



TRANSITIONING TO FIXED FEE PRICING

A GUIDE FOR BOOKKEEPING PROFESSIONALS

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Expanding your scope

Hourly rate billing is an out-of-date practice, value-based on fixed price billing is in. The guide demonstrates the role of fixed and value-based pricing for potentially highly profitable bookkeeping applications and corresponding practice management, marketing, selling, performing, and billing and collecting bookkeeping service processes.

As digital transformation takes over the world, accounting, bookkeeping service providers everywhere need to change to survive, developing new capabilities that can drive competitiveness and growth. But what does this really involve and how do you succeed?

Fixed fee pricing is a sure-fire way to, not just escape from the vice-like grip of hourly billing, but offers an opportunity to expand the scope of the bookkeeping professional's service offering by enabling conversations that are beyond compliance, with the business customer.

Sole practitioners in particular, face an uphill battle to sustain their present and past revenue streams as automation slashes the value of compliance work - indeed any work that can be done by machines (that is, software). It is collaboration with others who have skill sets or platforms that will save their skins.

To be clear, an accounting and bookkeeping service firm today needs to be across, not just the digital tools available, but have the capability to package higher value services, market their services, on-board and train new accounting 'technicians'.

Determine your client's business needs

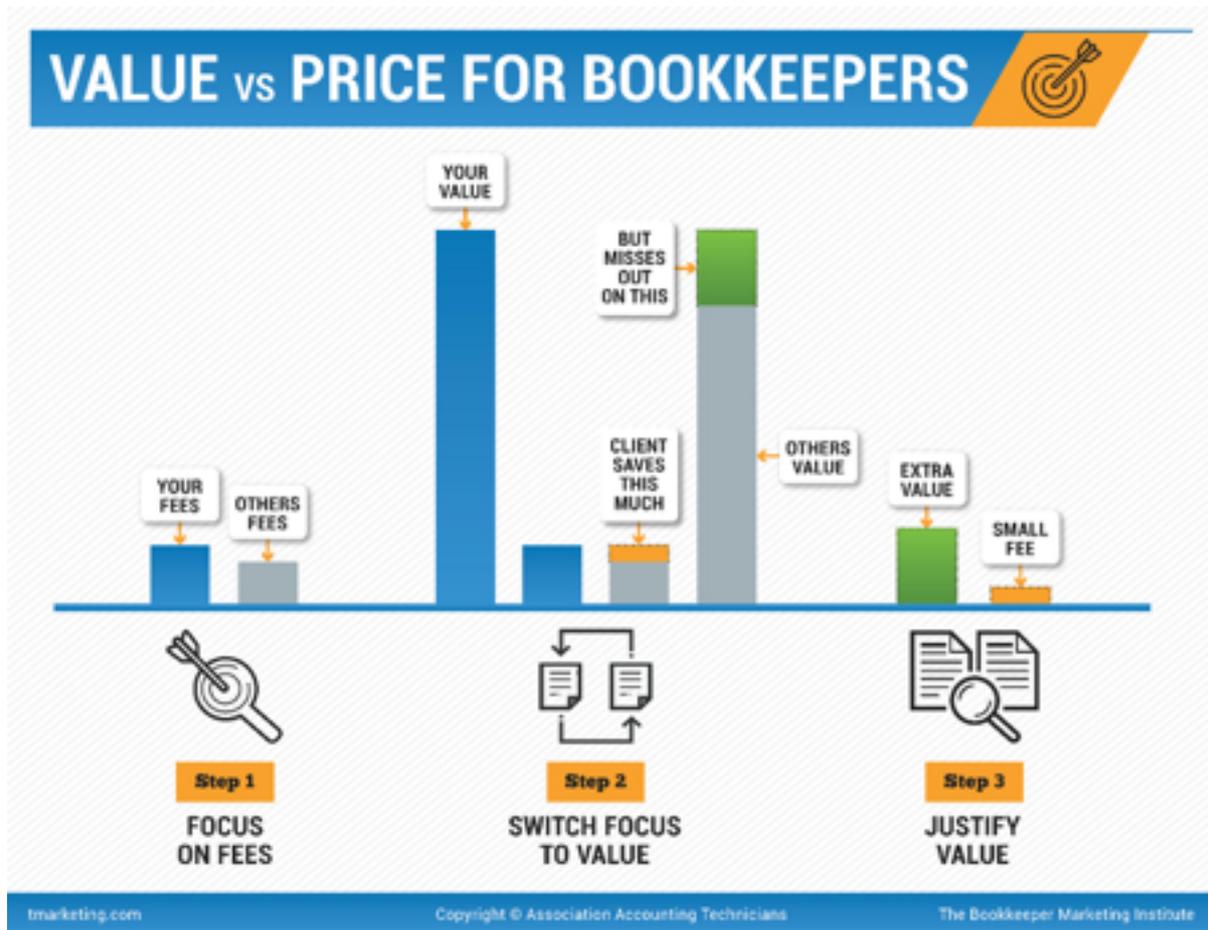
Fixed pricing encourages you to move up the value chain; that means going beyond the numbers and finding real solutions to their most pressing business problems.

