ACA MASTERS

November 2023: Advance Information (AI) Analysis and Proforma Report

Exhibit 1: Introduction
Use in exam: report cover page

Key Narrative Points
Stockard Matelier, external advisor at Newell Mast, reporting to Ali Fisk. Disclaimer needed. **Fulsome Digital Marketing (FDM) Limited** o   Digital marketing agency. o   Sells to businesses across the UK. o   Based in London.

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Exhibit 2: UK digital marketing sector
Use in exam: context points

Key Narrative Points	Key Numerical Points

Digital marketing
○ Wide range of activities:
   ▪ SEO, app building, social media, content creation, marketing strategy, website design, ad campaigns.
○ New activities emerge with new internet technologies.
○ Some agencies focus on one activity; others offer a full service.
○ Market expansion has resulted in M&A but market concentration has fallen due to more businesses (low entry barriers).
○ Increased demand for digital marketing services due to consumer shift to online and despite economic conditions.
○ Key enabler of growth is capacity which requires staff retention and recruitment.
○ Upward pressure on wages as staff are in high demand.
○ Churn (client retention) is an ongoing issue.
○ Winning new clients is expensive.
○ Marketing helps win new clients and reduce churn.
 	
Martech
○ Marketing technology used in the creation, execution, management and measurement of digital marketing activity:
   ▪ automated drafting and editing of marketing copy
   ▪ automated buying and selling of digital ad space
   ▪ AI-driven CRM: management of sales and marketing teams; identify most effective sales approaches and opportunities; improved productivity and sales performance
 	
Legal and Regulation
○ GDPR: consent to use personal data.
○ Self-regulated code of practice: advertising claims supported by evidence; legal, decent, honest and truthful.
	UK digital marketing services market:
	○ 2013-2023: CAGR >10%
	○ 2023: market size >£16 billion
	○ Almost 8k agencies
	
	Proportion of retail sales online:
	○ 2021: 38%
	○ 2028 forecast: 53%
	
	Sources of traffic (2022):
	○ Direct link: 22%
	○ Digital ads: 21%
	○ Online search: 17%
	○ Social media promotions: 16%
	○ Email marketing: 14%
	○ Referrals: 9%
	
	Average marketing spend: 4.3% of revenue
	
	Martech apps: around 10,000 in 2022

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Exhibit 3: FDM
Use in exam: throughout

Key Narrative Points	Key Numerical Points
FDM o Full-service agency. o Well regarded in digital marketing sector and awards in recent years. o SEO, paid search management, social media, content creation, marketing strategy, website design, ad campaigns. o SEO: increases traffic from search engine. o Paid search management: increases traffic from advertising spend. o Helps client improve brand strength and understand customers. o Clients (accounts) across a range of industries.	Small clients: higher GPM Large and Major clients: o more costly to service o high-profile clients enhance reputation and have lower churn
Board of Directors o Brienne Saffire: Managing; 35%; ex-Big Bison; online presence; billable. o Jerzel Morales: Sales and Technology; 30%; ex-Big Bison; billable. o Jai Williamson: Finance; 25%; ex-Big Bison; support. o Zizi Zettner: HR; 5%; joined 2020; billable. o Ron Ashton: Operations; 5%; joined 2022; support. - Appointments contingent on becoming shareholders at agreed valuation.	
Staff o Fast-evolving industry requires highly skilled and motivated staff. o Staff capacity is enabler of revenue growth. o Grades: manager, team leader, team member. o Occasionally outsources creative work to freelancers.	2022: 72 billable; 13 support; 85 total Non-billable time allowance: 15% Activities must benefit FDM
Sustainability o Brienne Saffire keen to promote social and environmental responsibility. o Aware this may create tension with clients.	

Exhibit 4 and 5: Management accounts
Use in exam: primarily requirement 1 / context requirement 2 and 3
Please note that calculations have been prepared in a spreadsheet and rounded to 1dp.

REVENUE	2022 (£k)	2021 (£k)	Change (£k)	%	Reasons	Trends/Significance/ Further Analysis
Major	2,068	1,824	244	13.4%	Typical: £80k-210k (avg. £150k); Sublime; client loss; low switching costs	Target 2023: £2,792k
Large	2,068	1,757	311	17.7%	Typical: £36k-79k (avg. £50k)	Target 2023: £2,792k
Medium	1,985	1,689	296	17.5%	Typical: £16k-35k (avg. £25k); Compere	Target 2023: £2,680k
Small	2,151	1,489	665	44.8%	Typical: £4k-15k (avg. £10k); HSG Accepted increase in charge-out rates	Target 2023: £2,903k

Total	**8,272**	**6,756**	**1,516**	**22.4%**	Businesses shift towards digital model Expansion in capacity (headcount)
					
					SEO: 20%; lower margin; clients stay for longer as results take time
					
					Paid search mgt: 40%; growing; increase in performance fee billing; higher margin; clients want rapid results; programmatic ad tech automates buying of ad space
					
					Other: 40%; generally higher margin; content creation lower margin
					
					25% target missed due to lower AMFIH and client loss (higher charge-out rates)
						Target
						  2023: 35% / £11,167k
						  2022: 25% / £8,445k
						
						2019-22: CAGR 24.1%
						2021: £6,756k / 19.4%
						2020: £5,660k / 30.7%
						2019: £4,331k
						
						Market
						2013-23: CAGR >10%

Mix:					A range of client sizes helps staff retention via career progression	Target: 25% each
Major	25.0%	27.0%	(2.0%)		Lower margin (more complex and demanding but helps FDM brand)	2020: 24.0%
Large	25.0%	26.0%	(1.0%)		Lower margin (more complex and demanding but helps FDM brand)	2020: 23.0%
Medium	24.0%	25.0%	(1.0%)		Higher margin	2020: 26.0%
Small	26.0%	22.0%	4.0%		Higher margin	2020: 27.0%

Headcount	85	68	17	25.0%	Higher than revenue growth Recruitment carried out early in year Recruiting for growth Risk of understaffing and overstaffing but better to be overstaffed	Target
						  2023: 115
						  2022: 85
						
						2020: 53

Billable	72	57	15	26.3%		2020: 45
Support	13	11	2	18.2%	Operations director (Ron Ashton) recruited Needs to be sufficient to support billable	2020: 8
AMFIH	£8.1	£8.3	(£0.2)	(2.0%)	Revenue / Headcount at end / 12 Headcount increase > revenue increase due to recruiting ahead of revenue	Target 2023: £8.1k 2020: £8.9k (peak) 2019: £8.8k Well placed for future growth
Attrition rate	11.8%	15.1%	(3.3%)		Leavers in headcount at start / Headcount at start Aggressive staff poaching Early responsibility to reduce attrition	Doesn't include leavers who joined in year Sector average: 30% 2019: 9.8%
Leavers: in headcount at start	8	8	0		Attrition rate * Headcount at start	
Attrition rate: revised	26.5%	26.4%	0.1%		Total leavers / Headcount at start Lower for those who stay longer	Includes leavers who joined in year Sector average: 30% 2019: 17.1%
Leavers: joined in year	10	6	4		All junior staff	2019: 3
Leavers: total	18	14	4		Attrition rate: revised * Headcount at start	

