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# The Agency Margin Leak: Where Creative Businesses Lose Profit Between the Brief and the Invoice

*Why busy, growing agencies still end the year with thin margins, and what the best-run shops do differently.*

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A Lumo white paper · Chase Software

## Key Takeaways

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- **The leak is real and quantifiable.** 57% of agencies (US survey) lose \$1,000–\$5,000 every month to unbilled and out-of-scope work, and a further 30% lose more than \$5,000 a month. Only 1% successfully bill for all out-of-scope work. [1]
- **Margins leave no room for error.** With average after-tax net margins of roughly 13%, a single overrunning project (industry estimates put average overruns in the 20–30% range) can erase the entire year's profit on that engagement. [2][5]
- **Over-servicing is endemic.** More than three-quarters of creative agencies report routinely working beyond their agreed scope without additional billing, and utilisation has slipped to around 68.9%, below the healthy 70–80% range. [3][6]
- **The root cause is structural.** The work lives in project tools; the money lives in finance systems and spreadsheets. Nobody reconciles the two in real time, so the leak only shows up after the invoice has gone out, if it shows up at all.
- **The fix is discipline plus visibility.** Agencies that implement structured scoping and change-order processes report meaningful reductions in unbilled work. An agency losing the industry-average ~\$3,000/month to scope creep (Ignition, 2025) that recovers even half of it adds about **\$18,000 a year** straight to net margin.

## The Invisible Leak

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Walk into most agencies today and you will not find a business in trouble. You will find full pipelines, busy teams, clients asking for more, and studios working at or beyond capacity.

Then you look at the year-end numbers.

Average after-tax net margins for digital agencies sat at roughly 13% in 2025, down from a longer-run average of around 15%, with margins falling to single digits for agencies above ~25–50 staff. [2] That is thin for businesses selling premium expertise at premium day rates. The pipeline is full and the team is stretched, yet the profit never quite arrives.

The loss happens inside the agency, in the gap between what was briefed, what was quoted, what was actually done and what was finally invoiced. Every job travels that path, and at every hand-off a little value falls through the floorboards.

*The profit was earned. It just never made it onto the invoice.*

Practitioner data suggests fewer than half of agencies consistently achieve all key profitability benchmarks; the rest lose a significant share of potential profit to scope creep, poor time-tracking and misaligned pricing. [4] This paper looks at where that leakage happens, why it persists even in well-managed agencies, and the operating habits that close the gap.

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## The Three Places Margin Leaks

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Margin rarely disappears in one dramatic event. It seeps out through three predictable cracks in the way agencies run work.

### 1. Scope Creep and Over-Servicing

Every agency knows the pattern. The brief is signed off. Then the client asks for “one small tweak”. A third round of amends becomes a fifth. The campaign extends to a channel nobody scoped. Each request is small, reasonable and relationship-sensitive, so the team absorbs it. The costs add up.

**57%**

of agencies (US survey) lose **\$1,000–\$5,000 per month** to unbilled, out-of-scope work, and a further 30% lose more than \$5,000 a month. Only 1% successfully bill for all of it. [1]

None of this is rare. PMI’s Pulse of the Profession survey found that 52% of projects experience scope creep (PMI, 2018), and most affected projects exceed their original budgets, with industry estimates putting average overruns in the 20–30% range. [5] More than three-quarters of creative agencies report routinely working beyond their agreed scope without additional billing. [3]

Set those overruns against a 13% margin on a £100,000 engagement:

- **Planned profit** at a 13% net margin: **£13,000**.
- **An overrun of 27%, the upper end of the 20–30% range industry estimates cite**, represents roughly **£27,000** of unplanned, largely unbilled effort.
- **Net result:** the £13,000 profit is wiped out entirely, and the job drags the agency approximately £14,000 into the red.

One creeping project does more than dilute its own margin. At those overrun rates it consumes its own profit, then cancels out the profit of the next healthy £100,000 engagement as well. An agency

can be winning work, delighting clients and shipping excellent creative while quietly running two projects to pay for every one that leaks.

Most of this work is not un-billable. It is simply un-billed. The client asked for it, received it and valued it; the agency never converted the request into a commercial event.

## **2. Quoted One Thing, Delivered Another**

The second leak is quieter. It needs no demanding client and no scope change at all, only that nobody compares the estimate with reality until it is too late to act.

Most agencies estimate carefully at the start of a job: hours by role, third-party costs, a margin assumption. Once the job is live, though, the estimate becomes a historical document. Actual hours pile up in a timesheet system, actual supplier costs land in the finance system, and the original cost estimate sits in a PDF that nobody reopens until month-end reconciliation. Often nobody reopens it at all.

So the numbers drift. A senior creative does work quoted for a mid-weight. A production cost comes in 15% over the purchase order. A ten-hour task takes sixteen. None of these is individually alarming, and none is individually visible. By the time the invoice is raised, usually straight from the original quote because that is what the client signed, the gap between what was priced and what was delivered has been locked in as lost margin.

This is why agencies missing key benchmarks leak so much potential profit. Hundreds of small variances go unreconciled, and nobody is positioned to catch them while the job is live. [4]

## **3. The Hours That Never Existed**

The third leak happens before any of this, at the point where work becomes data.

Time captured late is time captured wrong. When people reconstruct their week on a Friday afternoon, or worse at month-end, short tasks vanish, context-switching disappears, and hours quietly migrate towards whatever job is easiest to remember. An unlogged hour never reaches the estimate-versus-actual comparison, the scope conversation or the invoice.

