewed by television, radio, and print media.

David has served on the boards of the Ontario Chapter of the Canadian Investor Relations Institute and the Canadian Society of Corporate Secretaries.

David completed his MBA at Rotman School of Management, University of Toronto in 2000. He has also completed the Canadian Securities Course (Honours) and the London Metal Exchange Hedging with Futures Course.
ANNE LACHANCE  
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Anne is recognized as one of Canada’s leading corporate and financial communications practitioners having spent the past 25 years advising companies in Canada and internationally on important strategic business and reputation communications issues.

Anne’s experience includes executive training, strategic positioning, crisis management, corporate brand and reputation, corporate social responsibility, and marketing communications advising a wide range of companies and organizations.

Prior to founding Kaiser Lachance, Anne was a senior partner at a leading global full-service communications firm where she founded and led the Canadian Financial and Investor Communications practice while also serving as co-chair for this global practice group.

Anne is active in the financial community, currently serving on the Investment Industry Association of Canada’s (IIAC) Member Services Committee. In addition, she is a long-standing member of the Canadian Investor Relations Institute (CIRI). Over the years, Anne has published a number of articles in industry publications and has been a speaker at various industry events.

She studied business at Champlain College and McGill University and completed the Canadian Securities Course with honours.

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Dan Madge is based in Toronto and has more than eight years of experience in financial and corporate communications, media relations, transactions, government relations, and issues and crisis management.

He has worked on communications campaigns for numerous Canadian and international brands.

At Kaiser Lachance Communications Dan has a wide range of responsibilities, including working with clients to advance their communication goals, developing corporate communication plans and materials, execution of local and national media relations, and managing and mentoring junior staff.

Prior to joining Kaiser Lachance Communications, Dan spent six years at a leading global communications firm, spending time in its Ottawa and Toronto offices. During his four years in the Financial Services Practice Group, Dan was instrumental in planning and implementing profile-building campaigns for a number of senior executives. Dan has worked on high-profile transactions, including the award-winning communications campaign to support the sale of Maple Leaf Sports and Entertainment by the Ontario Teachers’ Pension Plan.

Dan is known for his aptitude in writing and is relied on to write speeches, press releases, key messages, internal communications, issues briefs and other communication materials. He brings together advanced writing abilities and strong financial knowledge to create concise and clear copy.

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