	2022	2021	Change	%	Reasons	Trends/Significance/ Further Analysis
Client churn	15.2%	14.6%	0.6%		No. of clients lost / No. of clients at start Client loss: higher charge-out rates New clients gained > clients lost Factors: - How well served clients feel - Fees - Pricing method - Switching costs - Client account manager - Team continuity	2020: 16.1% Client acquisition efforts undermined by losses Winning new clients is expensive
Clients lost	40	36			Churn rate * No. of clients at start	
Clients at start	264	247			Approximate (below)	
Major	8.3%	0%	8.3%		Large multinationals with low switching costs causes erratic changes Lower churn rate	2020: 16.7%
Clients lost	1	0			Churn rate * No. of clients at start Lost to a rival who also poached several key staff	
Clients at start	12	9			Approximate (below)	
Large	5.7%	7.7%	(2.0%)		Lower churn rate	2020: 4.8%
Clients lost	2	2			Churn rate * No. of clients at start	
Clients at start	35	26			Approximate (below)	
Medium	11.8%	11.9%	(0.1%)			2020: 11.1%
Clients lost	8	7			Churn rate * No. of clients at start	
Clients at start	68	59			Approximate (below)	
Small	19.5%	17.6%	1.9%		5% (estimate) if performance-based fee	2020: 19.8% Avg. 18-20%
Clients lost	29	27			Churn rate * No. of clients at start	
Clients at start	149	153			Approximate (below)	
Number of clients (approximate)					Revenue / typical distribution average	
Major	14	12	2	16.7%	Revenue / £150k	2020: 9
Large	41	35	6	17.1%	Revenue / £50k	2020: 26
Medium	79	68	11	16.2%	Revenue / £25k	2020: 59
Small	215	149	66	44.3%	Revenue / £10k	2020: 153
Total	349	264	85	32.2%		2020: 247

COST OF SALES	2022 (£k)	2021 (£k)	Change (£k)	%	Reasons	Trends/Significance/ Further Analysis
Billable staff	3,280	2,583	697	27.0%	2021 salary increases; team members up >8%; premium paid to counter poaching 2022 minimal increases; cost increase due to headcount (volume)	
Other	1,755	1,576	179	11.4%	Recruitment (increased headcount; lower attrition reduces cost) IT upgrades/licenses/software PPE depreciation Training and development (lower attrition reduces training) Outsourced services	
Total	**5,035**	**4,159**	**876**	**21.1%**		
As % of revenue:						
Billable staff	39.7%	38.2%	1.5%			2020: 34.7%
Other	21.2%	23.3%	(2.1%)			2020: 24.9%
Total	60.9%	61.6%	(0.7%)			2020: 59.6%
Avg. billable staff cost	45.6	45.3	0.2	0.5%	Billable staff / billable headcount 2022: minimal salary increases	2020: £43.6k 3.9% increase

GROSS PROFIT / GPM	2022 (£k)	2021 (£k)	Change (£k)	%	Reasons	Trends/Significance/ Further Analysis
Major	589	493	96	19.5%		
Large	724	632	92	14.6%		
Medium	854	718	136	18.9%		
Small	1,070	754	316	41.9%		
Total	**3,237**	**2,597**	**640**	**24.6%**		2022 target: £3,247k 2020: £2,285k
GPM						
Major	28.5%	27.0%	1.5%		More price-competitive Discounted charge-out rates	2020: 29.9%
Large	35.0%	36.0%	(1.0%)		Pre-agreed time budgets Higher cost to service Highly experienced staff	2020: 37.0%
Medium	43.0%	42.5%	0.5%			2020: 43.0%
Small	49.7%	50.7%	(1.0%)		Junior employees Less demanding clients	2020: 50.0%
Total	**39.1%**	**38.4%**	**0.7%**		Revenue mix shift towards higher margin small increases GPM Paid search mgt work and performance fee billing increases GPM Recruiting ahead of revenue / lower AMFIH reduces GPM	2022 target: 38.4% 2020: 40.4% 2019: 40.9%
Mix						
Major	18.2%	19.0%	(0.8%)			Lowest GP contributor
Large	22.4%	24.3%	(1.9%)			
Medium	26.4%	27.6%	(1.2%)			
Small	33.1%	29.0%	4.1%			Highest GP contributor

ADMIN & SELLING EXPENSES	2022 (£k)	2021 (£k)	Change (£k)	%	Reasons	Trends/Significance/ Further Analysis
Total	908	713	195	27.3%	Selling and marketing costs PPE depreciation	
As % of revenue	11.0%	10.6%	0.4%			2020: 9.4%
Support staff:						
Avg. payroll cost	45.4	44.1	1.3	2.9%	Billable and support	
Total staff costs	3,859	2,999	860	28.7%	Avg. payroll cost * total headcount	
Billable staff	(3,280)	(2,583)				
Support staff	579	416	163	39.2%	Total – billable = support	
As % of revenue	7.0%	6.2%	0.8%			2020: 5.6%
Avg. support staff cost	44.5	37.8	6.7	17.8%	Support staff / support headcount Lower than billable due to market demand for respective skills New director increases avg.	2020: £39.5k
Total ex support staff	329	297	32	10.7%		
As % of revenue	4.0%	4.4%	(0.4%)		Well controlled	Sector average: 4.3% of revenue on promotion

OPERATING PROFIT / OPM	2022 (£k)	2021 (£k)	Change (£k)	%	Reasons	Trends/Significance/ Further Analysis
OP	2,329	1,884	445	23.6%		2020: £1,751k
OPM	28.2%	27.9%	0.3%		Lower than GPM increase because admin costs increased faster than revenue	2020: 30.9% Target: 30%

CASH	2022 (£k)	2021 (£k)	Change (£k)	%	Reasons	Trends/Significance/ Further Analysis
Cash	1,757	1,534	223	14.5%	+ cash from operations - receivables increase - payables (deferred income) decrease - capex (IT to support headcount) - dividends	2020: £539k

RECEIVABLES	2022 (£k)	2021 (£k)	Change (£k)	%	Reasons	Trends/Significance/ Further Analysis
Trade	985	871	114	13.1%	Increase in activity	
Trade days (TR/revenue *365)	43.5	47.1	(3.6)		2021: longer periods of credit to selected clients	2020: 29.5

PAYABLES	2022 (£k)	2021 (£k)	Change (£k)	%	Reasons	Trends/Significance/ Further Analysis
Deferred Income	603	1,181	(578)	(48.9%)	2021: payment in advance required from some clients e.g. Compere	2020: £299k
Trade	228	221	7	3.2%		

Exhibit 6: Business model
Use in exam: throughout / R2/3 proposal

Key Narrative Points	Key Numerical Points

FDM goal: meet all client's digital marketing needs.
 	
Aims to reduce churn and reliance on one activity by being a full-service agency.
	Annual variations but broadly constant:
	  SEO: 20%
	  Paid search management: 40%
	  Other: 40%

Services
o   SEO:
  ▪   improve ranking of client's website in search results
  ▪   clients stay for longer as results take time (less switching)
  ▪   cross-sell other services
	20% of revenue
	Stable revenue stream
	Lower margin

o Paid search management: ▪ manage the purchase of ad space using programmatic advertising technology which automates buying of ad space (media buying) and publishing suitable ads	40% of revenue Revenue from providing programmatic advertising technology (not selling ad space). Higher margin
o Other: ▪ social media, content creation, marketing strategy, website design, campaign management	40% of revenue Higher margin: social media, marketing strategy, brand design, email marketing Lower margin: content creation

Marketing funnel
o   Increases customers for client.
o   Customer engagement points that lead to revenue for FDM.
o   Each section of funnel has KPIs (tracking analytics).
o   Number of customers reduce as they pass through funnel.
  ▪   Awareness: Reach and Visitors
  ▪   Desire: Bounce Rate and Leads
  ▪   Conversion: Number of New customers
  ▪   Repeat Sales: Number of Returning customers
o   Engagement might focus on specific funnel/KPI e.g. reduce bounce rate.
	Example:
	  Reach: 100k; Visitors: 10k (10%)
	  Bounce rate: 5k (50%); Leads 1k (20%)
	  Conversion: 100 (10%)
	  Repeat sales: 40 (40%)

