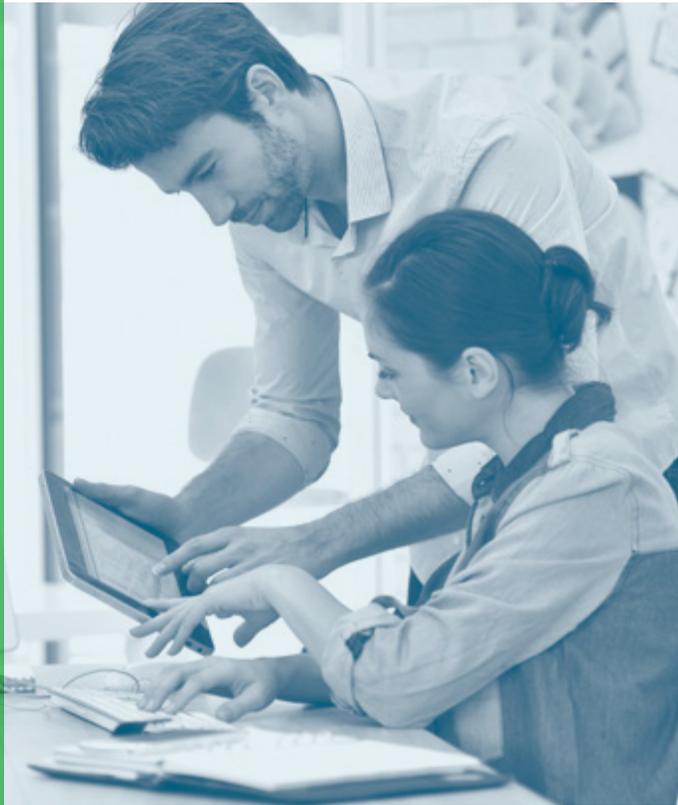


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From profitability to sustained growth

How to navigate your first 10 years as a professional services firm



10

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IN THIS GUIDE

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**BE FAST OUT
OF THE GATE**

Running a small business is an exhilarating experience. While 20% fail in their first year—and more than half go out of business within five¹—the owners who last consider it the most rewarding experience of their lives.

2

**PLAY THE
LONG GAME**

Successful professional services businesses share some common characteristics: Most are profitable within their first year, and many double their revenue by the time their counterparts close.

3

**MASTER
YOUR PAYROLL**

These findings come from a [Kabbage](#) study of more than 200 professional services businesses.

4

**DON'T SKIMP
ON MARKETING**

In an effort to maneuver the beginning of their journey, successful business owners focus most on managing cash flow. With experience, their focus shifts to acquiring new customers and then to retaining those customers and fostering loyalty. In hindsight, most wish they'd invested earlier on marketing and differentiating their services.

5

**INVEST TO
SUSTAIN GROWTH**

This guide, based on the study and real stories from business owners, takes a deeper look at how to navigate the early years and what to do differently.

¹Bureau of Labor Statistics

1

Be fast out of the gate

Professional services businesses tend to become profitable early or never at all. In fact, 68 percent of professional services firms in our study were profitable within the first year. Of those that weren't, 30 percent never managed to become profitable.

The same dynamic applied to revenue growth. Nearly two thirds of small businesses doubled their first-year revenue within four years. Of those that didn't, 68 percent have never doubled their first-year revenue.

Small-business owners credited finding customers early as a key to success. And they were willing to be as creative as necessary to get in front of the right people.

