OPINION

THE PERILS OF COUNTING CHICKENS: WHY AGENCIES SHOULDN'T BANK ON NEW BUSINESS

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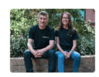
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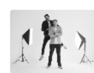
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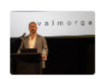
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For many agencies, forecasting new business revenue is a cornerstone of their annual planning process. TrinityP3's John Minty argues that this strategy is often fraught with danger and hidden traps.

In the fiercely competitive advertising industry new business is often the lifeblood of agency growth. Many agencies live for the pitch and the new business wins but many agencies are increasingly using aggressive financial forecasting to sidestep making crucial operational decisions vital to their future.

One common but flawed practice is incorporating significant new business revenue into their financial modelling, often exaggerated further by ignoring inevitable client churn (yes, clients arrive but they can also leave). And while optimism is necessary in an industry that thrives on creativity and ambition, basing financial stability on anticipated rather than secured revenue can lead to serious operational and financial consequences.

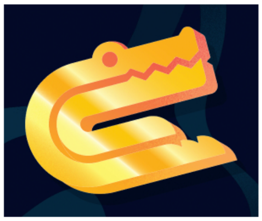
The Problem with Forecasting New Business Revenue

Forecasting new business revenue without client commitment is inherently speculative and risky. It creates an illusion of financial health, leading to decisions that strain agency resources and weaken long-term sustainability. Agencies embark on such a practice in an effort to maintain the all-important growth narrative, and to justify legacy spending that they rarely interrogate.

In particular, this new business addiction leads to a couple of traps:

1. The Pricing Trap: Desperation Undermines Profitability

One of the biggest consequences of relying on forecasted new business revenue is the inability to price services properly. When an agency is under financial pressure, the need to win new business becomes urgent. This desperation, obvious to clients, often results in under-pricing services, offering excessive discounts, or agreeing to unfavourable contract terms simply to close a deal. Agencies are increasingly waiving fees associated with their most valuable assets, namely executive and strategic services, reducing retainers to client benchmarks, and over-promising on deliverables—all of which erode profitability.



2. Agencies Pitch to Satisfy Revenue Targets vs. Pitching to Win a Client's Business

The agency financial model often prioritises the quantity of accounts over the quality of client relationships.

While pitching to satisfy revenue targets versus pitching to win a client's business may appear the same, there is a massive difference between pitching a brand an agency loves and is well suited to work with versus pretending to love it to meet revenue targets. Agency culture is defined by client culture in many cases, and if an agency can't choose what it pitches—and, importantly, what it does not pitch—they will likely create a cultural problem.

3. Spending Money You Don't Have: A Financial Discipline Trap

Eager to please, agencies often hire additional staff, increase existing staff costs through raises, or invest in costly travel and perceived PR—assuming new business will justify the expense. When that revenue fails to materialise or is delayed, these commitments become financial liabilities, leading to budget shortfalls, layoffs and instability.

In most cases, agencies resort to cutting critical operational expenses to bridge the gap between projected and actual revenue, further weakening their ability to invest strategically in sustainable growth. In contrast, agencies that operate on secured revenue maintain tighter control over expenses, ensuring that each investment is justified and aligned with long-term financial health. Financial discipline allows an agency to grow strategically rather than reactively—ensuring stability, profitability and resilience in an unpredictable industry.

In worst-case scenarios, agencies are unable or unwilling to offset the exposure of unrealised new business wins with associated costs, thus further exaggerating the desperation to win.

4. Overextending Resources, Misaligning Talent, and Staff Burnout

If an agency can only present a reasonable margin when its revenue target includes speculation, then its existing revenue is either being over-serviced or under-priced, and its P&L likely contains significant waste. This flawed financial model forces agencies into a cycle of inefficiency and resource strain.

With a great need to win, agencies often dedicate top talent to not only existing client work but also speculative work and volume pitching. This inevitably reduces service quality, increasing churn rates and jeopardising long-term client relationships.

When new business fails to materialise, the result is an overworked staff with nothing to show for it, leading to burnout, declining morale, and ultimately, higher turnover.

When agencies eventually win new business, they often assign new client work to existing

When agencies eventually win new business, they often assign new client work to existing staff rather than building a more tailored talent base, simply because that's who they have.

5. The Investment Freeze Trap: Growth Takes a Backseat

When agencies rely on speculative revenue, they often find themselves unable to invest in meaningful growth initiatives. Expansion plans, training programs, new technology, and talent acquisition all get put on hold due to uncertainty. Instead of proactively building for the future, agencies operate in survival mode, unable to allocate resources confidently.

This stagnation puts them at a competitive disadvantage, as other agencies with more secure financial models can make strategic investments that drive innovation and efficiency. The inability to invest means an agency risks falling behind, both in capability and reputation.

6. Winning New Business Becomes a 'Phew' Instead of a 'Woohoo'

In a financially stable agency, winning new business is an exciting event that sparks celebration and strategic planning. However, when an agency relies on new business just to stay afloat or meet existing promises, each win feels more like a sigh of relief than a true victory. Instead of celebrating growth, teams are merely patching financial holes, perpetuating a cycle of stress and uncertainty.

This mindset erodes company culture and employee morale, turning what should be a moment of triumph into just another temporary fix to a long-standing financial problem.

Anyone who has spent time in agencyland, or adjacent, have all seen versions of this play out in competitor agencies (or even our own). But there is a smarter approach. One that I call forecasting with caution:

Strategic Financial Planning

To mitigate these risks, agencies should adopt a more strategic approach to financial planning:

1. Implement a One-Time Reset & Base Budgets on Secured Revenue

For agencies stuck in the cycle of forecasting unreasonable new business revenue, conduct a one-time financial reset by aligning budgets with the lowest base of anticipated revenue, eliminating reliance on speculative income, and reassessing expenses to reflect actual financial health.

2. Define a Reasonable Margin vs. Chasing Outdated Industry Standards

Normalise profitability based on your agency's unique costs, value proposition, investment plans, and market conditions rather than against rigid industry benchmarks that may no longer be relevant.

3. Assess What You Pitch

Ensure alignment between the client's brand and yours, the potential for great work, the quality of revenue, and your agency's ability to deliver the desired outcome. If you don't score high on these metrics, don't pitch.

4. Eliminate the Waste

Cut legacy costs that hinder investment and drive the need for speculative revenue forecasting—we all know they exist.

5. Scenario Plan

Model various financial scenarios, including worst-case situations, to ensure resilience instead of assuming new business will materialise.

7. Price Services Based on Value, Not Desperation

Establish pricing models that reflect the true value of delivering work rather than relying on new business to compensate for underpriced contracts. Ensure you can walk away from bad pricing.

7. Invest with Intent: Balance Growth and Financial Stability

Differentiate between growth investments and essential operational expenses. Prioritise financial stability by funding core operations with secured revenue and invest in growth as genuine margin sacrifice.

8. Track Conversion Rates and Win Probabilities

If forecasting is necessary, base projections on conservative historical project/win rates rather than overly optimistic expectations, and measure historical conversion of new revenue to margin.

While ambition and optimism drive the advertising industry, financial planning should be rooted in realism. Forecasting new business revenue leads to poor pricing decisions, premature spending, overextended resources, and a lack of financial discipline.

Agencies that ground their financial strategies in actual revenue, rather than speculative wins, are better positioned for sustainable growth and long-term success. The key is balancing optimism with financial prudence—ensuring that growth is driven by secured revenue, not just hopeful projections.

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