Pricing
o   Pricing method is key driver of profitability and depends on:
  ▪   new or existing client
  ▪   service offered
  ▪   strength of relationship with client
  ▪ what can be negotiated	

o   Billable hours and charge-out rates:
  ▪   attempts to increase charge-out rate each year
  ▪   mark up to cover costs and profit
  +   profitable if hours billed and markup adequate
  -   relationship impact as client pays irrespective of success
  -   larger clients request discounts and resist increases
  -   simplistic method as ignores LTV
  -   can cause FDM to appear expensive
	2022 charge-out rates:
	  Director £215 (21: £200; 7.5% increase)
	  Manager £115 (21: £110; 4.5% increase)
	  Team leader £90 (21: £80; 12.5% increase)
	  Team member £66 (21: £60; 10% increase)

Fixed pricing:
  ▪   time budget agreed in advance
  +   cost transparency
  - reduced profit if overruns	

o Performance-based pricing: ▪ typically for short-term campaigns ▪ pre-agreed measurable output e.g. visits, sales + attractive to clients as fee is contingent + reduces churn as engagement period usually extended + focus on adding value, not hours + higher fees and margins - increased risk for FDM - potential uncertainty over measurable output o Lifetime value (LTV): ▪ FDM aim to retain clients ▪ single campaign can be less than a month ▪ some clients have been with FDM for several years ▪ billable hours fee basis may be uncompetitive ▪ assess client value over estimated lifetime, not engagement + client servicing costs reduce over time + helps win and retain clients + increases overall profitability - lowers short-term profitability - risky as clients do not enter multi-period contracts	 Clients often cost more to service in early stages due to time required to understand client business and develop marketing plan

Competitors
o Increasing number of digital marketing companies.
o More services being offered as technology evolves.
o FDM competes with full-service and specialist agencies.
o Geographic distance not an issue.
o FDM does not monitor specific agencies.
o Client more likely to be lost if key member of staff leaves and takes client with them.

Collective Link:
 ▪ Manchester; SEO, PPC, social media, website design, training and consulting.

Tribalist:
 ▪ London, Manchester and New York; data-driven, proprietary technology platform; range of clients.

Bracket:
 ▪ London; CRM, tracking analytics and performance marketing; thought leadership and educational resources on website (blog posts and case studies); several awards.

Sustainability and ethics
o Sustainability:
 ▪ issues if clients are perceived to be unsustainable
 ▪ FDM keen to not be complicit in misleading public e.g. 'greenwashing'
 ▪ Sublime wanted FDM to present green credentials despite poor sustainability reputation
 ▪ Brienne Saffire not prepared to risk FDM reputation by making unsubstantiated claims
 ▪ client required to demonstrate evidence for claims

o Business ethics and confidentially:
 ▪ potential conflicts are pre-empted
 ▪ separate teams used for rival clients
 ▪ non-disclosure agreements for staff not required unless client requests

Exhibit 7: Client case studies
Use in exam: requirement 2/3 proposal

Key Narrative Points	Key Numerical Points

Compere
o Comparison app for ticket prices.
o Insufficient digital marketing skills, SEO ranking decline.
o FDM presented solutions Compere had not considered.
o Took over all SEO work.
o SEO work by leaders and members.
o Client interaction by manager and director.
o Time estimates for SEO are straightforward and accurate but unexpected events can cause a change in tactics.
o Monthly variations but average monthly hours accurate.
o FDM was under workload pressure so proposed payment in advance to demonstrate commitment and cover initial research costs.
o Work started October 2021.
o Initial 12-month engagement; continued on 3-month rolling basis (3 months' notice at any time).
	Pricing: billable hours and charge-out rates
	Forecast:
	  Hours per month
	    Director: 0.5
	    Manager: 1
	    Team leader: 5
	    Team member: 25
	  Revenue pm: £2,110
	  Revenue pa: £25,320 (Medium)
	  GPM: 30% (2022 average: 43%; lower as SEO)
	4 months paid in advance (£8,440)
	Monthly fee in advance
	Advanced payment initially deferred income
	Attractive margin as minimal senior staff involvement

Sublime
o Online UK bed retailer.
o Client since 2016.
o FDM persuaded Sublime that they could improve SEO, increase revenue and differentiate.
o Within a year, SEO improved and brand repositioned.
o FDM proposed paid search management work (cross-sell).
o Sublime shared highly sensitive confidential operational data which has been vital to success.
o FDM optimised ad spend using data analysis programs.
o Increased revenue within Sublime budgeted spend.
o Short-term campaigns.
o Technical and commercial knowledge acquired used on other clients.
	Pricing:
	  SEO: billable hours and discounted charge-out rates
	
	  Paid search management:
	    performance-based pricing
	    fee based on pre-agreed metric
	    invoice at end of each campaign
	
	  Example: 30-day Facebook ad campaign
	  Metric: increase in revenue
	  Reach: 400k; Visitors 40k (10%)
	  Bounce rate:
	    60% probability: 50% (sector average; actual)
	    30% probability: 45%
	    10% probability: 52.5%
	  Leads: 20%
	  Conversions: 10%
	  Sublime revenue per customer: £600
	  Revenue: 5% of attributable revenue increase
	  Staff costs estimate: £8k (actual)
	  GPM: 33.3% (based on 50% bounce rate)
	
	Revenue pa average: £150k (Major)
	GPM 2022: 29% (Major average: 28.5%)
	SEO: low margin as charge-out rates heavily discounted
	Paid search management: high margin but volatile as performance-based pricing

Exhibit 8: Staff committee meeting notes: client with social mission
Use in exam: requirement 2/3 proposal

Key Narrative Points	Key Numerical Points

October 2021
 	
 HSG
 o Charity.
 o Unable to afford normal charge-out rates.
 	
 o Proposal 1: billable hours and discounted charge-out rates
 ▪ low-cost staff mix (no director or manager)
	
	 Charge-out rate discount: 33.3%
	 Forecast:
	  Hours per month
	    Team leader: 1
	    Team member: 10
	  Revenue pm: £500
	  Revenue pa: £6k (Small)
	  COS pm: £375
	  COS pa: £4.5k
	  GP pm: £125
	  GP pa: £1.5k
	  GPM: 25% (2022 Small average: 49.7%)

o Proposal 2: performance-based pricing	Revenue: 4% of attributable donation increase
	      donations to generate £6k revenue:
	      £6k / 4% = £150k

o Brienne Saffire: - low margin due to discount - performance-based pricing risk - sceptical about LTV calculation - given rapid change in digital marketing, questionable ongoing annual benefit - prefers to let small, low-margin clients go elsewhere + performance-based pricing has upside potential + performance-based pricing reduces churn + lower churn offsets lower margins + positive PR and increased social media followers	 Small client churn on performance-based pricing: 5% Small client churn average: 18-20%
o LTV ▪ used to assess trade off	Annual GP x engagement lifetime Engagement lifetime = 1 / Churn % GP pa: £1.5k Engagement lifetime: 20 (1 / 5%) LTV: £30k (£1.5k x 20) Small average (using 20% churn): GP pa: £5k (Revenue: £10k; 50% GPM) Engagement lifetime: 5 (1 / 20%) LTV: £25k (£5k x 5)
o Decision: proceed based on performance-based pricing and beneficial reputational impact for personal brand.	