In order to identify which clients are interested in getting more strategic business advice:

- Examine what level of discussion they are interested in. Do they only care about the financials, or are they open to discussing their vision, systems and strategy?
- List times the client shared their business issues looking for solutions. List times you have given advice and they have acted on it. The more open they are to this type of relationship the better the transition to fixed-fee pricing is likely to go.

Adding value to customers

Too many professionals view marketing as a money pit and stay well away. The real issue however, is growing revenue and the easiest way to increase revenue is to increase project value. There is no wriggle room on compliance work but there is plenty of scope to increase prices for services that add value to the customer's business. It is useful to consider the pointy end of the issue: value versus price because we know that perception of value is what has led many bookkeepers down the slippery slope of discounting their value and hence their fees.



When surveyed late last year (2017), a majority of bookkeeping business owners said that they had not raised prices for fear of scaring off customers. There's a simple way to mitigate against this risk: raise the prices for new customers. The first will be the hardest, then self-confidence will take over.

As we noted from the graphic above, the conversation with the customer – whether new or existing – should be switched from hourly rate or fee to value.

Expand your services

Forget hourly billing, transition your service offerings to bundled offers. One bookkeeper re-bundled her compliance work with a 'debt management' service offering (essentially automating the collection system), pricing the service at three times her older fee. Naturally, she had to convince the customers that this represented three times as much value to them.

EXPAND CAPABILITY

EXPAND CAPABILITY 1.0 DAY/WEEK

- FIX:** Scope creep eats up 5-10 hours each week. Whether it's collecting client info or anything that is not being accounted for in the bookkeeper's fee service agreement, scope creep needs to be identified and then permanently eradicated.
- INVEST:** Continue to build business skills especially in building systems that enable replication, including technology integration. Create a new position to coordinate client-related administration to enable the professionals to achieve optimal productivity.
- RESULTS:** You as bookkeeping business owner now have ample time (at least 50% of the week) to be the team leader and Business Development Manager. Now that's a massive expansion in your firm's capability to generate more revenue!

RECRUIT A CUSTOMER SERVICE MANAGER

A second way to grow revenue is to have customers come back for more, more often. One of the advantages of team collaboration is that brainstorming can become a regular feature of the firm (and their external partners).

Generating ideas to have customers come back more often may not need a brain dump; changing the terms of the client or project agreement can build in a longer term arrangement that presents opportunity for increasing the revenue per client.

Putting a Value on Your Service Not Your Time

Pricing often seems to be a barrier to success; it gets in the way of us winning work and creates tension between us and our clients. Bookkeepers in particular have a history of linking the value of their time with a totally article benchmark: the hourly rate syndrome.

Pricing is one of the most intimate parts of our relationships with clients. It is the moment clients tell us that we are worth it or not. Is it fair to equate pricing with the value brought to a business client? Peace of mind in completing accounts and returns will bring peace of mind but what value is created?



If an accountant or bookkeeper brings value to the clients business then it is incumbent on that professional to capture a fair share of that value for themselves. Which is why this now becomes the core platform for service deliver at a time when automation is destroying any perceived value in compliance work.

Where pricing is managed effectively it should strengthen client relationships and build trust.

Getting control of your pricing

As every business owner knows, unless you are across all the cost centres of your business, you are playing Russian roulette with your pricing. No two bookkeeping firms will have the same cost structure. Even sole practitioners will have great variances in the cost of running their practice. For example, one practitioner may work on Excel spreadsheets while another will have tech-stack of apps and SaaS accounting software with multiple subscriptions.

