

Pricing pointers in a difficult economy

by *Colin Dunn*

In his address to a group of CPAs in the US recently, ReNew Group Principal and Chartered Accountant Colin Dunn discussed the subtleties of value pricing in a professional services context. Here Colin outlines the key points of his address and explores practical methodologies for implementing these in your own firm.

You can't value price a service that you don't believe is valuable

There is a difference between pricing upfront and pricing on value. One is methodical; the other is philosophical. It's fine to have a fixed price for short jobs such as individual returns where you can advise the client of the price before you start the work.

For example, you might offer a flat rate for a basic return, then another rate for a return with a couple of rental properties, then still another rate for one with, say, between one and ten investments. That's fine. But don't try to convince the client that something you know is really a grudge purchase and that they have to have done is of great value.



Reasonably increasing price from year to year on individuals

Segment your clients and your services into 'new' and 'existing'. With an existing service to an existing client there is what you might call price parity where they have purchased the exact same item from you in the past and they know roughly what that cost. Where there is price parity, one of two situations occurs:

1. If the fee was acceptable last year (meaning you got a decent realisation rate based on the hours it took you to complete the work) then anything more than a five to ten per cent increase could be difficult to achieve. In these cases, you need to be more concerned with the average hourly rate recovered rather than the price.

Let's take the example of an individual whom you charged \$450 last year. And let's assume further that it took you three hours to complete the job. So your average hourly rate (AHR) was \$150. In planning for this year, you set the price at, say, \$475 and you challenge your team to do the job in 2.5 hours rather than three hours. Your AHR will jump to \$190 and you'll free up some capacity (in this case, half an hour but if you do that on every job it will mount up). What I see as one of the major benefits of pricing up front is that it motivates you to drive down the hours. Pricing in arrears motivates you to INCREASE the hours and in fact places you in an almost ethical conflict in that the more inefficient you are, the more you get paid. That can't be right.

2. If your fee was too low last year, you need to have a different discussion with the client. Let's say you charged \$350 and you should have charged \$450 but, for whatever reason, you

wrote off time because you didn't believe the client would pay the \$450. And let's further imagine that this client has been a client for five years and you have consistently undercharged them. The way you handle that is with a phone call to the client that goes like this: "John and Mary, we've been doing some analysis and we've discovered that unfortunately we've been undercharging you for the past five years. No we're not about to rectify that with one big bill – we'll take that hit. But going forward, the price needs to be \$450 otherwise I'm sorry, we're unable to do your work."¹

Of course that takes some courage. But we need to get courageous. What's the alternative? Nobody wants to be gutless! Will you lose some clients if you do this? Sure. Probably a few. But they'll likely be clients who you don't like anyway and you'll free up some time to work more closely with clients that you like and who appreciate working with you.

Pricing work when you are already so busy that you don't know when or how the work will be completed

This question was received in advance of my speech. My response was as follows: Don't confuse pricing with workflow management. Many accountants put themselves under unnecessary pressure and stress by trying to negotiate fixed fees with every client all at once. That makes no sense. You should only price an engagement when you're ready to start it or, at the very least, you need to have the wherewithal to tell a client that you can do the work but you won't be able to get started until a future specified date. Don't let your clients control your workflow.

I am aware, however, that a bigger problem exists than the point that's actually been made. I'm inferring that accountants can be feeling extremely overwhelmed with existing client work and do not feel able to take on additional work from clients. What I'd suggest if that's the case is to revisit your strategy:

- Are you working with clients who do not fit your ideal?
- Are you working with low value clients?
- Have you calculated the AHR by client – this simple exercise can provide extremely insightful results that can help with strategy.
- Do you have designs on growing your firm on one hand, but you're cautious as to whether you should hire a new accountant on the other hand?

In other words, there can be more strategic than tactical matters lurking and I'd urge you to find out what your real objectives are, to put a stake in the ground and make some decisions. It's almost certain you will have clients with unmet needs (both existing clients and future clients) and until you let go of some of the dead wood or invest in some surplus capacity, you can't embrace those opportunities.

¹ Thank you to my good friend Rob Nixon for this script which works wonderfully well.