Exhibit 9: Staffing policy
Use in exam: requirement 2/3 proposal / requirement 1

Key Narrative Points	Key Numerical Points
October 2022 **Hierarchy** o Purpose of hierarchy: 　▪ facilitate staff progression 　▪ aid management of growing business 　▪ not too bureaucratic o Team members: informal levels based on skills and experience. o May need to create new formal levels due to expansion. o Staff often have more than one role/specialism. o FDM values flexibility. o Support staff facilitate billable work. o Client account manager: 　▪ leads interaction with clients 　▪ ensures clients are profitable, growing and retained 　▪ team members (unlike at competitors) 　▪ small clients provide opportunity for team members 　▪ early responsibility reduces staff attrition and client churn (clients value continuity)	Directors: 5 (2021: 4; 2020: 4) Managers: 7 (2021: 6; 2020: 4) Team leaders: 10 (2021: 11; 2020: 8) Team members: 63 (2021: 47; 2020: 37) Total: 85 (2021: 68; 2020: 53)
Remuneration o Highly competitive. o Salary, discretionary performance bonus, health, pension. o Regularly benchmarked. o Attractive working conditions.	Average remuneration (inc. bonus): 　2022: £45.4k 　2021: £44.1k 　2020: £43.0k
Induction training o All billable staff unless they have proven experience. o 6 weeks with local training firms. o Recruitment tool: some competitors make staff pay. o Time buffer when recruiting ahead of revenue. o Staff buy into FDM culture.	
Culture o Aim for staff to feel valued. o Non-billable activities must benefit FDM: 　▪ environmental credentials 　▪ self-development 　▪ client work difficult to bill may also be included: not all billable staff time may be billed to client o Social events. o Office: fun and creative; 3 days a week in office; recent refurb. o Uncapped holiday provided work is complete. o High workload, tight deadlines, long hours, weekend working.	Non-billable time allowance: 15%
Staffing committee o Broad purpose, monthly meetings. o Attendees elected on an annual rotating basis. o Brienne Saffire joins for start of meeting. o Members also take turns to attend board meetings to provide staff perspective on FDM strategy.	2 Director (Zizi Zettner and another) 1 Manager 1 Team Leader 2 Team Members
Attrition o If goodwill with departing staff is high, it can result in a new client or retention of an existing client.	Sector average: 30%

Exhibits 10: Staffing strategy: recruit for growth

Use in exam: requirement 2/3 proposal / requirement 1

Key Narrative Points	Key Numerical Points
October 2022 o Success of recruitment undertaken to achieve 2022 targets informs 2023 recruitment plans. o Headcount is a critical enabler of revenue growth; linear relationship. o Recruitment carried out early in year so training can be as early as possible. o Risk of understaffing (inability to serve clients) and overstaffing (margin impact and management difficulties). o Due to high demand for skilled staff, better to be overstaffed than to jeopardise revenue growth. o Staffing strategy is to recruit for growth. o Staff recruitment planned to ensure capacity for 2023 revenue target.	**2022 forecast** Revenue target: 25% growth (all client sizes/mix same as PY) £8,445k Headcount growth required: at least 25% targeted headcount increase needed to be higher than planned revenue growth due to natural attrition AMFIH: £8.3k (same as PY) GPM target: 38.4% (same as PY for all client sizes) GP target: £3,247k **2022 actual** Revenue: 22.4%/£8,272k; target missed due to lower AMFIH / client losses (higher charge-out rates); still a successful year Headcount: target met AMFIH: £8.1k; target missed partly due to client losses GPM target: 39.1% target exceeded due to revenue mix shift to small / more paid search mgt work/performance-based fees **2023 forecast** Revenue target: 35% growth (all client sizes/mix same as PY) £11,167k Headcount growth required: at least 35% Headcount target: revenue target / (AMFIH x 12) = 115 AMFIH: £8.1k (same as PY)

Exhibit 11: Strategic review of key risks
Use in exam: requirement 2/3 proposal/issue / requirement 1 context

Key Narrative Points	Key Numerical Points
October 2022 **Strategic goals** o Highly successful full-service agency. o Award-winning service levels. o Highly engaged staff. o Broad mix of satisfied and profitable clients. o KPIs: client churn, staff attrition, revenue growth, OPM. **Key risks** **1. Client churn** o Factors: how well served clients feel; fees; pricing method; switching costs; account manager relationship; team continuity. o Some major clients are multinationals who use FDM for selected services so have low switching costs: causes erratic churn %. o Major and large: experienced staff, discounted charge-out rates. **2. Margin dilution** o Major and large: lower GPM. o Domineering clients reduce FDM's creativity and effectiveness. **Risk management** o Monitor client mix ▪ If significant deviation: - active steps taken to move mix back to target. - move mix back to 25% by winning (not forgoing) clients. - revenue growth higher priority than short term profitability. o Flexible pricing ▪ Suitable pricing can improve profitability and client retention. ▪ Clients often cost more to service in early stages. ▪ Billable hours and charge-out rate pricing: can cause FDM to appear expensive. ▪ LTV: factors in decline in service costs; helps win and retain clients; increases overall profitability; but lowers short-term profitability and risky (clients do not enter multi-period contracts). o Range of capabilities ▪ Increase value of low margin clients by combining low-margin (SEO, content creation) with high-margin (social media management, email marketing). o Reduce pitch costs and gain clients through reputation ▪ Reduce non-billable costs to improve margins. ▪ FDM will be sought after if perception it is oversubscribed; can then be selective over clients. o Focus on high-margin activities ▪ Focus on high-value services (strategy development, brand design) to differentiate. **Other risks** o Failure to win new clients ▪ Lower revenue/profit, reputational harm **Management:** remain competitive, client relationship teams, recruit innovative technicians, manage staff capacity	 Major: 8.3% (**21**: 0%; **20**: 16.7%) Large: 5.7% (**21**: 7.7%; **20**: 4.8%) Medium: 11.8% (**21**: 11.9%; **20**: 11.1%) Small: 19.5% (**21**: 17.6%; **20**: 19.8%) Total: 15.2% (**21**: 14.6%; **20**: 16.1%) Target: 25% mix (average, over time) Major: 25% (**21**: 27%; **20**: 24%) Large: 25% (**21**: 26%; **20**: 23%) Medium: 24% (**21**: 25%; **20**: 26%) Small: 26% (**21**: 22%; **20**: 27%)

o Staff recruitment and attrition targets not being met
    ▪ Lost clients/higher churn, missed growth opportunities/understaffing, reputational harm
        Management: competitive remuneration, staff engagement, attrition KPI
 	
o Increased costs of London office lease (renewal soon)
    ▪ Lower profit
        Management: alternative physical and virtual locations; other work models; renegotiate lease; explore financing options
 	
o Confidential data misused/unauthorised access
    ▪ Reputational harm, fines, lower profit
        Management: data security policies, compliance, IT audits, ethics training	

Exhibit 12: Offer for FDM shares
Use in exam: ethics / requirement 2/3 proposal

Key Narrative Points

1 July 2023
 	
o   Big Bison interest in buying FDM shares as wants client base and digital marketing capabilities.
 	
o   Brienne Saffire (Managing; 35%; ex-Big Bison):
  ▪ passed target of 1m social media followers
  ▪ TV chat show and discussion forum offers she would like to pursue
  ▪ keen to start looking for an exit
 	
o   Jerzel Morales (Sales and Technology; 30%; ex-Big Bison):
  ▪ prefers running own agency than working for big agency
  ▪ wants to support Brienne Saffire but needs to be an attractive offer to sell
  ▪ all directors need to agree
 	
o   Jai Williamson (Finance; 25%; ex-Big Bison):
  ▪ business logic to being part of a larger agency
  ▪ planned sale creates short-termism
  ▪ proposes 'pump and dump' strategy: focus on improving results over the short term
 	
o   Zizi Zettner (HR; 5%; joined 2020):
  ▪ concerns over short-termism, staff engagement, attrition, productivity
 	
o   Ron Ashton (Operations; 5%; joined 2022):
  ▪ present sale as opportunity to reward staff
  ▪ staff are generally young and ambitious
  ▪ suggests transparent profit-sharing bonus scheme to motivate staff
  ▪ suggests implementing some of his recommended operational improvements
  ▪ offers for shares should be considered seriously
  ▪ keen to encourage offers as borrowed a lot to purchase his shares