Cost-plus pricing

There are no hard and fast rules governing margin. In a non-service business a margin of 50% is not uncommon. The point being that you are operating a business that has a cost and therefore you will need to accommodate all the indirect costs of operating a business that includes insurance, membership fees, car travel, computer, mobile and internet costs etc. Once you add in the cost to the table below you can do the margin calculation and arrive at an indicative service cost:

Cost Example

Cost Type	Sole Practitioner	One employee	Large firm
Number of invoices/accounts/pm			
Time spent on each item/mins	✓	✓	✓
Number of recs	✓	✓	✓
Client time/phone/email/face2face	✗	✓	✓
TOTAL			
Tech stack item/\$subscription/m	✗	✓	✓
Tech stack item	✗	✓	✓
Tech stack item	✗	✓	✓
Tech stack item	✗	✓	✓
Tech stack item	✗	✓	✓
TOTAL			
Sum of COST + TECH STACK	✗	✓	✓
APPLY A MARGIN (Service Cost)	✗	✓	✓

What do clients want?

So how do we use pricing to strengthen client relationships? We know two things for certain about clients: they want to contain costs. So let them know that you understand this and they want to avoid surprises. They also want:

Choices rather than a single price being imposed on them. So provide three price packages listing service details alongside.

Value for their money. Demonstrate that there is cost saving for their business or alternatively, that there is additional revenue arising from these services

Anxiety is a wasted emotion when pricing conversations with clients can be constructive as above. Like all skills, pricing conversations may falter from time to time but we will get better at it over time and increase our earnings.

Remember this: we're not selling time. Clients are, in effect, buying your skills, your expertise, your advice – not your time. They're buying value, peace of mind that everything will be filed properly; they're buying help to improve their profitability, and solutions to their creditor and cash-flow problems.

Your clients are buying results, not time. This is why you need to price your service on the basis of the results you deliver, not the time you take.

Starting the conversation



Transitioning to fixed fees or value-based billing is more about the conversation than the actual monetary outcome. New clients require onboarding but existing clients need special attention, after all, client retention is one of the key drivers of profitability. So by paying keen attention to what clients are saying and doing, especially the most profitable ones, accounting firms can resolve their issues before they even think of leaving. And how do they do that? They do it through effective communication.

We have established that effective communication is the key to building strong client relationships and equates to higher retention rates. Knowing that rates are critically important for a professional services firm especially if the firm has invested in marketing or professional development. It becomes all the more important to keep clients than leap into a conversation about a new billing system.

The technology factor

Technology has advanced the case for moving away from the clunky hourly rate system. In effect, due to the cloud access to financial information is just a click away: this is true for the business owners and the bookkeeper or accounting technician.

Look around at other industries and professions. It is true that there are still hourly rate regimes in many parts of the legal system but look at the building industry: they have been on fixed price quotation for decades and that is despite all the unknowns and alterations that come into play as soon as a building project is commenced. They – and their customers – are well versed in the art of adjusting costs for ‘variations’. It is the variations that become the focus of attention not the fixed price methodology.

One thing to keep in mind throughout the transition process is that it improves your relationship with your client; happier clients will be more open with you.

The mindset is the obstacle

It is useful to think of fixed fee pricing this way: that price has got nothing to do with costs and everything to do with people and their expectations. Pricing involves behavioural economics which we don't need to go into this subject here but which informs that confidence, not skills or experience, is a major obstacle to a successful transition away from hourly rate billing to fixed and value based pricing and billing.

Price is also a mindset issue. It's about recognising the fact that we don't want to work with everybody and recognising that, for some people, we will be too expensive.

The typical response from a bookkeeper is “My clients will not pay more because I'll be too expensive.” This is worth drilling down because what you don't want this to be referenced to an hourly rate where you may, in effect, be more expensive.

Our view is that you should be wary of making up a version of this in your mind but rather wait until you are actually implementing the fixed price regime. There may be a complaint or two but here lies the challenge of adopting a mind-set that can tolerate complaints or even welcome them. Once you hear 10-20% of people suggesting you might be too expensive, you know you're on the right track to getting your pricing right.