Increasing price in a recession

It's your business and you can do what you want. But you need to think about ways in which you can add more client service if you're planning to increase prices. Brainstorm what you could do to provide more value to your clients so that price becomes less of an issue. For example:

- Offer unlimited phone access to you, perhaps to your top 30 clients? Very few clients ever abuse that.
- Offer a free report outlining your thoughts on strategies for thriving as we're coming out of the recession.
- For individuals, offer them a free review of their borrowings. You can always increase prices moderately as long as you're increasing value.

Incidentally, on the topic of the recession, you may or may not know that in Australia we have not technically had a recession. In fact, I had 51 accounting firms work with me during the course of the year and their average growth for the year ended June 30 2009 was 29%. So with all this talk of a global financial crisis most accountants have had very good years and many of their clients have had very good years – and you will have clients who are doing very well in this environment as well. You need to find those clients and talk with them about how you can work together to help them capitalise on the opportunities that will present themselves as the economy recovers.

Those clients who have had a difficult year will be looking to you for confidence and so you need to talk confidently about how you can help them. Talk about how they can prosper and thrive rather than how they can survive. It will make a huge difference and the great thing about perception is you can create it and the media have done a great job about creating the perception that things are all doom and gloom. I find it really interesting that both the Dow Jones and the Australian All Ordinaries indices are up over 50% since their March lows. When I ask accountants if their clients are aware of that and what are they talking with clients about to help them capitalise on the improved economic conditions that will surely come, they often give me blank stares.

Take your relationships with your clients to new levels and provide value that is relevant and time sensitive and you can increase your prices any time.

Pricing compliance services to new clients

It's virtually a certainty that the accountant your new client is leaving is undercharging – it's my experience that most accountants are. One of the first things I advise accounting firms to do when I start working with them is to increase their fees. Some have increased fees by up to 30% with virtually no resistance from clients, a clear indication that they were too low to start with. Never use the previous accountants' fee as your benchmark for pricing the work. You can use it as a guide but add a minimum of 25%.

I work with an accountant in Melbourne who tells all new clients that they should expect to pay double what they paid their previous accountant if they choose to come on board as a client. Of course, he then goes on to talk with them about all of the extra value a relationship with his firm would provide. He doesn't get price sensitive clients, which is a good thing.

Provide new clients with a fixed price for their compliance work. If you get asked the question 'what are your rates' the very best response is 'I don't have rates'. If they then ask 'how do you know what to charge me' your response should be 'our policy is to provide a fixed price on a job by job basis for everything we do for you. That way you always know where you stand; you can call me during the project without worrying that the metre is running; and most importantly, we're incentivised to do your work as quickly as possible rather than dragging it out to get more hours on the clock. Our best clients love this way of working with us and they tell us that it has helped open the lines of communication and improved our turnaround time.' If they then say 'no other accountant has ever spoken to me in these terms before; everyone else quotes a charge out rate' you say 'well that's why you need us. We do things differently and, I think, better for you.'²

Don't pre-judge your clients and your services. Just because a client asks for a compliance service does not mean that is what they really need. We need to get better at asking the right questions to move the client from what they think they need to what they really want. That's why ReNew Group created the web-based client development and marketing application called TRUST (visit www.renewgroup.com.au and click on 'TRUST' to access a demo version of this leading edge tool).

New clients are classic candidates for such a tool. They have no prior experience of your firm and you're almost guaranteed to increase the scope of the work you do for the client if you take them through a TRUST client assessment to determine their needs and create an action plan for the year ahead. And this is where you can get into value pricing – if, through discussions with the client you determine that what they really need is a complete refinance, which would include the provision of full cash flow forecasts and budgets, negotiations with the bank, rollover of the forecasts on a quarterly basis and a monthly check in to set short term actions and hold them accountable for the delivery of those actions as well as their tax and accounting taken care of, then suddenly you're into a \$25,000 project rather than a \$3,000 compliance job.

And, by the way, there is not one accountant who could not deliver all of that work IF you asked the right questions.

How to manage fixed price agreements so you don't lose money

The key is to price by the job rather than for the whole year. You need very clear objectives in your project proposals and you need the courage to push back when the client suggests you might do some extra work that was not originally anticipated. If you're very clear on your objectives you can go to the client and say 'well yes, we could do that, but as you can see here, that's outside of the original objectives that we set so let's talk about what you need and I can write a fresh proposal for you.'

Be very clear on what's covered, what's not and then having the confidence to avoid scope creep by being firm with your client. You need to treat the client as a peer and as business partner.