Industries most likely to be profitable in the first year

- 99% Legal
- 97% Advertising & Marketing
- 78% Software

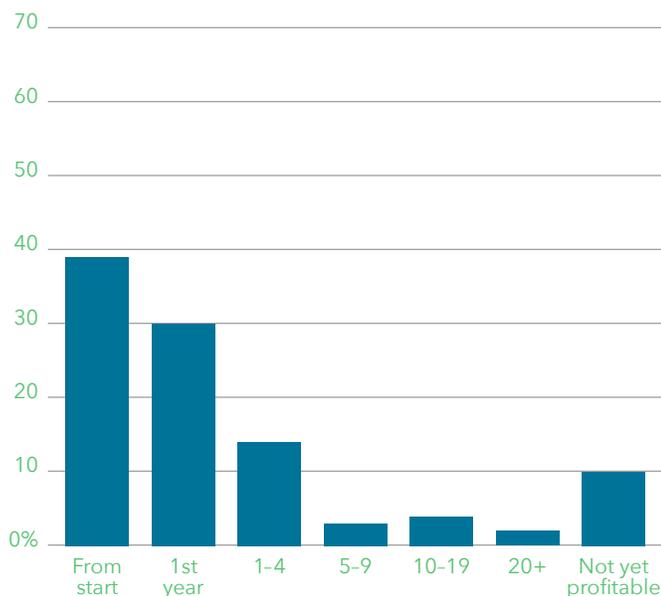
Industries least likely to be profitable in the first year

- 28% Publishing & Print media
- 47% Architect & Engineering
- 49% Personal services

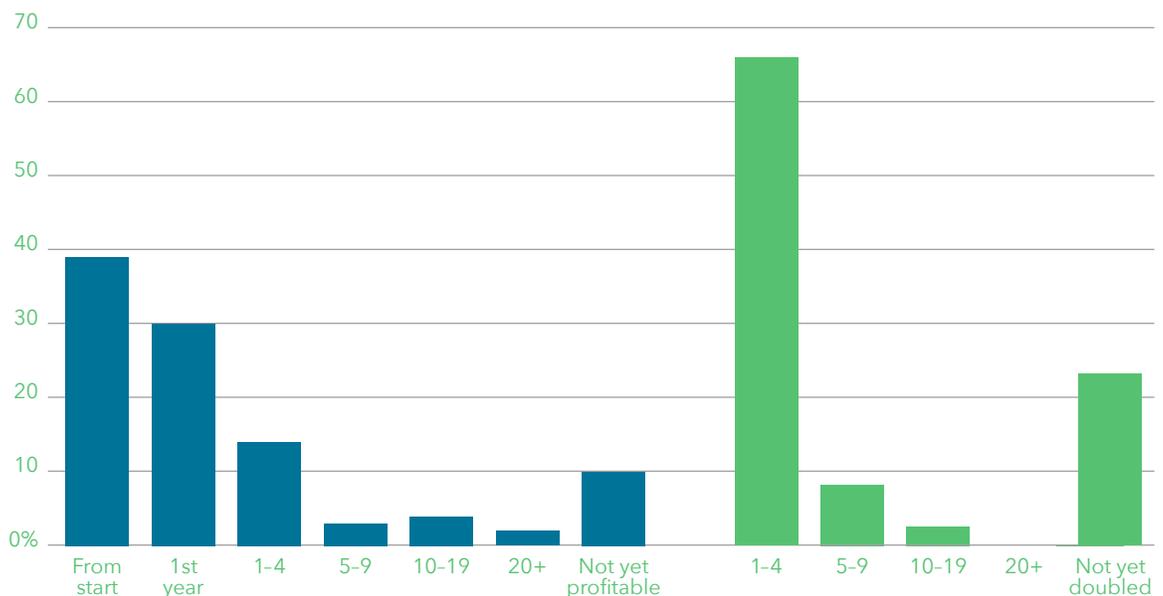
TIP

Sponsoring a community event or engaging on social media can be just as effective as recruiting clients at an office meeting

WHEN DID YOUR COMPANY FIRST BECOME PROFITABLE?



HOW LONG DID IT TAKE FOR YOU TO DOUBLE YOUR FIRST YEAR REVENUE?



FINDING CLIENTS WHERE THEY ARE



15% of services business owners said their number one focus now is building their online presence

COMPANY: Ask Jennyfer

OWNER: Jennyfer Crawford

LOCATION: Detroit, MI

Jennyfer Crawford risked her rent money to start her small business, Ask Jennyfer, a marketing and consulting firm promoting artisans and entrepreneurs in her home city.

She found many of her first customers through social media, relying heavily on Instagram hashtags to identify local businesses that needed help selling their goods and services. She's since created her own hashtags and uses them to connect with local businesses that might benefit from showcasing at All Things Detroit, her tri-annual showcase of city merchants.

In the early stages of growing her business, she found 60 percent of her clients through Instagram hashtags.

