

FEE FOR SERVICE: **You're Probably Doing it Wrong**

.....
Achieve big things for your clients.

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Imagine this: you're doing a client's books and you discover a way to save them \$4,000 (let's say the answer lies in A/R). You notice and you spend about an hour setting up a report that highlights aged debtors over 30 days AND you put in place an auto-mailer that chases down debts effectively. What is this worth? An hour of your time or more? For me it comes down to this: I sell services; never time.

Think of it another way, when was the last time a potential client called and said "I want to buy two hours of your time"?

Here's why you should be reading this:

- You are sick of running the 'price comparison race'
- You want to increase SMB clients
- You want to increase your price for new clients
- You want to earn (at least) a six-figure income
- You want to become a 'trusted advisor' to your clients (rather than the pesky bookkeeper)

Consider this: how many are familiar with this 'golden' rule: Calculate how much money you need for your lifestyle, divide by the available number of hours you can work in a year, and you have your hourly rate!

Right, and of course you also have broken relationships, major dental work, little in retirement savings, and too little time doing what you love to do.

What's wrong with this industry that still works with hourly fees?

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TECHNOLOGY NOW SAVES YOU TIME, WHAT ARE YOU GOING TO DO WITH THE BONUS HOURS?

Most professionals are too cheap. Most bookkeepers don't know how to price because most don't make enough money. Plumbers make more because they solve urgent problems and work in conditions that we would not want to work in. As a profession we are not taught to price and naturally will tend to price as a function of cost. We're brought up to charge based on hours; it's a big mistake.

If you were a dog walker or a designer, or a bookkeeper your approach to pricing is probably pretty similar, at least if you're relatively new to the game. You look at what other people are charging, you think you're not experienced enough to charge what the high cost providers charge so you go lo-ball. Or you take a look at your costs, figure out what you need to cover them and then add a bit on top for what seems like a reasonable profit and present the final product of these calculations to prospective clients as a daily or hourly rate. It's a tried and true method, but it's probably costing you a bucket-load of money and creating schedule feast or famine – periods where you stress through the lean times and run like a lunatic in the busy ones.



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There is a better way.

So what's the answer? Quit all that obsessing about time and focus on value instead.

Your clients don't really care how long it take you to do something; they care about the value it creates for them; the peace of mind for having the compliance stuff done and the benefits of having a dashboard available of how the business is travelling Clock watching isn't just limiting your income, it's also downright selfish.

If you want to grow your income you're going to help customers grow their business. When looked at it like that – from their perspective – it's clear you're not selling time. Instead, you're selling a solution that is going to make an impact for your client and achieve some business objective.



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TALKING ABOUT MONEY

The customer wants to maximize your value; this is where our interests are completely aligned. Yet most are terrified to death to talk about money, it is value that determines price not cost. By having an in-depth conversation with prospects about what they're trying to achieve and really listening to their goals, you can set value-based prices that are higher for you and also deliver more for the client, ideally, offering clients a menu of options to help them reach their objectives.

Getting hard numbers for your clients' goals is best. Selling hours actually creates a conflict of interest; it puts you and the client on opposite sides of the table. If you're selling hours, it's in your best interest to take longer, to bill more hours. But your client is interested in getting solutions that work as promptly as possible, so if you're asked what your fee is by a prospective client, you need to immediately ask the client a few questions; like "What are your needs?" "What are your biggest concerns?" "What accounting or financial issues are you facing that make you stressed?" Clients care about the value you create for them, so that's what you should be asking them to pay for.

