

Pricing Accounting Services and the Model T Ford

By Rob Nixon

Henry Ford said it to his customers...“you can have any colour as long as it’s black”.

With time based billing, you are saying the same thing to yours...“you can buy anything you want from me as long as it’s \$200 per hour”.

Isn’t it the same as what Mr Ford said?

Sure, each person in your firm has a different charge rate – and you think that represents the value they bring to the table. The challenge is with what each person does on a daily basis, they provide different value. But you charge the same price, per person, per hour, no matter what the task is.

Some tasks you do have infinitely more value than others. But you charge the same price. That just doesn’t make sense to me – or your clients.

The problem lies in the time based billing model. I think that any form of time based billing (units, hours, day) is so last century! It’s so Model T...Model Time.

You do not sell time! You sell intellectual property. You sell knowledge. You sell wisdom. You sell know how. Yet, you price it as time spent multiplied by rate. To get to a price you assume that the rate per hour is correct and the time to do it is correct. Neither is ever correct.

Think about the value you bring to your clients. Think about those quick 5 or 10 minute phone calls when clients ask you for advice. Think about what you do at tax planning time. You make your clients money. You save them money. You give them peace of mind. You keep them out of jail!

How much is the value you bring to the table worth? I have no idea. Neither do you.

That is the annoying part of value pricing and packaged services. There is no right or wrong price. The value lies in how much your client is prepared to pay for your services, based on how much they perceive the service (and you) are worth.

It’s all perception. It’s all the value perceived by the client – not you or anyone else in your firm.

An accounting firm client of mine (with a wealth creation division) recently told me of a story involving a new client meeting that he had. The financial fitness of the new client was in a bit of a mess, so a four step process needed to be implemented. 1) Estate planning 2) Optimum tax structure review 3) Debt management plan and 4) Tax planning. The fee quoted (excluding legal costs and any other major disbursements) to sort the mess out was \$11,000. The client said yes on the spot.

I asked the partner a couple of questions. The first one was “where did you get the \$11,000 number from”? He told me he made it up. Actually he told me where he got the number from, but I cannot repeat it in this article!

My next question to the partner was “what value did you present to the client for your \$11,000 fee”? Apparently there was a discussion between the partner and the client regarding new hypothetical tax rates and capital gains tax concessions. But nothing concrete.

The client said yes on the spot, so clearly the price was wrong. If the partner had articulated the real value of the work that would be performed and quantified it to the client, then the price charged could have been much more. Could the price have doubled? Tripled? Possibly. Remember clients have no idea what you do.

I probed the partner further and found out there was a restructuring plan they had in mind, which would save the client six figures in tax every year. How much is that worth to the client? Millions of dollars.

It seems in this instance, the partner of the firm got part of the process correct – tell the client up-front how much it will cost. What was missing was the articulation of the value that the client would get for the money. Even just asking the client what they think the value was, would have been a good start.

Articulating value is the skillful part – but not that hard. To find value in what you do, you have to look beyond what you do. You have to look at the value from the other side of the desk. The clients' side!

With what your firm does - is it tax saved? Money made? Convenience had? Lifestyle gained? Peace of mind found? Keeping me out of jail assured?

Consider annual compliance based statutory financial statements for a business. Where is the value in the 'have to' service that every business must do to comply with the government regulations?

Many accounting firms say "little value". I beg to differ. Assuming the matter has been dealt with in a timely manner, then here is the value:

1. The client will not have to pay fees / penalties for being late.
2. The client knows their financial position for the previous year.
3. The client can use the document for financing / insurance purposes.
4. The client can vindicate (or otherwise) decisions they have made throughout the year.
5. The client knows how much tax they need to pay – or not.
6. The client has confidence in you the accountant because it has been completed on time.
7. The client can now make management decisions for the next year based on the results.

All of this for \$200 per hour. Give me a break. It is worth so much more than that!

Think about tax planning. You could say (because you heard you must tell the client the price up front before you start) "*Mr & Mrs Jones your fee for tax planning this year is \$7,500. Is that OK with you*"? They may or may not say yes.

Or you could say..."*Mr & Mrs Jones we have your three quarter results and we have extrapolated them out to a full year. With our preliminary work we have determined, that with a fair bit more work, and restructuring some of your affairs, we know we can get a minimum tax advantage for you of \$75,000 per year, every year, for the next 8 years. So a total tax saving benefit of \$600,000. To do the work our fee is \$7,500 and we require a 50% deposit to get started. Is that OK with you*"?

Yes every time - just because it had \$2,200 on the clock is irrelevant. The job was pre-sold at \$7,500. So mark it up.

With a bit more detail and articulating the value, the fee is not an issue. Come to think of it, if there was a \$600,000 saving then \$7,500 is way too cheap in the first place!

Let me give you another simple script or dialogue to help you.

Often you are asked what your charge rates per hour are. Instead of saying that you have an hourly rate, simply say:

"Our firm does not charge by the hour. Every other firm does. Firms that charge by the hour get more if they are inefficient. Because the slower they go, the more they get. We would rather give you an agreed price for each job before we start, and if we are efficient then we win – if we are inefficient then you win".

It's been said so many times before that accountants undervalue what they do. And while ever you persist with time based billing, you will always undervalue what you do.

To get away from time based billing to more value based billing, you need to realise a few things.

- It's all about you valuing you, and the intellectual capabilities of your firm – it starts there.
- It's all about realising that you do not sell time – you sell knowledge.
- It's all about making the invisible visible – tell them what you have done, and tell them again.
- It's all about realising that it is arrogant in the extreme to dictate to the market place how much they will pay – you must test.
- It's all about realising that if they keep saying yes, then the price is wrong – you must pick a high number, articulate the value of the work, and tell the client. When they say yes...the price was wrong!
- It's all about finding the value in everything you do – there **is** value in everything you do. It just needs to be uncovered.
- It's all about articulating that value to the clients – the clients do not understand your value because you have never told them.
- It's all about being bold and assertive. From reactive to proactive. From typical to high performing.

It's not about selling time. That is so last century!