"Once I had money coming in," she says, "I could reinvest it into other tools, like building a mobile app and redeveloping my website."

Being able to expand has meant Jennyfer can explore new avenues for revenue: She's started a YouTube show where she interviews local business owners, she's launched her own ticketing site, and she's considering hiring a full-time assistant to help her company grow.



2

Play the long game

Not surprisingly, given how quickly they reached profitability, more than a third of professional services businesses in our study said cash flow was their primary year-one challenge.

As they gain experience and their firms begin to stabilize, that number drops in half. At that point, many business owners shift their focus toward growth, particularly reaching new customers.

Looking back, business owners say they should have invested more in new equipment or hiring top talent rather than worry about cash flow. And more than 40 percent wish they'd been more knowledgeable about marketing strategies, competitive research and differentiation in the early going.

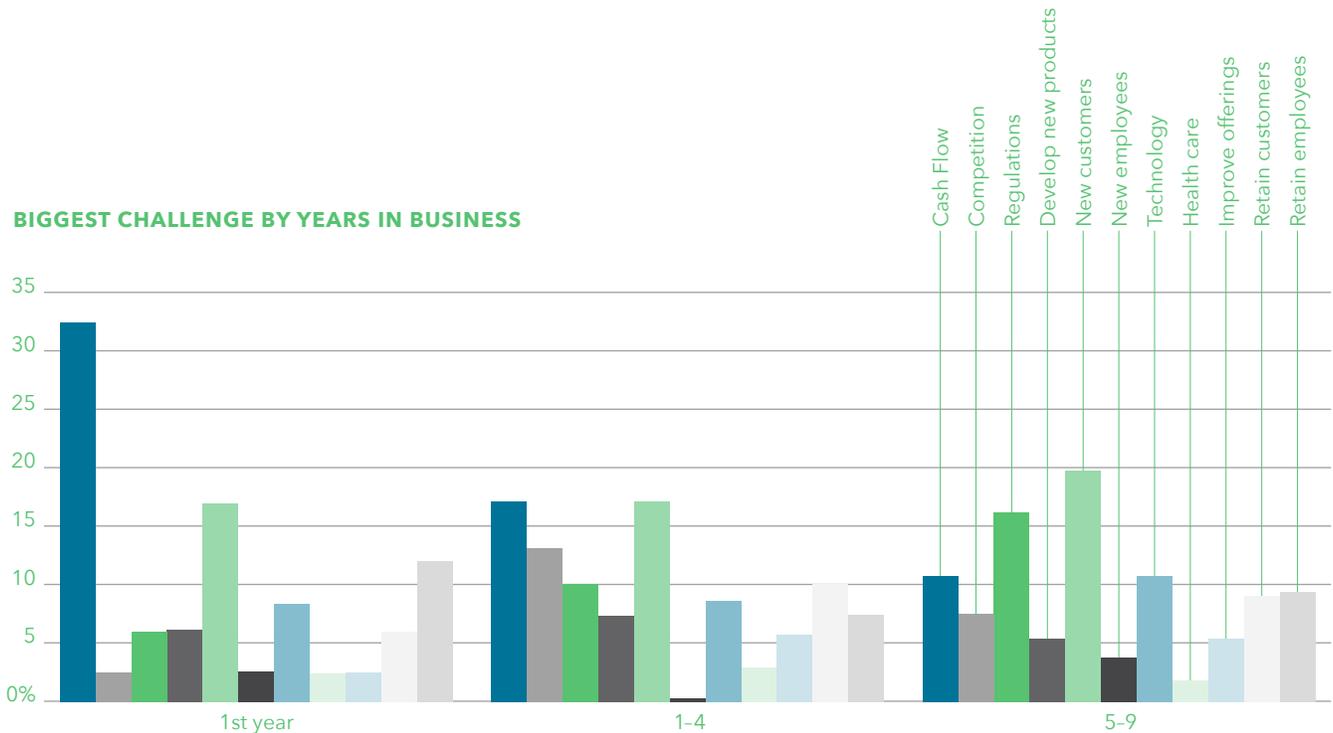
Small business owners wish they knew more about