Exhibit 13: Operational improvements
Use in exam: requirement 1 / requirement 2/3 proposal

Key Narrative Points	Key Numerical Points

30 June 2023
 	
Recruitment for growth or focus on profit?
o   Challenge assumption that growth is based on headcount and explore other growth models.
   ▪   invest in advanced martech
   ▪   develop/purchase software for staff utilisation and workflow planning e.g. JetStrem (CRM)
   ▪   initial investment to implement
   ▪   enhanced productivity
   ▪   focus on profit and not just recruiting for growth
   ▪ generate more revenue/profit per employee/AMFIH	

Attrition
o   Attrition KPI does not include leavers who joined in year.
o   No exit interviews.
o   Informal reasons for leaving: inaccurate job description; long hours/no holiday time; boring work; no recognition; micro-management; but remuneration never mentioned.
   ▪   implement policy of formal interviews
   ▪   revised KPI should be used
   ▪   lower attrition reduces recruitment/training costs
	KPI
	Recorded: 11.8% (**21:** 15.1%; **20:** 9.8%)
	Revised: 26.5% (**21:** 26.4%; **20:** 17.1%)

Retention
o   No clear process to measure impact of non-billable time.
o   Evidence suggests used to mask client work time.
o   Attrition lower for those who stay longer: shows resilience.
   ▪   ensure 'right' staff stay, 'wrong' staff leave
   ▪   strategically understaff to create demanding environment where best staff thrive, improving AMFIH and margins
   ▪ offer retention drivers: flexibility; work-life balance; satisfaction, progression, recognition; reward	

Relocation o Staffing costs are very high. o Manchester becoming a digital centre. o Financial and non-financial upfront costs.	Salaries in north: 20-25% lower

Exhibit 14: Media coverage
Use in exam: context

Key Points

Employees
- o   Employees want flexibility and a career that aligns with their goals.
- o   Power shifting towards employees who are starting to reject bad jobs.
- o   Paying close attention to what other companies are offering.
- o   Employers need to anticipate what employees want.
- o   'Quiet quitting': over 30% do no more than minimum requirement.
- o   Lack of engagement, motivation and commitment is a cost to employer.

FDM recruitment
- o   Advertisement on social media.
- o   FDM described as fun, creative, exciting, ambitious, high growth, London based.

Sublime and BOL
- o   Bed Operations Limited (BOL):
  - ▪   leading national bed chain
  - ▪   no substitute for coming to our stores, trying products and discussing with our team.
- o   Sublime:
  - ▪   a person has higher chances of sleep success buying online due to the amount of information on their website being greater than any store salesperson.
  - ▪   revenue: £22m (18% growth); OP: £2m
- o   National Bed Association: over 50% of mattresses now purchased online.

Big Bison (BB) acquiring Collective Link (CL)
- o   Lots of acquisition activity in digital marketing agency sector.
- o   BB: Manchester-based marketing agency.
- o   CL: full-service agency with impressive growth:
  - ▪   CAGR: over 20% between 2018-2023 (FDM: CAGR 24.1% between 2019-2022)
  - ▪   OP: £3.8m (FDM: £2.3m)
  - ▪   OPM: 30% (FDM: 28.2%)
- o   Terms of deal not public.
- o   BB initial interest after 2020 growth spurt.
- o   Financial performance very strong in 2022 and 2023.
- o   Founders looking for attractive payoff.
- o   Possible synergies but BB could be looking to acquire client portfolio whilst removing competitor.

JetStream
- o   Top martech platform for remote working.
- o   Cloud-based enables team to work remotely.
- o   Collaboration and communication.
- o   Centralised hub for customer data.
- o   AI-driven reporting and analytics: sales performance, customer behaviour, streamlines tasks.
- o   Data security: highly encrypted access controls.

Possible Exam Scenarios and Reminders

R1
Revenue, GP (and OP), Client issue / churn **Revenue, GP (and OP), Staff issue / attrition** **Revenue, GP (and OP), Inflating accounts ('pump and dump' strategy)** **Revenue, GP (and OP), Cash** **Wider context** o   Increased demand for digital marketing services due to consumer shift to online, despite economic conditions. o   Market CAGR >10% (2012-2023) o   Key enabler of growth is capacity which requires staff retention and recruitment. o   Upward pressure on wages as staff are in high demand.

R2/R3

Pricing
- o Churn (client retention) is an ongoing issue; winning new clients is expensive.
- o Risks: failure to win new clients; margin dilution due to client mix shift towards large/major.
- o Strategic goals: broad mix of satisfied and profitable clients; award-winning service levels.

- o SEO:
  - clients stay for longer as results take time (less switching)
  - cross-sell other services
  - 20% of revenue; stable revenue stream
  - lower margin
- o Paid search management:
  - 40% of revenue
  - higher margin
- o Other:
  - 40% of revenue
  - higher margin: social media, marketing strategy, brand design, email marketing
  - lower margin: content creation

- o Marketing funnel example:
  - Reach: 100k; Visitors: 10k (10%)
  - Bounce rate: 5k (50%); Leads 1k (20%)
  - Conversion: 100 (10%)
  - Repeat sales: 40 (40%)

- o Pricing method is key driver of profitability and depends on:
  - new or existing client; service offered; strength of relationship with client; what can be negotiated

- o **Billable hours and charge-out rates:**
  - attempts to increase charge-out rate each year
  - mark up to cover costs and profit
  - + profitable if hours billed and markup adequate
  - - relationship impact as client pays irrespective of success
  - - larger clients request discounts and resist increases
  - - simplistic method as ignores LTV
  - - can cause FDM to appear expensive

  2022 charge-out rates:
  - Director £215 (21: £200; 7.5% increase)
  - Manager £115 (21: £110; 4.5% increase)
  - Team leader £90 (21: £80; 12.5% increase)
  - Team member £66 (21: £60; 10% increase)

  Example: Compere
  - Time estimates for SEO are straightforward and accurate but unexpected events can cause a change.
  - Monthly variations but average monthly hours accurate.
  - FDM was under workload pressure so proposed payment in advance: commitment and initial research.
  - Initial 12-month engagement; continued on 3-month rolling basis (3 months' notice at any time).
  - Forecast hours per month:
    - Director: 0.5
    - Manager: 1
    - Team leader: 5
    - Team member: 25
  - Revenue pm: £2,110
  - Revenue pa: £25,320 (Medium)
  - GPM: 30% (2022 average: 43%; lower as SEO)
  - 4 months paid in advance (£8,440)
  - Monthly fee in advance
  - Attractive margin as minimal senior staff involvement

Example: HSG
- Charity: unable to afford normal charge-out rates
- Discounted charge-out rates (33.3% discount)
- Low-cost staff mix (no director or manager)
- Forecast hours per month:
    Team leader: 1
    Team member: 10
- Revenue pm: £500
- Revenue pa: £6k (Small)
- COS pm: £375
- COS pa: £4.5k
- GP pm: £125
- GP pa: £1.5k
- GPM: 25% (2022 Small average: 49.7%)

o **Performance-based pricing:**
- typically for short-term campaigns
- pre-agreed measurable output e.g. visits, sales
+ attractive to clients as fee is contingent
+ reduces churn as engagement period usually extended
    small client churn on performance-based pricing: 5%
    small client churn average: 18-20%
+ focus on adding value, not hours
+ higher fees and margins
- increased risk for FDM
- potential uncertainty over measurable output

