



Why Lack of Self Esteem is Suppressing Profits in the Accounting Profession

By Colin Dunn

Let's start by making an observation: profits in the accounting profession in Australia and around the world are far too low. There are many partners and principals earning less than \$100,000. For all of the risk assumed in being in business, why bother?

There are many and varied reasons cited as to why such low profitability exists. For example, our clients can't afford to pay more, or we can't find good people, or there is too much compliance work to do, meaning we don't have time to do any high value work with our clients. Frankly, most of these are excuses. It's your business and you choose how you run that business. In my opinion, the major reason why profitability is low is a lack of self esteem. In this article I will give examples of how self esteem becomes eroded and what action to take to reverse the cycle.

The first realisation is that you must believe in what you are worth. I believe the profession in Australia has been sent into a negative spiral as a result of the introduction of the GST in 2000. (For international readers, think of the impact of any major tax reform or significant new tax legislation). What was expected to be the golden goose for accountants actually proved quite the opposite, with many firms becoming more and more engaged in low value, transactional, commoditised work for clients. Sadly, the upshot of this has been that client contact has reduced, as has the time available to engage in higher value projects on behalf of clients. This increased focus on low value work for, in many instances, clients with limited potential to enhance the skills of the accountant inevitably results in accountants feeling that the work they are doing has little, if any, inherent value.

Here is a classic example. Recently I was talking with a partner in a firm that is the only firm in their state to undertake valuation work for a particular industry. They have valuations coming out of their ears, many of them referred from the major banks. They do each valuation at a fixed fee of \$2,500. A cursory analysis of their numbers shows that the average hourly rate recovered on these valuations was lower than that for basic tax compliance work. This despite the fact that they are acknowledged experts in the field, they have no competition and every valuation they are asked to do is urgent! I asked when they last increased their prices and the answer was three years ago. My next question was how much have your salaries increased in the past three years – the answer – at least 30% and probably more. It makes no sense.

A couple of weeks ago I met the executive chairman of the Australian Wildflowers Association at a social gathering. During our discussion, he asked what I do and I explained that I help accountants improve their businesses. He said he was talking with an accountant just recently who had said there were two things wrong with his business: firstly, he was working too many hours, and secondly, he wasn't making enough money. Wildflower man says to accountant: "That's easy to fix – put your prices up!" Accountant replies: "I couldn't do that, I'd lose clients." Wildflower man makes a seminal insight: "Well, you've just told me you're working too many hours, so why would you worry about losing a few clients?"

Many of the challenges facing the profession have been created by the fixation on using charge out rates as a basis for billing. This concept is fundamentally flawed for at least two reasons:

1. It makes the assumption that the value to the client is a function of the time taken by you to complete said work AND the charge out rates that YOU decide upon. In many cases, this is a blatantly incorrect assumption.
2. You are putting a cap on your revenue – and in the booming economy of recent years, increases in expenses (and in particular, salary costs) have outstripped increases in charge out rates, meaning profits are squeezed further.

So how to change this? It is a leadership issue that starts with the partners or directors making a decision that you are going to build the future growth of your business commensurate with the value you create for your clients, which to my mind is a fundamentally sound proposition. Contrast that to the established view, being growth will be determined by the amount by which we increase our charge out rates. This makes no sense. How do you look a client in the eye and tell them that the longer you take, the more they pay? Which is essentially what you are saying when you hide behind time based billing.

Let me give you an example. Last week I was talking with a partner in a firm just getting into this value pricing process. They had been asked to work on an urgent due diligence project for a client and had quoted \$11,000 up front for the work. The client agreed to the fee without hesitation. The accounting firm performed the work efficiently and the job came in at around \$6,500 based on charge out rates. The partner responsible said that he felt guilty billing the \$11,000, despite the fact that the client had agreed to the price up front. I asked him the following question: “What if you had set your charge out rate at \$450 instead of \$260? Would you still feel guilty?” His answer – probably not. And that is the root of the whole problem. Incidentally, there are firms in his city where partners charge out at over \$450, which brings us back once again to the self esteem issue. (Incidentally, there are many more charging out at less than \$260.)

So does it matter what sort of services you are providing to your clients? Is there more scope for high prices and higher value if you operate in a niche area or have skills in delivering high value consulting work to clients? Well, there is certainly more scope for demonstrating value, but no matter what sort of firm we operate, we need to look at ourselves and answer a hard question: do we undervalue what we do? Let’s take a real live case of a very small firm where 80% of revenue comes from simple I-returns. Upon interviewing the principal of the firm, it transpires that it takes on average 20 minutes to complete such a return and then a fixed fee of \$99 is charged. The firm processes approximately 1500 returns each year. Doing the simple maths, this is, on the face of it, a \$300 per hour service.