How to price value added services to any clients

Let me once again acknowledge a mentor to me and to hundreds of accountants in Australia in the past year, Alan Weiss. Alan, of course, lives in the US and is the author of Million Dollar Consulting

² These scripts are adapted from the work of Alan Weiss and work exceptionally well in the accounting profession.

and 31 other books and one of his core teachings is value pricing. He's travelled to Australia three times in the past year and presented to sell out houses of accountants so there's a real movement starting to move in this direction.

You must get what Alan calls conceptual agreement with the client. That means that you must have the client articulate very clearly what he or she is looking to accomplish – the objectives of the project. Then once again, have the client tell you how they would know that they are on target to meet the objectives – the measures. And finally, if you could work together to achieve the objectives as measured by the metrics you put in place, what would be the value to the client and their business of doing that? What would be the lasting impact?

Have your client articulate their objectives, measures and value by once again asking lots of questions and not settling until you have those answers. Never guess or put your own interpretation on it – the client must state this in their own words. Incidentally, the value can be quantitative, qualitative or both. For example, in outlining a profit improvement program for a client you might demonstrate and have the client agree to the following value:

- Increased profitability of \$100,000 (which incidentally they get EVERY YEAR)
- Increased value of their business on sale of, say, three times incremental earnings so at least \$300,000
- Improved cash flow reducing annual interest payments by \$10,000
- Reduced stress levels
- Peace of mind
- Increased repute or even just a sense of the owners feeling better about themselves

If you're pricing that project, you've been able to demonstrate so much value that you could propose a range of options ranging from, say \$30,000 to \$50,000 and the client would be looking at a return on investment of at least 10:1 and likely much more than that if they were to put a dollar figure on the qualitative value they have given you.

Compare that to the traditional way of pricing. This might be an 80 to 100 hour project and even at \$250 per hour, which you're unlikely to charge anyway in arrears, you can see that you would have left significant dollars on the table. When I say you're unlikely to charge a high amount when you bill in arrears that's because, unless you possess great self worth and courage, you're always in the mindset that this is a lot of money, the hours have clocked up, and you probably shouldn't charge them all to the client. This is exactly how write offs occur – they are mostly in the mind of the accountant. And by the way, you chose to have write offs just as easily you can choose to have write ONS.

The renowned sales trainer, Zig Ziglar, once said that for 40 years of his life he chose to be fat. He said 'I never accidentally ate anything!' So everything you do is by choice – make the right choices. Pricing projects up front and based on value is fairer to you AND the client. Your fee is commensurate with your contribution to the project so that you are well rewarded and your client receives a great return on investment. Who could argue with that?

One final point – take it slowly. The biggest mistake accountants make is trying to give a price or write a proposal too early. Your proposal should summarise your discussions with the client and provide them with options for investment and return based on those discussions. It should NOT be a negotiation document. So take your time and you'll build the quality of the relationship, increase the

trust your client has in you, better demonstrate the value you can bring and ultimately get a bigger project and a larger fee.

The more value you can demonstrate, the more you can charge

Let me give you a couple of examples of how accountants have priced value added services, both from Australia, and both in the past twelve months:

1. A sole practitioner based in a town of 20,000 people in north-western Tasmania. The accounting firm's revenue is just over \$1M. The client runs a light engineering business:
 - The client attends a business seminar put on by the accountant and takes advantage of free follow up consultation to review the profit improvement potential. The accountant spends the first 30 minutes of the meeting asking questions to understand the clients' objectives: that the client wants to retire in five years and, to do so with the standard of living he and his wife require, he will need cash generating assets of \$4M in retirement. Currently he has less than \$1M. The accountant runs a simple financial model with the client to demonstrate profit improvement potential of \$1M per year.
 - A subtle yet critically important nuance: the accountant asks the client if he believes he can achieve the \$1M. The client says probably not as it seems difficult. So the accountant asks the client what do YOU believe you can achieve? The client says \$700K. The accountant says what if we just achieved half of that \$700K, say \$350K? Do you think we could do that? The client agrees that would be achievable. Critically, the client has now bought into the process.
 - The accountant provides a proposal with a range of options priced from \$35K to \$60K. The client selects option 3 because he likes the extra value being offered including some work with team members, focus group with clients and assistance with marketing (the accounting firm has an in-house marketing expert who is outsourced to clients on projects like this). The accountant offers a payment plan over three months and demonstrates how the fee would be funded out of new cash flow as a result of the project.
 - The accountant is now ten months into the project with the client and they are on target to achieve an additional \$2.7M in profit in year one. Did the accountant undercharge? Probably, but it doesn't matter. The accountant is happy with his fee and the client is delighted with the value and that's the basis for a good fee.
2. The second example is of a slightly larger firm. Three partners in Brisbane. One of the partners identifies a once off opportunity to save the client \$3M in tax. The client has been with the firm for nine years and the accountant has a very strong relationship with the client. The client is a high net worth individual:
 - The accountant backs himself and hires one of the best tax lawyers in Australia who charges \$800 an hour in Sydney. The tax lawyer supports the accountant's view on the opportunity. So feeling very confident about the potential saving, the accountant goes to the client and explains what he has discovered and that he has obtained a second