Example: Sublime
- Within a year, SEO improved and brand repositioned
- FDM proposed paid search management work (cross-sell)
- Sublime shared highly sensitive confidential operational data which has been vital to success
- Technical and commercial knowledge acquired used on other clients
- SEO: billable hours and discounted charge-out rates
- Paid search management: performance-based on pre-agreed metric; invoice at end of campaign
- 30-day Facebook ad campaign:
    Metric: increase in revenue
    Reach: 400k; Visitors 40k (10%)
    Bounce rate:
      60% probability: 50% (sector average; actual)
      30% probability: 45%
      10% probability: 52.5%
    Leads: 20%
    Conversions: 10%
    Sublime revenue per customer: £600 (Sublime: revenue £22m/18% growth; OP £2m)
- Revenue: 5% of attributable revenue increase
- Staff costs estimate: £8k (actual)
- GPM: 33.3% (based on 50% bounce rate)
- Revenue pa average: £150k (Major)
- GPM 2022: 29% (Major average: 28.5%)
- SEO: low margin as charge-out rates heavily discounted
- Paid search management: high margin but volatile as performance-based pricing

Example: HSG
- Revenue: 4% of attributable donation increase

  donations to generate £6k revenue: £6k / 4% = £150k
- low margin due to discount
- performance-based pricing risk
- sceptical about LTV calculation
- given rapid change in digital marketing, questionable ongoing annual benefit
- prefers to let small, low-margin clients go elsewhere
+ performance-based pricing has upside potential
+ performance-based pricing reduces churn

    small client churn on performance-based pricing: 5%

    small client churn average: 18-20%
+ lower churn offsets lower margins
+ positive PR and increased social media followers
- Decision: proceed based on performance-based pricing and reputational impact for personal brand

o **Lifetime value (LTV):**
- FDM aim to retain clients; single campaign can be less than a month; some clients for several years
- billable hours fee basis may be uncompetitive
- clients often cost more to service in early stages: time to understand business and develop marketing plan
- assess client value over estimated lifetime, not engagement
+ client servicing costs reduce over time
+ helps win and retain clients
+ increases overall profitability
- lowers short-term profitability
- risky as clients do not enter multi-period contracts

    Annual GP x engagement lifetime
    Engagement lifetime = 1 / Churn %

Example: HSG (using 5% churn: performance-based pricing)
    GP pa: £1.5k
    Engagement lifetime: 20 (1 / 5%)
    LTV: £30k (£1.5k x 20)

Example: Small client average (using 20% churn: average)
    GP pa: £5k (Revenue: £10k; 50% GPM)
    Engagement lifetime: 5 (1 / 20%)
    LTV: £25k (£5k x 5)

o Competitors
    Collective Link: Manchester; SEO, PPC, social media, website design, training and consulting.
    Tribalist: London, Manchester and New York; data-driven, proprietary technology platform; range of clients.
    Bracket: London; CRM, tracking analytics and performance marketing; thought leadership and educational
        resources on website (blog posts and case studies); several awards.

Staff
o Strategic goal: highly engaged staff.
o Risk: staff recruitment and attrition targets not being met.
  ▪ lost clients/higher churn, missed growth opportunities/understaffing, reputational harm
o Key enabler of growth is capacity which requires staff retention and recruitment.
o Upward pressure on wages as staff are in high demand.
o Purpose of hierarchy: facilitate staff progression; aid management of growing business; not too bureaucratic.
    2022: Directors: 5; Managers: 7; Team leaders: 10; Team members: 63; Total: 85
o Team members: informal levels based on skills and experience; may need new levels due to expansion.
o Support staff facilitate billable work.
o Client account manager:
  ▪ team members (unlike at competitors); small clients provide opportunity for team members
  ▪ early responsibility reduces staff attrition and client churn (clients value continuity)
o High workload, tight deadlines, long hours, weekend working; 3 days a week in office.
o Non-billable activities must benefit FDM:
  ▪ time allowance: 15%; client work difficult to bill included: not all billable staff time may be billed to client
o Average remuneration (inc. bonus): 2022: £45.4k; 2021: £44.1k; 2020: £43.0k
o Attrition sector average: 30%
  ▪ 2022: 11.8%; revised: 26.5%
  ▪ lower attrition reduces recruitment/training costs
  ▪ informal reasons for leaving: inaccurate job description; long hours/no holiday time; boring work; no recognition; micro-management; but remuneration never mentioned.
o Employees want flexibility and a career that aligns with their goals.
o Power shifting towards employees who are starting to reject bad jobs.
o Paying close attention to what other companies are offering.
o Employers need to anticipate what employees want.
o 'Quiet quitting': over 30% do no more than minimum requirement.
o Lack of engagement, motivation and commitment is a cost to employer.
o Social media job advert describes FDM as fun, creative, exciting, ambitious, high growth, London based.

Strategy
o Recruitment carried out early in year so training can be as early as possible.
o Risk of understaffing (inability to serve clients) and overstaffing (margin impact and management difficulties).
o Due to high demand for skilled staff, better to be overstaffed than to jeopardise revenue growth.
o Staffing strategy is to recruit for growth (October 2022).
    2023 forecast:
      Revenue target: £11,167k / 35% growth (all client sizes/mix same as PY)
      Headcount growth: at least 35% (targeted headcount increase > revenue growth due to natural attrition)
      Headcount target: revenue target / (AMFIH x 12) = 115
      AMFIH: £8.1k (same as PY)
o Ron Ashton:
  ▪ challenge assumption that growth is based on headcount and explore other growth models:
    - invest in advanced martech; software for staff utilisation and workflow planning e.g. JetStrem (CRM)
    - initial investment to implement
    - enhanced productivity
    - focus on profit and not just recruiting for growth
    - generate more revenue/profit per employee / higher AMFIH
  ▪ understaff to create demanding environment where best staff thrive, improving AMFIH and margins:
    - ensure 'right' staff stay, 'wrong' staff leave
    - offer retention drivers: flexibility; work-life balance; satisfaction, progression, recognition; reward
  ▪ transparent profit-sharing bonus scheme to motivate staff
    - staff are generally young and ambitious

Martech
o Martech apps: around 10,000 in 2022
o AI-driven CRM: management of sales and marketing teams; identify most effective sales approaches and opportunities; improved productivity and sales performance.
o JetStream:
  ▪ reported as top martech platform for remote working

- cloud-based enables team to work remotely
- collaboration and communication
- centralised hub for customer data
- AI-driven reporting and analytics: sales performance, customer behaviour, streamlines tasks
- data security: highly encrypted access controls

Relocation
o Staffing costs are very high; Manchester becoming a digital centre; salaries in north 20-25% lower.
o Financial and non-financial upfront costs.

Ethics

Legal and Regulation
o GDPR: consent to use personal data.
o Self-regulated code of practice: advertising claims supported by evidence; legal, decent, honest and truthful.
o Sublime claims that a person has higher chances of sleep success buying online due to the amount of information of their website being greater than any store salesperson.

Sustainability
o Brienne Saffire keen to promote social and environmental responsibility.
o Aware this may create tension with clients.
o Issues if clients are perceived to be unsustainable.
o FDM keen to not be complicit in misleading public e.g. 'greenwashing'.
o Sublime wanted FDM to present green credentials despite poor sustainability reputation.
o Brienne Saffire not prepared to risk FDM reputation by making unsubstantiated claims.
o Client required to demonstrate evidence for claims

Performance-based pricing
o Potential uncertainty over measurable output.

Confidentially / conflict of interest
o Potential conflicts are pre-empted.
o Separate teams used for rival clients.
o Non-disclosure agreements for staff not required unless client requests.

Confidential data misused/unauthorised access
o Reputational harm, fines, lower profit.
  ▪ Management: data security policies, compliance, IT audits, ethics training
o JetStream: Centralised hub for customer data; data security: highly encrypted access controls.
o Sublime shared highly sensitive confidential operational data which has been vital to success.