- 27% Marketing
- 15% Cash flow
- 15% Competitive research
- 10% Customer relations
- 9% Technology
- 7% Developing new products
- 7% Government regulations
- 7% Quality control
- 4% Management

TIP

Don't just hire reactively. The sooner you invest in top talent for growth, the larger the long-term return

BIGGEST CHALLENGE BY YEARS IN BUSINESS



PUTTING YOUR CASH TO WORK



With hindsight, only 15% of services business owners said they wish they'd known more about handling cash flow

COMPANY: Brabo Payroll

OWNER: Kevin Hennessey

LOCATION: Plymouth, MA

Kevin Hennessey hired aggressively when he started his payroll business in September, 2016. He invested \$100,000 of his own money in the early-going, opened a line of credit, and added sales staffers as soon as he could.

One of those salespeople landed 10 new accounts and soon generated \$20,000 in monthly revenue.

Kevin says his ability to resist taking profits home has been a big reason for his success.

"I constantly push money back in to the company," he says. "Because the later in the game you take it out, the more profit you're going to have."

Brabo now has five full-time employees, and Kevin plans to keep hiring.

"Now I want to hire people and scale," he says. "If I can get a capital stimulus, hire 10 or 15 people and train them all at once, it'll take about four months for them to get up to speed. And then we can make a big push toward more growth."



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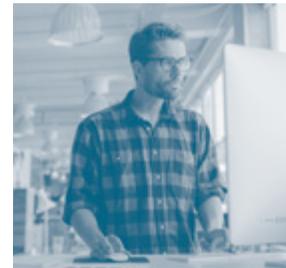
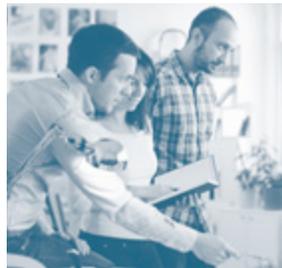
Master your payroll

People are the core of service-based businesses, so it's no surprise payroll is their biggest expense from day one.

Rent, supplies and technology investments are constant and steady expenditures. Few professional services business owners say that marketing is a top expense at any point in their companies' lives.

Top reasons for first hire

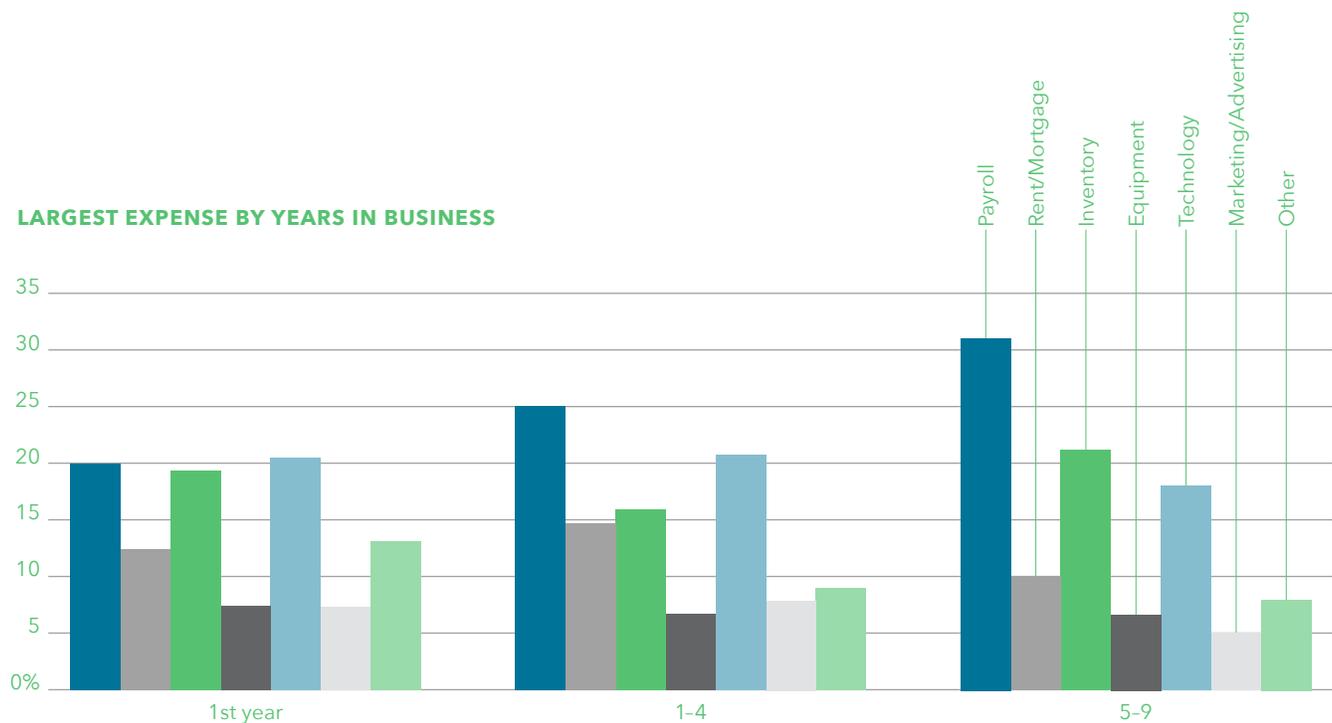
- 34% Bring in new skills
- 30% Administrative help
- 27% Keep up with demand



