



THE
DIGITAL AGENCY GUIDE
TO **BUSINESS ACCOUNTING**



Designers, developers and digital innovators collectively represent one of the fastest-growing business segments in America today. They create brands, build websites, deliver marketing campaigns and invent software. And they don't really fit into an easily identifiable category. Alternately referring to themselves as agencies, firms, studios or groups, they are professional services businesses that don't sell retail goods, hold physical inventory or rely on a conventional manufacturing process.

By subverting the classic advertising agency structure and largely ignoring the organizational principles of traditional technology companies, modern digital agencies have found huge profits and exciting culture and creativity benefits. But in doing so, many have failed to modernize or even really manage their bookkeeping and accounting. The typical digital agency struggles with past due accounts, is penalized for basic tax filing errors and utterly fails to leverage the strategic power of their own balance sheets.

In part, that's because they fall victim to all the same traps and misconceptions as any start-up or small business venture. It's also because they often don't identify as part of a particular industry or collective where best practices are codified and shared.

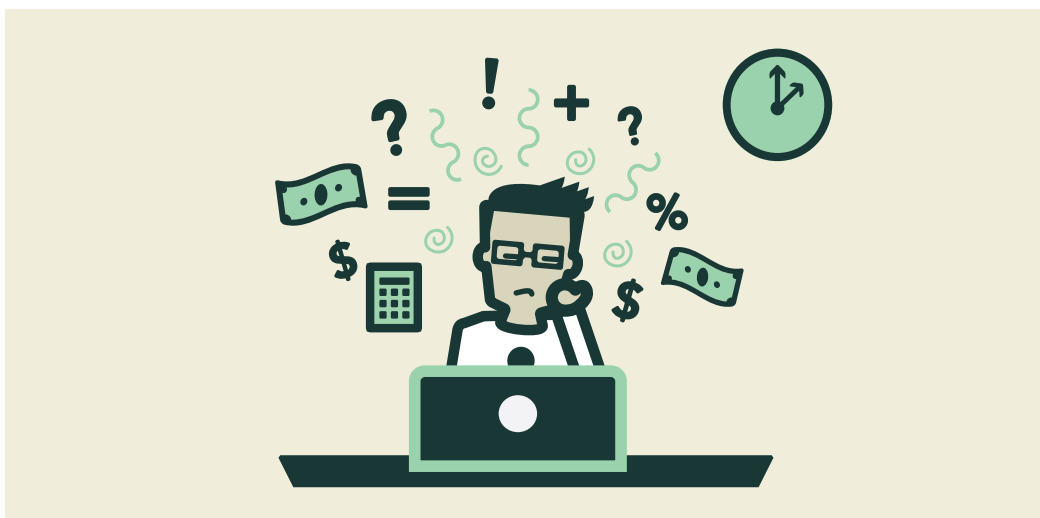
At Accountfully, we believe that accounting is an important and necessary piece of every company's strategic framework – including digital agencies. Accounting is more than balancing books and making sure you're ready for next year's taxes. It's planning for future growth and success.

According to the US Small Business Administration, half of all small businesses launched in the US will fail within the first five years, regardless of the economy. The leading cause of death? Poor financial management.

When researchers delved into the reasons for business mortality, they determined the primary cause of failure was "incompetence" and identified root causes within that definition—all of which were accounting-related. No experience in record-keeping, living beyond the means of the business, lack of planning, non-payment of taxes, no knowledge of financing requirements and conventions, etc.

Faced with this dilemma, most agency founders and leaders believe business accounting is something they must do themselves, delegate to a low-cost bookkeeper, hand over to a traditional accounting firm or hire someone in-house to manage. All of these choices are common and each one offers serious risks.

Here are the digital agency pitfalls we see most often as well as the steps you can take to right the wrongs and set yourself on a proper path for growth.



1

THE DIY APPROACH



You're a growing agency that has no outside accounting help because you're going to figure it out on your own. After spending hours upon hours learning new skills, software, and a few tax laws, you're basically where you started at: level zero.

For the majority of digital agency leaders, this approach presents two challenges. First, financial management isn't a genuine topic of interest to the individual in question. We frequently encounter agency founders who are passionate about design or customer engagement, not QuickBooks. Secondly, amateur accounting often falls behind the evolving needs of a fast-growing business. Even with the best effort, we often encounter DIY accountants whose hard-won knowledge applies to the size and shape of the business last year, not the year to come.