Staff
o High workload, tight deadlines, long hours, weekend working, uncapped holiday provided work is complete.
o Non-billable allowance: 15%; client work difficult to bill included: not all billable staff time may be billed to client.
o Understaff to create demanding environment where best staff thrive, improving AMFIH and margins.

Sale of shares
o Jai Williamson (Finance; 25%; ex-Big Bison):
  ▪ planned sale creates short-termism
  ▪ proposes 'pump and dump' strategy: focus on improving results over the short term
o Zizi Zettner (HR; 5%; joined 2020):
  ▪ concerns over short-termism, staff engagement, attrition, productivity
o Ron Ashton (Operations; 5%; joined 2022):
  ▪ present sale as opportunity to reward staff
  ▪ staff are generally young and ambitious
  ▪ suggests transparent profit-sharing bonus scheme to motivate staff
o Brienne Saffire: Managing; 35%; ex-Big Bison; online presence; billable
o Jerzel Morales: Sales and Technology; 30%; ex-Big Bison; billable
o CL: full-service agency with impressive growth:
  ▪ CAGR: over 20% between 2018-2023 (FDM: CAGR 24.1% between 2019-2022)
  ▪ OP: £3.8m (FDM: £2.3m)
  ▪ OPM: 30% (FDM: 28.2%)
o Financial performance very strong in 2022 and 2023.
o Founders looking for attractive payoff.

Brienne Saffire
o Online presence: passed target of 1m social media followers.
o TV chat show and discussion forum offers she would like to pursue.

ACA MASTERS

Case Study Proforma Report: November 2023

TITLE PAGE

A report on FDM

TO: Directors of FDM
FROM: Newell Mast
DATE: 8 November 2023

This report is for the Board of FDM only and should not be distributed to third parties.
No liability can be accepted in this event.

<u>**Executive Summary**</u>

<u>**Review of Financial Performance for year ended 30 September 2023**</u>
Conclusions (number and reason)
3x most significant **trend/further analysis** points, consider:
- AMFIH/headcount changes
- growing (declining) client size
- significant changes in profit margins
- significant changes in KPIs
- cash
- additional analysis issue
- ethics (if required) (always have at least two ethics issues in ES)

<u>Recommendations</u>
4x most important/obvious recommendations (including one on additional analysis and ethics)

<u>**Financial Evaluation of X proposal**</u>
Conclusions
3x most significant points not included in conclusions, consider taking an additional point from:
- financial analysis
- assumptions
- ethics (if required) (always have at least two ethics issues in ES)
- strategic/operational issues

<u>Recommendations</u>
4x most important/obvious recommendations (including one on ethics)

<u>**Evaluation of X**</u>
Conclusions
3x most significant points not included in conclusions, consider taking an additional point from:
- financial analysis
- assumptions
- ethics (always have at least two ethics issues in ES)
- strategic/operational issues

<u>Recommendations</u>
4x most important/obvious recommendations (including one on ethics)

Review of Financial Performance for Year Ended 30 September 2023

REVENUE (per requirement)

Overall revenue increased (decreased) impressively (disappointingly) by £k (x%) to £2023k which is above (below) the target of 35%/£11,167k and/but above (below) the market CAGR which is around 10%. AMFIH was £2023k (x% increase/decrease) which is above (below) the target of £8.1k and/but not the previous peak of £8.9k, whereas headcount of X (x% increase/decrease) is above (below) the target of 115 which shows that the revenue target (not) being achieved was due to AMFIH/headcount/both. Staff capacity is an enabler of revenue growth, therefore the higher headcount leaves FDM well placed for future growth. The fragile economy may have had a negative impact, so the fact that the rate of growth is increasing (decreasing) (2022: 22.4%) is excellent (expected). *Revenue from all client sizes has increased/decreased.* Many businesses have shifted towards a digital model due to the impact of COVID-19 and this has increased demand for digital marketing. Churn has increased (decreased) to x% from 15.2% due to (reason from exam scenario/performance-based pricing reduces churn/team members).

Major account revenue increased (decreased) impressively (disappointingly) by £k (x%) and is above (below) the target of £2,792k due to **reason** (reason from exam scenario). Trend/significance/further analysis (e.g. compare size of new clients to typical distribution). Churn has increased (decreased) to x% from 8.3% due to **reason** (reason from exam scenario/churn can be erratic because MNCs have low switching costs and there are a small number of clients in this category).

Large account revenue increased (decreased) impressively (disappointingly) by £k (x%) and is above (below) the target of £2,792k due to **reason** (reason from exam scenario). Trend/significance/further analysis (e.g. compare size of new clients to typical distribution). Churn has increased (decreased) to x% from 5.7% due to **reason** (reason from exam scenario/performance-based pricing reduces churn/team members).

Medium account revenue increased (decreased) impressively (disappointingly) by £k (x%) and is above (below) the target of £2,680k due to **reason** (reason from exam scenario). Trend/significance/further analysis (e.g. compare size of new clients to typical distribution). Churn has increased (decreased) to x% from 11.8% due to **reason** (reason from exam scenario/performance-based pricing reduces churn/team members).

Small account revenue increased (decreased) impressively (disappointingly) by £k (x%) and is above (below) the target of £2,903k due to **reason** (reason from exam scenario). Trend/significance/further analysis (e.g. compare size of new clients to typical distribution). Churn has increased (decreased) to x% from 19.5% due to **reason** (reason from exam scenario/churn for clients on performance-based pricing is estimated at 5%).

Major accounts for x% (22: 25.0%) of revenue, large x% (22: 25.0%), medium x% (22: 24.0%) and small x% (22: 26.0%) which is (not) in line with the 25% target. A range of client sizes helps staff retention via career progression.

COS AND GROSS PROFIT (if required)

COS increased (decreased) by £k (x%) due to an increase (decrease) in all costs and increased faster (slower) than revenue which will have a negative (positive) impact on GPM.

Billable staff increased (decreased) by £k (x%) due to **reason** (reason from exam scenario) and is now x% (22: 39.7%) of revenue. Average billable staff cost has increased (decreased) by x% to £x (22: £45.6k) which shows that the increase (decrease) was due to salary increase/headcount/both. Attrition rate has increased (decreased) to x% from 11.8% with the revised rate now x% (22: 26.5%) due to **reason** (reason from exam scenario) and is above (below) the sector average of 30%. Not achieving attrition KPI was identified as a risk/there is upward pressure on wages as high-skilled staff are in high demand/significant salary increases were introduced in 2021 to counter poaching.

Other costs increased (decreased) by £k (x%) due to **reason** (reason from exam scenario/recruitment fees for the increased headcount/lower recruitment fees due to lower attrition) and are now x% (22: 21.2%) of revenue.

Overall GP increased (decreased) impressively (disappointingly) by £k (%) to £2023 with GPM increasing (decreasing) to x% from 39.1% due to **reason** (GPM increase (decrease) in all client sizes / revenue mix shift towards higher (lower) margin small/medium (major/large) clients / revenue mix shift towards higher (lower) margin paid search management/social media management/email marketing (SEO/content creation) work / more (less) work based on

performance fee billing / AMFIH increase (AMFIH decrease due to e.g. recruiting ahead of revenue)). GPM has (not) continued to increase.

Major GP increased (decreased) impressively (disappointingly) by £k (%), with a GPM increase (decrease) to x% from 28.5%, due to **reason** (reason from exam scenario / revenue mix shift towards higher (lower) margin paid search management/other (SEO) / more (less) work based on performance fee billing).

Large GP increased (decreased) impressively (disappointingly) by £k (%), with a GPM increase (decrease) to x% from 35%, due to **reason** (reason from exam scenario / revenue mix shift towards higher (lower) margin paid search management/other (SEO) / more (less) work based on performance fee billing).