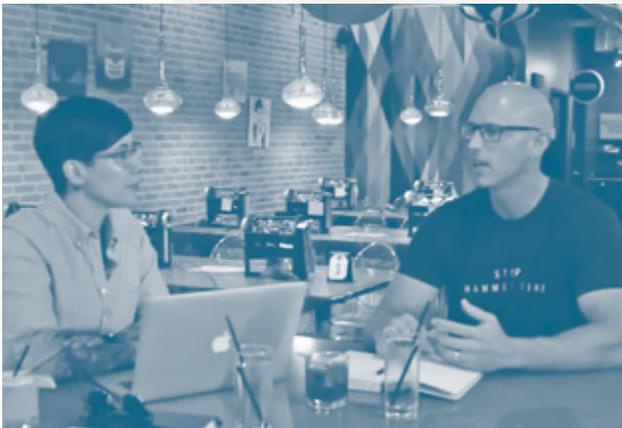
TIP

Take the time to learn your employees' and clients' outside interests and long-term goals, and they'll be more likely to stick with you

LARGEST EXPENSE BY YEARS IN BUSINESS



DOING THE MATH ON NEW HIRES



COMPANY: Accounting Prose

OWNER: Cristina Garza

LOCATION: Denver, CO

Cristina Garza was inspired to start her accounting-services business while traveling around the world with a monk who ran the organization where she served as CFO. Her goal, as reflected in the company's name, is to aid small businesses in telling their own stories. By taking care of their accounting, Cristina says, "I can help them do their best work and do what they love."

Over time, the company has grown to 10 employees and it has clients around the country. And now Cristina can gauge what each new hire adds to her bottom line.

"For each employee, when they're at their peak efficiency, we can bill three times their salary," she says. "If I have one staff member that we're paying \$50,000 a year for salaries and benefits, we can expect a three-fold return. So we'll have \$150,000 in revenue for each head that's in the office."

Screen clients like you would employees. You need a good culture fit to ensure growth



4

Don't skimp on marketing

In their first years, when firms are focused on survival, many business owners say it's easy to downplay the importance of marketing and advertising. Few invest in these activities early on.

Yet it's the primary category where they now say they should have invested more. In fact, more business owners wish they'd spent more on marketing in years one through four than those who wished they'd spent more on payroll, rent, inventory and equipment combined.

