

ReCourses White Paper

A Dozen Common Mistakes

The reason firms fail is not creativity, location, or the marketplace. It's management ability. Your firm is a direct reflection of you, and you must take responsibility for it. Here are the most common 12 mistakes we see creative service firms make. If you are managing a firm now, you'll identify immediately. If you are an employee, this might give you some context for the decisions you may not agree with. If you are considering starting a company, this will help you learn from the mistakes of others.

#01—Rely on Referrals

Enough good work does not come from two traditional sources: referrals and repeat business, but rather from new leads. The problem with referrals and repeat business in a growing, changing firm is that a prospect's perception of you will not keep pace with reality. Many firms look for work. Some look for work that pays. Few look for work that pays...and that they enjoy.

#02—Use Wrong Positioning

Most imply (though they seldom say): "If you come to us, we'll do it quick, cheap, and you'll get to work directly with a principal." Instead, emphasize (in descending order of importance): category experience; a defined, proprietary process; strategic focus; leadership; and that you are fun to work with. It's about generating stuff that works, and if it looks good, it's gotta look good because looking good works. Results are too measurable anymore to get away with decoration and/or sloppy work, whether it's PR, advertising, or design.

#03—Stay a Generalist

Specialization occurs in every area of life. We stay a generalist, not because the marketplace demands it, but because we get bored easily and because we don't have a marketing plan and thus feel compelled to cast the net wide. Firms that specialize thrive, especially in larger cities. We can focus in up to two areas (in terms of our own mental capacity). In cities that will be two specialties. In rural areas that will mean a general local provider, and a niche regional provider. What will this do? It will make it easier to find business, to service it without learning on the job, and to find employees.

#04—Feed Gorilla Clients

It's unsafe to have any client larger than 35% of your business. Our studies show that it's difficult to recover from the loss of any client larger than that. (It doesn't matter if you have different contacts in other departments.) And client relationships are now shorter and shorter every year (less than 3 years for the average client relationship). If you have a large client, be honest; have a marketing emergency folder; set aside 3 months of overhead; have a maintenance marketing plan in place for at least 6 months; and job work out, retaining account service and creative direction. You can borrow money, but you can't borrow marketing.

#05—Misunderstand Growth

Smaller can be better, based on what you want. Firms with fewer than 10 employees achieve 16% more billings per employee than larger firms. Probably because of more management scrutiny. Net profit, however, is lower with smaller firms, since it is spread across a smaller employer base. But what is "small" or "big"? Without good systems, more than 5 employees per principal or senior manager will "feel" big. What it comes down to is what you want to do. And that can change over time. When you started, you did everything. Though you whined about it, there was a secret adrenaline rush....which translated into a learned significance.

#06—Hire to Delegate To

So...you get really busy, and you have more than you can do. You hire people to delegate to. That moves the upside down funnel higher, and you become even more of a bottle neck. In the process, you want people to implement your ideas. You judge work instead of shape it. In effect, you are working "in" your business instead of "on" it.

#07—Manage for Significance

Hiring all these people doesn't solve the problem, and you are still too busy. You learn to be important because you can do everything. You are forced to peel off areas of significance and re-learn your role. If you continue struggling, you'll likely refuse to put things in writing, insist on seeing everything in the shop, steal the credit, and manage for loyalty, not results. If this carries over into client relationships, you won't be effective because you'll take on assignments with hopeless budgets and schedules to be the white knight. In effect you'll be looking for acceptance from clients instead of a fighting for a strong direction.

#08—Think Employees are Entrepreneurs

One of the reasons you left the big firm to start your own was because you hated structure. So you vow to avoid all those stupid rules. One day you begin to realize, though, that many of those rules have a purpose. And that the people who work for you aren't entrepreneurs. If they were, they'd be starting their own firms. Employees usually always want more structure, communication, job descriptions, regular reviews, etc.

#09—Ignore Production/Traffic Issues

Having more than 5 employees per principal/senior manager will feel big unless you have good systems. Without them, you'll be unable to do a mind dump. The best systems have centralized responsibility for budget and schedule. Most firms are deadline-based vs. management based, and as a result they bill for only a portion of their time because it's not as important as meeting the deadlines.

#10—Spend your Way into Prosperity

More than 90% of those making lots of money have no fixed obligations (leases, loans, or credit card balances) for depreciating assets. In a small service company, there is no separation between how a principal views money and how money is used in the business, and that can spell trouble. Is cash the best filter for acquiring a depreciating asset? It may apply the brakes for companies who are growing too quickly. And the act of spending cash makes it less likely that you'll acquire more than you need.

#11—React Slowly to a Downturn

Entrepreneurs are optimistic to a fault and believe that hard work can solve anything. They also react slowly, like a deer in the headlights. In a downturn, it's tempting to let "admin" people go first because they aren't viewed as income producing. Unfortunately, they are the toughest to train, and the hardest to find freelance. Regardless, it seldom makes sense to use other's money.

#12—Count on Selling Your Firm

It doesn't usually happen. Often the likely buyer is someone in your firm with no money, who wants to use your money to buy you out. If you want to sell, institutionalize your firm. In the process, build a strong retirement fund, assuming you won't sell it.

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