Medium GP increased (decreased) impressively (disappointingly) by £k (%), with a GPM increase (decrease) to x% from 43%, due to **reason** (reason from exam scenario / revenue mix shift towards higher (lower) margin paid search management/other (SEO) / more (less) work based on performance fee billing).

Small GP increased (decreased) impressively (disappointingly) by £k (%), with a GPM increase (decrease) to x% from 49.7%, due to **reason** (reason from exam scenario / revenue mix shift towards higher (lower) margin paid search management/other (SEO) / more (less) work based on performance fee billing).

Major accounts for x% (22: 18.2%) of GP, large x% (22: 22.4%), medium x% (22: 26.4%) and small x% (22: 33.1%) which shows e.g. the continuing importance of small clients.

OPERATING PROFIT (if required)
Admin and selling increased (decreased) by £k (x%) due to **reason** (reason from exam scenario) and increased faster (slower) than revenue which will have a negative (positive) impact on OPM.

Support staff increased (decreased) by £k (x%) due to **reason** (reason from exam scenario) and is now x% (22: 7.0%) of revenue. Average support staff cost has increased (decreased) by x% to £x (22: £44.5k) which shows that the increase (decrease) was due to salary increase/headcount/both.

Excluding support staff, costs increased by £k (x%) due to **reason** (reason from exam scenario) and are now x% (22: 4.0%) of revenue showing that they have (not) been well controlled. Average marketing spend by digital marketing companies is 4.3% of revenue which helps maintain reputation, win new clients and reduce churn.

OP has increased (decreased) impressively (disappointingly) by £k (x%) to £2023, with an OPM increase (decrease) to x% (22: 28.2%) which is above (below) the 30% target, due to **reason** (reason from exam scenario / revenue mix shift away from (towards) demanding major/large clients who increase overheads). OPM has (not) continued to increase.

ADDITIONAL ANALYSIS (per requirement)
Calculate numbers requested
Significance; impact on accounts; business impact; bias

Recommendations
3-4

ETHICS (if required)
For each issue:
▪   briefly describe ethical issue and potential impact
▪   consider whether it may not be unethical
▪   recommendations (under recommendations heading)

CONCLUSIONS
Conclude on every section asked for in requirement: copy key point(s) from each section - **number** and **reason** only

RECOMMENDATIONS
6 obvious action points on issues raised in each section
▪   Revenue and profit analysis by client
▪   Increase (reduce) charge-out rates
▪   Rebalance client mix by targeting small/medium/large/major clients

- Implement policies to reduce churn e.g. more performance-based pricing
- Introduce performance bonus based on AMFIH target
- Focus on increasing AMFIH, not just headcount
- Improve pay, conditions and career progression opportunities to reduce attrition
- Exit interviews to identify reasons for leaving
- Increase(reduce) recruitment to reduce risk of under(over) staffing
- Win more small clients to improve margins
- Cross-sell more non-SEO work to improve margins
- Introduce more performance-based billing to improve margins
- Investigate reasons for *specific client decline/specific cost increase*
- Consider relocating to reduce costs

This proforma assumes that requirement 1 will ask you to analyse the performance (revenue and profit) of the whole business.

Please remember that you should always tailor your report headings (and subsequent points) to the **exact requirement wording** and **use the exam paper information** for your reasons as to why numbers have increased/decreased.

You do not need to include all the points in the proforma. You should focus on client sizes/numbers which are the most significant in total, have seen a significant change during the year and/or have a reason given in the exam paper as to why they have changed. You should try to finish requirement 1 on time so that you have sufficient time for requirement 2 and 3. Including all the points in the proforma will almost certainly cause you to overrun; this particularly applies to revenue and GP.

Financial Evaluation of X

CONTEXT
Existing knowledge of parties involved / basics of opportunity/issue
Link proposal back to relevant points in AI, including strategy and risks (Exhibit 11)
Fragile UK economy/inflation may impact proposal

RESULTS AND FINANCIAL ANALYSIS
Numbers per requirement request
Revenue:
- compare the different options
- consider 2023 performance (e.g. will help reverse slowing growth/achieve revenue growth KPI)
- compare to 2023 and comment if significant
- compare to average client and Sublime/Compere/HSG (as appropriate)
- potential future work/cross-selling/client mix impact/revenue beyond forecast period

Costs:
- compare the different options
- opportunity cost of undertaking project if capacity limited
- client servicing costs reduce over time

GPM/OPM:
- compare the different options
- compare to 2023/average client/Sublime/Compere/HSG
- consider impact of client mix/pricing basis/service e.g. SEO lower margin
- compare to 2023 OPM and 30% target

LTV: assess client value over estimated lifetime, not just engagement
KPI impact: staff attrition (30% target), client churn, AMFIH, headcount
Cash: compare different options and consider in context of current cash position (R1)

ASSUMPTIONS AND SENSITIVITY ANALYSIS
Justify why each assumption may be higher/lower based on AI/exam paper information/R1
Bias in source of information; missing information; missing costs; forecast period too short; timeframes challenging; flaws in methodology of calculation; numbers which are fundamental to result; key risks
Any further changes to the assumptions will cause the results to change; perform sensitivity analysis by changing one or two assumptions; explain basis for changing the assumption and state revised result

STRATEGIC AND OPERATIONAL ISSUES / BENEFITS AND RISKS / FACTORS TO CONSIDER (per requirement)
4-8 most obvious points from exam paper information (issue and impact on the business)
Be brief and aim for lots of different points rather than going into depth on each one
See table for list of other points – only include points which are very relevant to the specific scenario

ETHICS (if required)
For each issue:
- briefly describe ethical issue and potential impact
- consider whether it may not be unethical
- recommendations (under recommendations heading)

CONCLUSIONS
Conclude on every section (copy key point from each section, including sensitivity analysis)
Clearly state how to proceed with brief justification why

RECOMMENDATIONS
6 obvious action points on issues raised in each section
- Negotiate
- Due diligence
- Research/corroborate all estimates
- Set timetable for activities
- Contact/consult affected stakeholders (staff, customers)

STRATEGIC	OPERATIONAL	FINANCIAL
Industry: ▪ Growth potential ▪ Experience/resources/competencies ▪ Competitors ▪ Customer power ▪ External factors (PESTEL)	**Staff:** ▪ Recruitment/Training ▪ Capacity/Management time ▪ Motivation/Reward ▪ Key staff/Succession planning ▪ Technology ▪ Performance measurement	**Revenue** ▪ Other streams / potential new streams ▪ Future changes
Company strategy: ▪ Market position ▪ Competitive advantage ▪ Brand ▪ Reputation	**Technology:** ▪ Data analytics ▪ Automation/Robots/AI ▪ Cyber security ▪ System failure ▪ Data protection (GDPR) ▪ CRM systems	**Costs** ▪ Future changes ▪ Opportunity cost
Growth opportunities: ▪ New services ▪ New markets/customers ▪ Diversification (synergies, risk) ▪ Focus on core business		**Profit** ▪ Margins (GPM/OPM)
Customer: ▪ Data analytics to identify trends, behaviour, key customers ▪ Marketing: Pricing, Promotion, Service, Place, Segmentation, CRM, Market research ▪ Customer service ▪ Feedback		**Cash** ▪ Receivables, payables ▪ Capex ▪ Future changes
Risk: ▪ Third party involvement / dependency ▪ Diversification ▪ Severity and frequency/likelihood		**Financing** ▪ Equity v Debt (gearing) ▪ Surplus cash available
Proposal: ▪ Strength of negotiating position ▪ Timing/Timeframes (un)achievable ▪ Flexibility ▪ Uncertainty of forecasts/assumptions ▪ Exit strategy ▪ Legal/Regulation ▪ Sustainability / Corporate Social Responsibility		

NOT FOR DISTRIBUTION

Evaluation of X

CONTEXT
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Fragile UK economy/inflation may impact proposal

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