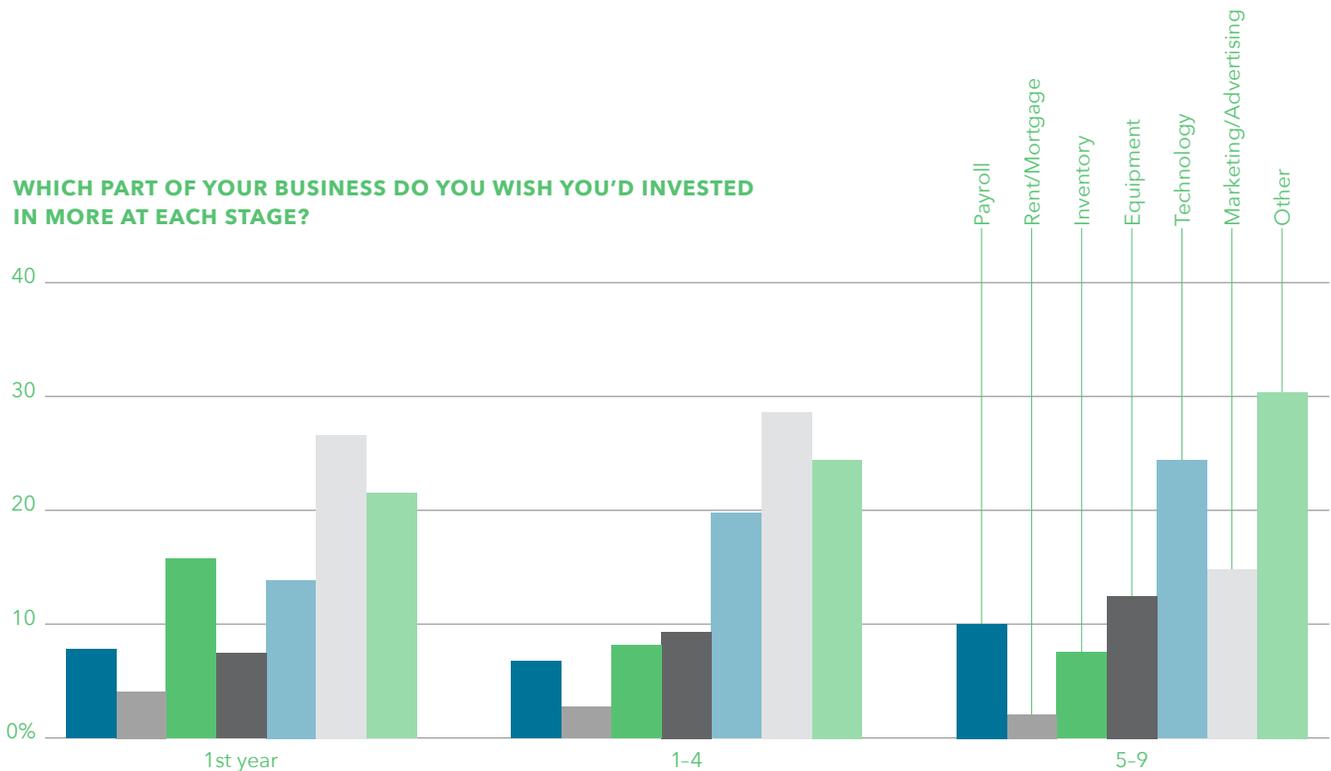
Over time, technology investments also become paramount. Business owners list things like new computers and printers that, in retrospect, are worth spending on at the start.



TIP

Spending on new equipment may cost more, but you won't need to replace it as soon. So you'll have more money later to invest in advertising or a website

WHICH PART OF YOUR BUSINESS DO YOU WISH YOU'D INVESTED IN MORE AT EACH STAGE?



MAKING LOCAL MARKETING A PRIORITY



27% of services businesses wish they'd spent more on marketing in their first year

COMPANY: Gazda Insurance Agency

OWNER: Steve Gazda

LOCATION: East McKeesport, PA

When Steve Gazda opened his insurance agency, he invested in an office, employees, and some new equipment. With his funds tied up, he needed to find creative ways to market himself. Which is where the bottled water came in.

When a local 5K race asked Steve for money, he told them he'd be their water sponsor instead. He borrowed \$1,500 to buy a tent, tablecloth, and some ice buckets, and had his niece and nephew peel the labels off 24 cases of bottled water, replacing them with labels that included his logo, name and phone number.

The sponsorship led to \$4,000 in business. Now, he sponsors the water for a half dozen races a year.

"The biggest lesson for me is that I can't just look at the short-term," Steve says. "I may not make my money back in the first 30 days, but if I spark some good conversations, I'm going to get that business down the road."



5

Invest to sustain growth

Maturing firms recognize the importance of investing in their businesses as they seek to sustain growth.

Many said these efforts will focus on marketing, and they identified reaching new customers and building out their online presence as the steps that will best allow them to do so.