opinion from the lawyer. He says don't worry about the lawyer's fees, I've covered that as part of scoping this work.

- He asks the client if he'd like the firm to write a proposal for the work. The client readily agrees. The accountant offers a fixed fee of \$250,000. The client says yes immediately and the whole amount is in the bank within three days. The job is now done and the tax saving has been accomplished. There were 46 hours on WIP. Do the maths.

There are many more examples like this, some on large and some on smaller scales. On higher value work you should be realising at least \$400 an hour for your work. You are selling knowledge, not time. It's amazing how much the price can vary for the same job. I was in a room with eight accounting firms recently and asked how much they would charge for a simple cash flow forecast. I asked each accountant to write down a number then we went round the room and they each read out their number. The prices ranged from \$750 to \$5,000. At the lower end, the firm priced based on time and had low rates. At the higher end, they operated on a value pricing basis providing a fixed fee up front.

When I worked in practice in the UK we charged £3,500 for a simple cash flow service in 1993. Yet most firms are charging much less than that today because they can do the job faster because of technology. What we forget is that this profession has invested billions of dollars in technology and most of it has been passed on to the client. That can't be right, and that's why time based billing does not reward you to the extent that you deserve.

Is it better to price face to face or on the phone?

For lower value work, including compliance, don't over think it. Send the client an engagement letter or even a quick email explaining that going forward, your policy is to give them a price for each job up front. Tell them that you've reviewed their work and the price will be \$2,500. Ask for them to respond and then you'll start the work.

For value added services, you need to meet face to face with the client and establish conceptual agreement, meaning you are fully agreed on the objectives, the measures and the value as stated by the client. You must ALWAYS be in control of the relationship so what you say at the end of the meeting is 'what I'd like to do now is go away and put together a proposal that will give you some options as to how we can work together to achieve your objectives. Now today is Tuesday. I'll get the proposal to you on Thursday – will you be available? Good. How does 10 o'clock suit you? I'll call you then because you're going to have some questions and then you can let me know which option you prefer.'

Then write a short proposal and send it to the client. In the proposal there is a space for sign off and you've already signed on behalf of your firm. The client indicates their preferred option, signs and returns it to you and you're in business.

To summarise, I've talked about how to price compliance services to existing clients and how there is price parity in play. I covered pricing compliance services to new clients and how the fee they paid their old accountant was almost certainly too low and gave you some techniques for getting the client focused on what they really need rather than what they think they want. Finally I've discussed how to price assignments where you are creating a lot of value for your client.



These opportunities are numerous in your client base but you need to be among clients and asking lots of questions to spot them – then get the client to articulate the objectives, the measurement metrics and the lasting impact to them and their business. I hope I've given you some food for thought and, more importantly, some practical suggestions that you can implement with your clients. Because, when all is said and done, implementation is the key and to implement you're going to have to make some changes. As the former British Prime Minister Harold Wilson once said: "He who rejects change is the architect of decay. The only human institution which rejects progress is the cemetery. "

I urge you to embrace the concepts discussed and make the changes you know need to happen to create a better relationship for you and your clients.

About the author

Colin Dunn is the Principal of ReNew Group Pty Ltd. ReNew Group provides consulting services to professional services firms. Colin's passion is to help professionals achieve balance between optimal earnings and desired lifestyle.

Colin started his career with one of the fastest growing accounting firms in the United Kingdom, working in audit, corporate finance and business development. In 1996 he joined Results Accountants' Systems (later RAN ONE) where he played a pivotal role in content creation and product development, before running the European operations and subsequently the Australian operations. He co-founded ReNew Group in 2004.

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