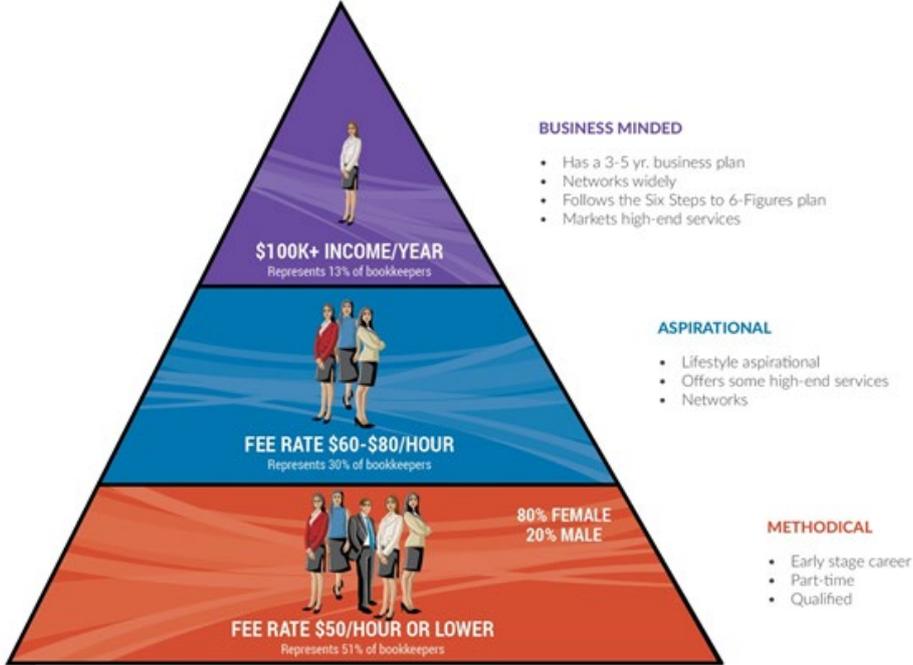
Of course, this approach doesn't work for everyone. Hourly rates make sense for someone just starting out, someone with little experience and limited skill. But over time, you begin to outgrow the cost-plus pricing model of charging by the hour. So if you stay with that pricing model, you'll find it very limiting.

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But that's not the only potential stumbling block to value-based pricing. How do you handle clients that push back against the idea of paying for value? What do you do if your skills aren't broad enough to meet the client's fundamental objectives? How can you change your image from a gun for hire to a collaborative partner in solving a client's problems? And how do you price small jobs and routine maintenance? Later we will address some of these issues (see Achieve big things for your clients)

 **BOOKKEEPERS SUCCESS PYRAMID**



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IS A SIX FIGURE INCOME FEASIBLE AS A PROFESSIONAL BOOKKEEPER?

What is certain is that if you lo-ball your rates and get squeezed for extras without billing your six figure income is in doubt. With a six-figure income looking like a pipe dream, it is a more strategic approach that is needed.

For one, you will almost always be competing for the business, sometimes against cut-rate bookkeepers, off-shoring solutions or services that offered inexpensive, do-it-yourself software solutions. Typically a new bookkeeper would try to explain why she was the better choice, but in the end, she may be excused for feeling that if she stuck to her rates, she'd lose out. And at this early stage, she badly needed to build a clientele. So she would often offer discounts, sometimes below her breakeven rate. She wouldn't be happy about it, but it seemed to be the only way she'd stand a chance to get the business.

By quoting fees based on conservative estimates, it may work a lot of the time, but it usually means you have to put in more time to finish the jobs. Plus, a lot of clients tended to grind fees down, insisting on extras here and there (scope creep). The result is you might end up making significantly less per hour than the rate you billed.

You need to be aiming for a higher fee structure; to try to increase your rates so it gets a little fairer. Better still, by quoting a higher rate for added-value work.

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**ACHIEVE BIG THINGS FOR YOUR CLIENTS:
TRANSITIONING TO FIXED FEES**

The 'Why' question

It's not just fees we are talking about here; it's how you want to be perceived by your clients. When it comes to accountants and bookkeepers being the trusted advisors: everyone is talking about it. It's a simple premise: the gathering and analyzing your clients' data provides accountants and bookkeepers like you with a simple way to turn clients' data into actionable advice – at a glance and in real time. Once a bookkeeping technician moves beyond the basic data gathering there is a veritable feast of low hanging fruit to be savored such as Accounts Payable. More technically speaking, Key performance Indicators (KPIs) to show only the data that's most important to you and your clients.

This can make you quite the hero when it comes to offering business advice that leads to your clients' success.

