# Why free pitching does not pay

## The financial argument

dlba

# The hypothetical agency

A £1,000,000 agency with 10 people

Each year their income comes from 10 clients, each paying £100,000

Target profit margin is 20%
(after staff costs of 65-70%, other costs of 10-15%)

Each year the relationship with 7 of the clients roll over into the following year for another £100,000 each

So, they are searching for 3 new clients at £100k each

# The finances of free pitching

| Project A £100,000 | Project B £100,000 | Project C £100,000 | Income potential £300,000 |
|---|---|---|---|
| -£10,000 pitch costs | -£10,000 pitch costs | -£10,000 pitch costs | -£30,000 sunk costs |
| £20,000 profit | £40,000 profit (2 x £20k) | £60,000 profit (3 x £20k) | Total potential profit £60,000 |
| -£10,000 | £10,000 (5%) | £30,000 (10%) | **Total potential loss -£30,000** |

If you only win one project you are £10k down

If you win two projects your profit margin is only 5%

If you win all three projects, you still only get a 10% profit

# Impact on profitability

7 x £100k projects at 20% margin = £140k
3 x £100k projects at 10% margin = £30k

Total is £170k or 17% as the best-case scenario if your ‘pitch win rate’ was 100%

If your win rate was 50% it would take you 6 pitches to win the 3 projects meaning you would not make any profit on the projects won via free pitches. And it would reduce your overall profit margin to 14%

If you won 1 out of every 3 pitches you would need to take part in 9 pitches (potentially costing £90k) to win 3 (to gain £60k in profit). The £30k loss would reduce your overall profit margin to 11%