Most agency leaders should not try to navigate their own accounting. It's an unproductive and inefficient undertaking that can have disastrous results. We've met DIY accountants who have accumulated more than \$10,000 in fines and penalties from the IRS because they inconsistently managed their taxes. Moreover, the time spent on accounting amounted to a massive and irretrievable opportunity cost. That expense can be hard to quantify but should not be overlooked when assessing the damage from a DIY approach to financial management.

We advise business owners find professional accounting services that will work alongside them to resolve their problems and have the foresight to avoid issues in the future. By embracing outsourced accounting, business owners can expect to see their businesses grow. We've had clients increase their sales by 20 percent after relinquishing their cluttered shoeboxes of receipts and paperwork that had been keeping them up at night. Why? They're able to focus on what they love and what they're good at—the stuff that made them want to jump into business to begin with.

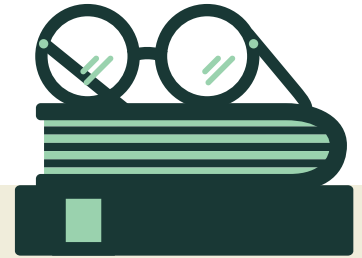
Ever hear about the business owner who withheld payroll taxes from his employees for years but neglected to submit them to the government? He's one of our clients.

His accounting mistake wasn't intentional – it was simply the result of an unqualified business owner biting off more than he could chew. We've seen this situation before and in many cases, the employer isn't made aware of the mistake until they receive a notice in the mail. These notices send business owners into a panicked tailspin because they don't have the capital to pay the hundreds, or sometimes thousands, of dollars they owe and they aren't even sure how to begin fixing the problem.

In the end, we were able to get our client and his books back on track. Unfortunately, he had to pay three times more in penalties and interest than it would have cost him to have an educated team of accountants on his side from the outset.

2

THE CHEAP BOOKEEPER



You hired your neighbor's aunt to manage your books because she's inexpensive. She comes by the office once a month and assures you everything is fine. You suspect it might not be fine but never seem to have time to do anything about it.

Almost every digital agency goes through a cheap bookkeeper phase. Few agency founders feel great about the relationship (even in the beginning stages) but move forward out of perceived necessity. No longer able to personally manage payroll, quarterly taxes and invoices yet not quite ready to invest in accredited representation, they split the difference with a low-cost bookkeeper.

Low-cost bookkeepers typically use outdated, inefficient systems that can't meet your business needs. This, paired with their lack of expertise, creates a fragile system that can collapse and leave your business vulnerable and financially unstable.

It should also be noted that "bookkeeping" is not a synonym for "accounting." The former is really just about maintaining records while the latter refers to a rigorous process of financial management. Most so-called bookkeepers do exactly what their title suggests – passively log information and maintain a record of transactions. For most growing agencies, that's not nearly good enough.

Outsourced accounting teams have experience in systems and process improvements that can offer solutions to fit the needs of your unique business. Unlike bookkeepers that spend hours on a single task or report, we leverage a team of experts to tackle the full spectrum of your needs. By introducing efficiency, outsourced accounting teams can provide premium services at affordable monthly rates.

We reduced a client's receivables from \$50k to \$20k in 60 days. How? Their bookkeeper was not invoicing on a timely schedule or following up on payments. Sure, the bookkeeper was coming in, adding up expenses, and letting them know that the "books looked good," but what does that mean?

Unfortunately, many bookkeepers are so focused on making sure that they've completed their tasks that they aren't looking ahead. In situations like this, cash flow issues don't become apparent until there's an egregious problem.

To avoid complications like this, we help businesses owners create internal policies. We streamline processes, set up payment reminders for receivables, and plan ahead so we always know where we are and where we're going. In this instance, we were able to course-correct their situation and plan for the future.

3

THE TRADITIONAL TAX ACCOUNTING FIRM

You proactively turned to a traditional accounting firm; unfortunately it hasn't been the relationship you imagined. They won't return your calls and you've started daydreaming about what else is out there. Tax season is rapidly approaching and you've started to panic.