Often, this requires loans or lines of credit, as almost a quarter of firms said they needed more money to move ahead with their goals.

Spending on growth opportunities tends to pay off in the long run: Nearly one-third of business owners say that changing and expanding their target market and increasing their advertising led to their biggest jumps in profit.

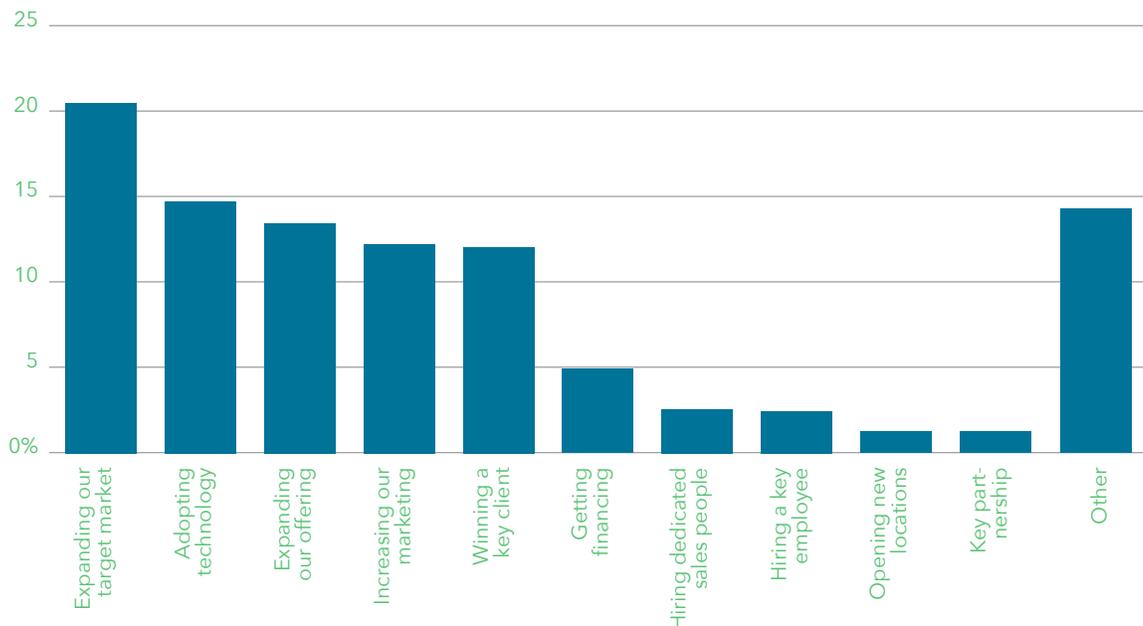
What will you focus on to ensure your company continues to see growth?

- 30% Marketing
- 22% Money to execute needs
- 15% Online presence
- 12% Outsmarting competition
- 11% Technology
- 6% New locations
- 3% New products
- 1% Increase workforce

TIP

It may take months or years to see the return on marketing investments, but they pay off in the long run

WHAT ONE BUSINESS DECISION HAS LED TO YOUR BIGGEST JUMP IN PROFITS?



How to make it to the 10-year mark

Tips to set your professional services business up for success

BE FAST OUT OF THE GATE

- ✓ Find clients where they socialize, not just at their offices. Look online or at local events.
- ✓ It's never too early to invest your money back into the company.

PLAY THE LONG GAME

- ✓ Don't hire and market reactively. Treat employees and promoting yourself as keys to growth.
- ✓ Don't let short-term cash-flow concerns distract you from your long-term goals.

MASTER YOUR PAYROLL

- ✓ Learn as soon as possible how much revenue each new hire can add to your bottom line.
- ✓ Steady growth requires both employees and clients who are good cultural fits.

DON'T SKIMP ON MARKETING

- ✓ Spending on marketing up front will lead to opportunities down the road.
- ✓ Spending on new equipment may cost more, but you won't need to replace it as soon. So you'll have more money later to invest in advertising or a website.

INVEST TO SUSTAIN GROWTH

- ✓ A website and strong social media presence make it easier to reach more prospects at once.
- ✓ Be patient and build your brand. Some marketing opportunities may take years to show a return.



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