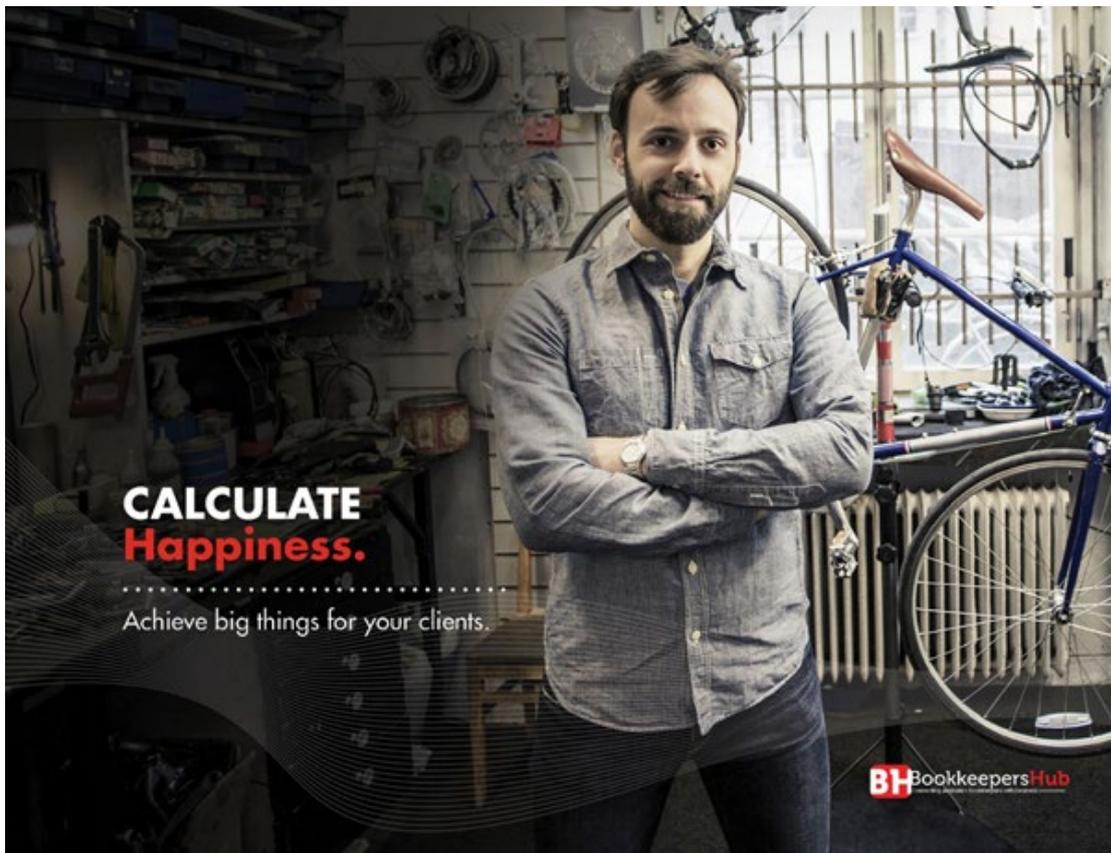
And to borrow a quote "You can't expect to meet the challenges of today with yesterday's tools and expect to be in business tomorrow."

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.

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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.



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RECURRING REVENUE

The benefits to the firm is compelling: it is the buildup of recurring revenue. It lets both the client and the bookkeeping professional budget; for the client it locks in a monthly fee – no nasty surprises! A monthly fee (or subscription as practiced by the accounting software brands) for the regular, compliance services makes a lot of sense, It transforms cash flow into a predictable and reliable stream.

In the fixed price you are building in for down-time etc. so that at the end of the week/month you are actually making money and not need to count how many hours have been 'lost'. In effect you are earning a much higher rate under a fixed rate mechanism than in an hourly rate system. You work more efficiently because the more hours you gain through efficiency and productivity gains, the more time you have available for higher value activities or winning new business.

It improves your relationship with your client; happier clients will be more open with you. *You can then achieve big things for your client.*

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THE 'HOW' QUESTION

How do you work out a fixed price? How do you get the clients(s) on board with a fixed price system (particularly those who may have been with you on an hourly rate basis)? There is no definitive answer as every case will be different. But there is a core principle to work with: a bit of trial and error at the beginning will sow the seeds of success long term.

One methodology which has been tested across a number of different industry verticals – for example SAAS software is to offer different tiers – for example Bronze-Silver-Gold-Platinum. You know the 'ropes': as you progress across the tiers the monthly subscription or fixed cost/fee rises according to a number of criteria such as features or number of users.

A professional service provider will almost certainly find that a majority of their clients will fit fairly neatly into one of the two middle tiers, that is, somewhere above the most basic service but not (for a majority) at the platinum service.