Frustrated with the low-cost bookkeeper and long past the stage where they could manage the business' finances themselves, many agency founders have opted for the traditional tax and accounting firm. And sometimes these relationships are fine. But in many cases, designers and developers discover that their accountants have no experience with the creative industry and bring little strategic insight to the process. Moreover, they find themselves prioritized according to revenue and rarely see the CPA they assumed would represent them.

It's important to recognize that necessary day-to-day accounting is not a CPA's specialty. Moreover, they don't typically have a team that can provide the level of support you need, which in turn limits the ways they can advise you on strategic issues and prevents you from gaining real-time access to your financials.

One of the most common requests we get from our clients is that they want real-time access to their most current financials. As business owners, you should have updated financials weekly (at a minimum) and all-the-time access to your information.

We use software that gives clients the power to control and monitor their own financials. In addition, we believe it's important to build in strategic meeting time to review financials, forecast and provide objective guidance on important business decisions. As your accounting team, we guide you through the information you're looking at and can advise you on the decisions you'd like to make.



It's very common for business owners to turn to their tax CPA for ongoing accounting support simply because they don't know where else to go. Unfortunately, what they generally end up with is an impersonal relationship that offers limited support and access to financials.

Clients often come to us after getting fed up with the difficulties of trying to access their accounts and financials. Having this information tightly controlled and monitored by traditional firms causes delays in funding from banks and investors.

Imagine trying to buy a new office space for your growing company. What if you couldn't get immediate access to your financials and had to wait in a long, prioritized line to get your information? In many cases, by the time you finally get what you need, it's not the information that will help you make an educated decision about your business.

4

THE FULL-TIME CFO



Last month you hired some guy to be your accountant/comptroller. You think his name is Brian but you're not really sure because he rarely comes out of his office and he doesn't have a voice in strategic decision-making.

As digital agencies grow, their financial management responsibilities increase. Yet they remain professional services operations without inventory or very much overhead. In other words, these businesses lack the breadth and scope of financial management needs that face larger retail or manufacturing businesses.

Unfortunately, many agencies discover the exact scope of their financial management needs after hiring a full-time, in-house financial expert. The wage often outweighs the responsibilities and many agencies attempt awkward hybrid roles that combine financial management with database support, human resources or some other talent gap in order to justify the position.

If your accounting is truly being executed efficiently, you probably don't need a full-time CFO or accountant. And a CFO shouldn't be a catch-all solution to the remaining paperwork-oriented matters within your business. The CFO quickly becomes a burdensome anchor that causes financial strain on the company.

Outsourced accounting departments have expertise across industries and can provide beneficial benchmarking data that can grow sales for their clients. Unlike full-time employees, outsourced accounting teams have strong relationships with banks, venture capitalists and angel investors that can provide access to capital as most small businesses find they need at some point in their company's lifespan.

When we're working with clients, we work together as a team. We brainstorm. We troubleshoot. We can't imagine doing what we do without working in partnership alongside you.

Pity the lonely digital agency CFO. He knows he doesn't fit in to the fabric of your company just as much as you do. In most cases, you're paying him or her a high salary while questioning the efficiency of this model. It would be great to periodically engage a CFO throughout the year, but that's not an option.

We've also seen that when business owners hire a CFO, there's an additional hurdle—the hefty price tag attached to the job. Because of that, many business owners will try to get their investment's worth and the CFO will somehow also become responsible for your business's insurance plan, HR problems and extra tasks that you can't seem to get to. Whether or not it's his or her area of expertise, you're going to keep your CFO busy because you've invested a lot of money in the full-time position.



The Time Is Now

We're here to tell you that it doesn't matter where your agency is in its growth curve – managing its money doesn't have to suck.

At Accountfully, no two clients are the same and we recognize that needs change over time. That's why we work with businesses to address their immediate needs and to plan for future growth. We do this through a tailored blend of financial expertise and smart task execution that can't be found with traditional accounting models.

We do the day-to-day work of professional accounting and bookkeeping while also serving as a strategic partner that helps our clients navigate complex financial challenges and opportunities.

As a fully outsourced accounting department, we do things accountfully. We believe in the little guys, the startups, the creatives and the entrepreneurs. The world needs people like you, which is why you need people like us.