Utilisation compounds the problem. Billable utilisation across agencies fell to around 68.9% in 2024, below the roughly 75% level generally considered optimal and beneath the healthy 70–80% “Goldilocks zone”. [6]

# 68.9%

Billable utilisation fell to ~68.9% in 2024, below the ~70–80% healthy range. Every point of lost utilisation is capacity the agency paid for but never sold. [6]

The three leaks also hide one another. Teams that over-service (leak one) do real work that never appears as billable time (leak three), so the estimate never visibly overruns (leak two). The agency's reports can look healthy while the margin drains, which is why so many leaders only discover the problem in the year-end accounts.

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## The Work and the Money Live in Different Systems

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Leakage at this scale, affecting 87% of agencies to the tune of four or five figures a month [1], cannot be pinned on weak account management or undisciplined teams. The cause is structural.

In the typical agency, **the work lives in one place and the money lives in another:**

- Briefs, tasks, traffic and delivery sit in project-management tools, chat threads and shared drives.
- Estimates, purchase orders, supplier invoices and client billing sit in the finance system, supplemented almost universally by spreadsheets.

Between these two worlds sits a human reconciliation process that runs, at best, monthly. Nobody's job is to notice, on a Tuesday afternoon, that job 4172 has burned 80% of its estimated hours at 50% completion, or that a client's "quick amend" was the ninth unbilled change on the engagement. The information exists, but it is split across systems that do not speak to each other, in formats that do not line up, on timelines that do not match.

The consequences follow mechanically:

- **Scope changes never become commercial events**, because the person receiving the request (a project manager in a PM tool) is disconnected from the mechanism that would price and bill it (finance).
- **Estimates are never reconciled against actuals in-flight**, because doing so means manually joining timesheets, POs and quotes. So it happens rarely, and always in arrears.
- **Time capture stays painful**, because it is a separate system and a separate chore, disconnected from where people actually plan their day.

Until the work and the money move through the same system, on the same timeline, the leak is simply what the architecture produces. No amount of discipline outruns it for long.

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## **Closing the Gap: Five Principles for a Leak-Proof Agency**

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This is fixable, and the fix does not require reinventing the agency. Agencies that implement structured scoping and change-order processes report meaningful reductions in unbilled work. An agency losing the industry-average ~\$3,000/month to scope creep (Ignition, 2025) that recovers even half of it adds about **\$18,000 a year** straight to net margin. Five operating principles do most of the work.

### **1. Start Every Job with a Structured Brief**

Ambiguity at the brief stage is the raw material of scope creep. A structured brief (deliverables, rounds of amends, assumptions, exclusions, named approvers) turns “the client expected it” into a resolvable question rather than an argument the agency absorbs. If a deliverable is not in the brief, it is a change, and everyone knows it from day one.

### **2. Treat Scope Changes as First-Class, Billable Events**

The single highest-leverage habit an agency can build: when scope changes, something formal happens. The change is captured, estimated and put in front of the client as a decision — approve the cost, trade it against something in scope, or drop it. Most clients accept this readily when it is systematic and immediate; they resent it only when it arrives as a surprise at invoice time. And since only 1% of agencies bill all out-of-scope work [1], the competitive bar is low.

### **3. Reconcile Estimates Against Actuals While the Job Runs**

Keep the estimate alive after the job starts. Every job should answer, at any moment: hours burned versus hours quoted, costs committed versus costs estimated, margin now versus margin planned. Drift caught at 30% burn is a conversation; drift caught at invoice is a write-off.

### **4. Make Time Capture Frictionless**

Time data is the raw feed for everything above, and its quality is set by how easy capture is. The closer time capture sits to where people already work — their calendar, their tasks, their day — the more accurate and complete it becomes. Chasing timesheets at month-end guarantees reconstructed, flattering, incomplete data.

## 5. Run One Source of Truth Per Job

Every job should have a single place where the brief, the estimate, the purchase orders, the time, the changes and the invoice are visible together. When the commercial state of a job is one view rather than five exports, leakage stops being an archaeology exercise and becomes a live number anyone can act on.

None of these principles is exotic. What defeats agencies is trying to run them across disconnected systems, by hand, forever. Discipline that depends on heroic manual reconciliation eventually loses to deadline pressure. Discipline built into the system does not.

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## Where Lumo Fits

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Lumo, the agency-management platform from Chase Software, was built on a simple premise: the work and the money should move through one system, together.

In Lumo, every job runs as a single commercial thread from cost estimate to purchase order to invoice, continuously reconciled against actual time and cost, so estimate-versus-actual drift is visible while there is still time to act. Scope changes are handled as first-class events: Lumo's Reverts turn client change requests into tracked, billable line items rather than silently absorbed favours. The Job Overview gives COOs and finance leaders a live view of every job's burn, commitments and margin in one place. And because time capture is calendar-native, timesheets stop being a month-end chase and become an accurate by-product of the working day.

In short: the five principles above, built into the operating system of the agency rather than bolted on around it.

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## See Where Your Margin Is Leaking

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If 87% of agencies are losing four or five figures a month between the brief and the invoice [1], the safe assumption is that yours is too. The useful questions are where, and how much. For most firms, recovering even a fraction of unbilled work and drift is worth multiples of any tooling investment; against a 13% net margin, every recovered point of leakage lands directly on the bottom line.

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*The work has been done and the margin earned. Whether it reaches the invoice is now an operational choice.*

**Book a Lumo demo and see, job by job, where your margin is going and how to get it back.**

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## References

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*Figures from vendor-sponsored or practitioner surveys are directional; see the Research & Sources log for full assessment.*