And yet the average hourly rate recovered by this firm is less than \$100. How can that be? Upon the principal’s own admission, he does over half of the returns himself and feels the need to spend over an hour with each client “chatting with them to build the relationship” – despite the fact that on his further admission, very little additional work is identified and sold as a result of this extra time invested. This is a classic case of over-servicing the client, which happens all the time in this industry. Over-servicing at no additional cost is a by-product of a failure to believe in what you are providing.

Finally, contrast the accounting profession with our colleagues in the legal profession. What is the first thing we think of when we hear the word ‘lawyers’? I have asked this question of accountants many times and the most common response is ‘expensive’. Yet why is that so? I once discussed this issue with Ron Baker, author of *The Professional’s Guide to Value Pricing* and other subsequent books. Ron has a direct view on this: he says that the first subject taken by law students when they embark upon their studies is Arrogance 101! He has a point. And whilst we don’t wish you to become arrogant, what you must do is have more belief in yourself.

Here are ten tips to help you do that:

1. Before starting a job, hold a quick brainstorm with members of your team to determine where the value is for the client in the upcoming engagement. Even basic compliance work is more valuable than we think (for example, it can be used for financing, insurance, leasing, business planning, benchmarking, making better management decisions and so on).
2. Communicate more with your clients. Talk with them before and during the work you do for them. Take every opportunity to remind them of the value you bring to the table.
3. Find out what others are charging for the same service. Ask other accountants you know in your locale. DON'T ask 'what's your charge rate?' Ask them specific questions such as 'how much do you charge for a cash flow forecast?'
4. Set prices up front. Be prepared to look clients in the eye and say 'the price is \$15,000'. If you have articulated enough value in the project at hand, price will not be an issue.
5. Ask yourself this question: what would happen if you put your charge out rates up by 20% tomorrow? If the answer is 'nothing' or 'not much', bite the bullet and do it.
6. The first sale is ALWAYS to yourself. You need to convince yourself that you are worth more. I am not suggesting motivational seminars and the like; instead, think about the great work you have done for clients over the years and the results your clients have got. Ask clients for testimonials and references. Read them regularly. Most accountants tell me that the majority of their new work comes from referrals – we should have GREAT self esteem!
7. Find ways to add more value. Start with simple things. Consider giving the client some options. For example, you might have a conversation like this with a client:

"John and Mary, I've been thinking about your work for 08/09 and there are three ways we could work with you this year. Option 1 is that we can do the work as we previously have done, so that you comply with all legislation. The price for that option is \$X (which should be 10-15% higher than you billed last year). Option 2 is we do the work in option 1, plus we do some analysis of your numbers and provide you with a bound report with some charts, diagrams, ratio analysis and commentary on the key numbers so that you'll be able to make better management decisions. The price for option 2 is \$Y. And then option 3, where we do options 1 and 2 plus we come and meet with you for a couple of hours each quarter, review your management accounts, talk about the key business issues you are facing, set some short term goals and hold you accountable for those goals. The price for option 3 is \$Z." Then let the client decide.
8. Get better at asking questions. If the client says I need a cash flow, ask 'why'? The client should then articulate why they perceive the need. No client wants a cash flow forecast just to receive a nice spreadsheet from you. They are likely to tell you that they couldn't pay the wages last week, or the bank is putting pressure on them, or they are thinking of acquiring some new equipment and are not sure if they can afford it, or whatever else is on their mind. Whatever response you get, the likelihood is you will be able to make the client understand what they NEED, rather than what they thought they wanted, and this is where you add value.
9. Sell outcomes, not activities. A firm I interviewed recently had an opportunity to propose for some work to help a client improve their business. The partner's instinctive approach was to print out a business plan template to take to show the client. As soon as you do that, you are selling a commodity and unless you have a strong relationship, the client might shop your business plan around to try to find a cheaper one. Instead, ask questions to determine the

client's objectives framed as business outcomes, measures and value to the client. When you do that, you will have the confidence to charge more AND your fee becomes academic.

10. Use commanding language that controls the relationships you have with your clients. The best source I know of to help you significantly improve in this area is the work of Alan Weiss. Get hold of some of Alan's material or, better yet, come and see him live in Sydney on October 7 at a full day seminar (tickets available through www.robnixon.com). It will be a day thoroughly well spent.

Let's get rid of this self esteem issue. Accountants do GREAT work for clients on a daily basis. Remind yourself of the impact you have. Open the lines of communication and talk more frequently with your clients to understand where they perceive value in their interactions with you. And use the confidence you take from that to start earning what you're really worth.

End note: Colin Dunn is a director of ReNew Group Pty Ltd, based in Queensland. ReNew Group helps professional service firms market and promote their services. We do that by helping you to identify what your clients need, develop a range of services to address those needs and then build strong relationships with clients to help clients acknowledge their needs and engage the firm to assist.

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