In addressing the question of features, there will the vanilla set of features say:

- Number of bank accounts
- Volume of monthly expenditure
- Number of invoices and bills monthly

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THE CONVERSATION

Earlier in *Talking about money* we noted the difficulty that can arise. When presenting the case to a new client for example; you might say to the client “I believe that this work might take 10 hours a month but it could take 20 hours because I don’t know what I’m going to find. I would not want to lock in a fee or cost at this stage.”

You might therefore turn to the package spectrum and say “Here is our basic “bronze package at \$x a month: we know that this will take care of (mention your basic services). Why don’t we set this up and review after the first month; how does that work for you?”

In most cases the clients will understand this language and even if they were questioning you on your hourly rate they get the common sense of this approach and you have them in the fixed price mindset.

It is a mental block that often is presented to the bookkeeper when first dealing with a business client. There mentality is: go for a low hourly rate; don’t go for the cheapest (because they may be too cheap and simply not be good) but get a good deal, be tough. But think about your own experience as a consumer, say, of a car mechanic service.

You get a quote from a car service provider and, again, say the quote is for \$185 for a straight up and down grease and oil change. The customer service person will almost certainly say: “I’ll call to let you know of any issues”. You do get the call at 11am and its “You battery is at the end of life; that’ll cost you \$150.” Of course you say yes.

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WORDING THE AGREEMENT

The key is to be specific in the wording of the engagement letter or service agreement. This is where you build in the 'variances' factor. You may find something that needs to be fixed like bank accounts not reconciled properly and let's say this costs an extra \$100: well it's the same conversation as the car mechanic has with you!

Generally a new client will have a rough figure in mind for what they expect to pay for keeping the books of the business in order. You can work with this broad figure and build this into the tiered package. The key for the bookkeeper is to be always striving to discover the efficiencies and to work these up to a point where you can add services that offer you a higher yield but which also position you as the 'trusted advisor'. At the end of the day it's about building good outcomes for the client and expanding your margins on the revenue created.



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TECHNOLOGY COSTS

As noted at the outset it is a technology driven environment we are all working within, and even if the business customer is not well versed in technology and confused about could accounting then it is up to you as the provider of the essential bookkeeping service to de-myth the concept. For example, if you are well versed in, for example Xero, and have some level of certification with the Xero platform, then the issue of monthly subscription fees for a new client can be simplified.

The simplest outcome here would be to set up and onboard the client to the accounting software platform and to direct debit this cost. If you are eligible for a low cost from platform provider, then with pricing like that, you can pick and choose the right way to market this to clients and even include it at no extra charge to some and charge ad hoc to others that you feel would benefit most from this service.



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Scope creep is an inevitable outcome of a bookkeeping engagement. And quality of data provided by the client can be very mixed (we all know that GARBAGE IN = GARBAGE OUT) but with cloud accounting and the multiple add-ons that are available for gathering data, there should be minimum scope creep apart from services that are offered as value-add services.

There are some key 'take-aways':

- Making the process as easy as possible makes for a satisfied client
- Fixed fee is a recurrent revenue
- Clients do like it
- Increases profitability because value pricing leads to higher fees
- It avoids the risk of underquoting on hourly rate and being it with scope creep
- Enables the professional to create value by applying her unique skill sets
- Open the door to informing the client on how to run their business better and therefore achieve status of 'trusted advisor'.

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CLIENTS WANT PROACTIVE ADVICE

You will be able to help clients steer their companies toward success in real time. With the charts and graphs that Sage View provides (and there are plenty), you can easily see trends and recommend actions based on real-time facts, not month-old reports.

It's also important to note that this isn't about delivering doom and gloom news to your clients. If, for example, a client appears to be doing well in certain areas, you can monitor data from your desktop (or device), based on what you see, you can bring it to the attention of your client and a plan or action to stay the course. If you have set up KPIs (as part of a value-add service) for a client and there are problem points highlighted, you can help pinpoint what's wrong and come up with a plan to correct course before it's too late. There are automated alerts based on customized thresholds available for most cloud accounting software platforms.



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END WORDS

For more detailed, practical work on building your capability and revenue, we have a full tutorial: A Step-by-Step Guide to Transitioning Your Firm to Value-Billing (including checklist for determining your firm's suitability for value-billing). Simply hit the contact link and we will send you application form. Go to www.bookkeepershub.com.au/contact