Scope creep

Fee discussions are held with clients before work begins. Here the framework for the engagement, including payment terms, deliverables and overall scope of work to be performed is outlined. Clients love the certainty and are generally happy with fixed-price agreements. Opponents to fixed-price agreements worry about losses and cost overruns. In a conversation the professional and the client should cover the issue of scope creep.

Scope creep, or doing additional work for free, can be avoided by clear client communication. Out-of-scope work should immediately be communicated with clients to negotiate change orders before the additional work is started. Fixed-price agreements usually include terms for an advance retainer or monthly fees. It is useful to consider a simple menu of services to assist with pricing.

Menu pricing

	Small \$210 per month (+Xero)	Standard \$390 per month (+Xero)	Premium \$675 per month (+Xero)
<u>Transaction limits</u>	75/month	150/month	300/month
<u>Accounts or add-ons</u>	Up to 5	Up to 7	Up to 10
<u>Chart of accounts</u>	Standard	Custom	Custom
<u>Xero Setup / Training</u>	\$300	Custom quote	Custom quote
<u>Quarterly BAS</u>	✓	✓	✓
<u>Reconciliations</u>	Monthly	Weekly	Weekly
<u>Management reports</u>	Quarterly	Monthly	Monthly
<u>Liase with tax accountant</u>	✓	✓	✓
	Sign Up	Sign Up	Sign Up

Click the button below if you are interested in larger transaction limits and/or custom requirements. Prices for Australian customers include GST.

(Sample for illustration purposes only)

Often there will be three price formats of pricing, getting higher prices from value-buyers while still keeping the lower price for the price shoppers. Using a menu-pricing approach compared to the traditional hourly rate or cost estimate proposal approach will have a greater chance of increasing the fees that you and your firm can generate. Some bookkeeping professional choose the triad of fees have successfully acquired a new client specifically by presenting a 5-star proposal rather than trying to sell the cheapest service.

The above illustration could also be framed in a different way to enable a potential client position themselves:

Small / Standard / Premium could be formatted as:

- Start-up
- Growing business
- Established business

Positioning your firm

If you are keen to remain a low fee provider, that's fine, noting that when contemplating a price rise or a shift in pricing structure, you are sending a message your price sends out to the marketplace. Price gives out signals. People associate something that's cheap as being of low quality.

In contrast, people associate something expensive as being of high quality.

Again, remember that you will be the 'first responder' to many business owners who will rely on your skills and judgement. Many are entrusting their businesses, the safety of their businesses, and in many cases also the financial health of their business in your hands as a trusted advisor. If your prices are cheap, then you're giving the marketplace the impression that you're low quality.

Steps in the transition

Changing a pricing policy does not happen overnight. It needs careful planning and a good strategy. Starting is the key: start now by preparing and the results will be better than rushing to catch up with a marketplace that is already moving in that direction. Some ideas:

Check your deliverables

What outcomes/services will the client receive with each if your bundled services?

Become informed

Check out the competition; read industry releases including those from leading edge accounting software providers and the add-on providers. Read opinions and blog posts (including www.bookkeepershub.com.au posts)

Watch accounting firms

Some accounting firms are progressive both in terms of the technology they use in their service but also in their pricing (many are competing in the bookkeeping space too), so checkout those that are active in social media. What are the bundles they offer? What does the firm look like in terms of roles? If you have colleagues in the firms, ask them about the process. What technology do they use?

Develop your firm's marketing and sales skills

There will be a gap in these skills sets; that's only to be expected. What is not acceptable is a state of inertia: develop sales skills such as pitching and closing. These may not be inside your comfort but it not 'rocket' science. Practice and learn. (Watch this space for Course material inside the CPD Program). By developing your packages, you will naturally develop a script that explains to clients exactly how your fixed pricing model works. That's a good place to practice selling!

Fixed Price Billing



Fixed price billing does not mean you throw away the time sheets. So when is it appropriate to use hourly billing? Is it the standard for managing workflow? What, if any, are the benefits of hourly billing? What are the disadvantages of hourly billing?



The discovery of a fixed price solution for your firm depends on which three factors? HINT: Note the universal application of fixed pricing by accounting software vendors. What is the most effective way of "selling" a fixed price solution to an existing client?



The role of a bookkeeper has traditionally been reactive and oriented towards compliance. But business owners want proactive support from their trusted advisors. The bookkeeping firm of tomorrow will need to have contemporary pricing practices. List the services that would be included in your fixed price [packages]

