



## January 2008 PCPS Brief

### **Value Pricing: Making It Work in a Small Firm**

As firms begin gearing up for busy season, this is also the time of year when some practices are negotiating fixed prices for their services to clients throughout the coming year. Firms that engage in value pricing shift their emphasis from hourly billing to valuing a bundle of services. In this Brief, Ron Baker, founder of the VeraSage Institute, a think tank dedicated to eliminating the billable hour and timesheets from the profession, describes how it works. He also explains why small firms often have an advantage when it comes to implementing value pricing.

### **Setting the Stage**

“Most firms try to be all things to all people,” Baker observes, but value pricing requires a more focused approach. As a result, firms that want to institute value pricing must begin the process by determining their purpose for existence, with specific guidelines on the services the practice will offer and the clients it will serve. With a firm purpose established, it’s possible to create a workable strategy and a marketing approach. “Pricing is the last step in that chain,” Baker says. The effort will include establishing a minimum price for services and revitalizing rules on client selection and firing. “You want to be sure you have spare capacity for your best clients,” Baker says. “You don’t want to spend too much capacity on low-value relationships.”

Once firm leadership has determined the purpose and strategy, pricing management should be handed over to a chief value officer, he advises. This person has ultimate responsibility—and authority—for negotiating and setting prices for all clients. In addition, this CVO would be in charge of a pricing cartel within the firm, which would work with the CVO to set prices. “Any business is based on the division of labor,” Baker explains. “And some people within a firm are better at pricing than others.” The pricing cartel should be in charge of pricing just as a firm member with certain technical skills and talents would be assigned to a specific service area based on those abilities.

The pricing cartel can consist of one person or several, but its main initial job is educating firm members about how the new paradigm will work. The CVO and cartel will also take charge of scoping out each job or ongoing relationship and setting prices for it. “The cartel members are the SWAT team that works with the client relationship partner to determine the price of the services to be performed,” he says.

### **The Small Firm Advantage**

But can a small practitioner institute what sounds like a complicated, labor-intensive process? “Many of the CPAs who institute value pricing have been sole proprietors,” Baker says. “It’s easier for them to accomplish because they don’t have partners.” Large firms often continue following current practice because it’s difficult to introduce innovation into a wide-ranging organization. And asking colleagues to abandon long-held beliefs can be a challenge. “We’ve taught generations of accountants that value equates to time and that we as accountants sell time,” he notes.

Clients, on the other hand, are happy to move to a value pricing system, Baker reports, noting that in almost every other business a buyer typically knows the price in advance. “That makes sense to clients,” he says. “Convincing partners is the hard part.” For that reason, firms with fewer decision makers to win over and less bureaucracy in place can be more nimble when effecting a change.

Baker suggests that a partner in conjunction with the CVO present a fixed price agreement to clients outlining the services to be provided in the coming year. In their presentation, the firm members can explain that the agreement provides unlimited access to firm members and a set price. Prices are based on the fixed price agreements negotiated with clients, with change orders covering added work.

The pricing approach can vary depending on the clients the firm serves and their size. For large tax compliance practices, Baker strongly advises setting different levels of service—such as Platinum and Gold, with a fixed price at each level--and allowing clients to choose among them.

### **Surprising Benefits**

Value pricing can strengthen client relationships, enhance profitability, provide firms with a reliable annual income stream and make it easier to spread work throughout the year, according to Baker, but there are also indirect benefits. “When firms do this, they become a lightning rod to attract talent,” Baker says. “Getting rid of timesheets can be a huge competitive advantage in recruitment and loyalty. Team members appreciate being judged based on their results, not their efforts.” Flexible schedules and other accommodations are easier to offer when a firm earns money by achieving a goal rather than by billing for a certain number of hours.

Baker has made available exclusively for PCPS members a CVO and Price Cartel Agenda, which can be found here: <http://pcps.aicpa.org/Resources/Fee+Pressure+Pricing/CVO+and+Pricing+Cartel++Agenda+Topics+Forms+and+Checklists.htm>. The agenda offers information firms will need to get started, including instructions on decisions to be made and a sample fixed price agreement. Readers can also find articles on the subject at the Verasage Web site by following these links:

<http://email.aicpa.org/cgi-bin/15/DM/y/hbP40So15i0FWZ0hi10ER>

<http://email.aicpa.org/cgi-bin/15/DM/y/hbP40So15i0FWZ0hi20ES>

You can also learn more about value pricing from a PCPS online Practice Management

Forum given by Baker that is archived on the PCPS Firm Practice Center: <http://pcps.aicpa.org/Resources/PCPS+Practice+Management+Forums/#2006%20Series>.

In addition, the Winter 2008 issue of PCPS *Seasonality Success* contains an article on value pricing: [www.aicpa.org/pcps](http://www.aicpa.org/pcps).

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