



'The move to value pricing is already being seen in industries such as IT, engineering, law and finance,'

By SUSAN MULDOWNEY

(<http://intheblack.com/contributors/Susan-Muldowney>)

Some professionals have dumped timesheets and aren't looking back.

You'd think the idea of dispensing with onerous timesheets would see most finance professionals – certainly the juniors among the ranks – swiftly abandoning the traditional time-based pricing method in favour of one with less administrative burden.

Yet more than a decade since Ron Baker, the US-based practice development specialist, began advocating for a switch from hourly rates to value-based pricing, the profession remains divided as to which method is best.

The hourly pricing method has merit. Its premise is simple – the more time your practice spends on completing a project, the more money it makes. This method also comes with a built-in profit margin for the recovery of your expenses.

On the flip side, hourly billing can be seen to reward inefficiency, discourage innovation and place undue pressure on some accountants to bill a set number of hours rather than focus on a more healthy challenge of solving problems for their clients.

The move toward value-based pricing has been stronger in the US and UK.

“Places like Australia are perhaps lagging behind the UK and US, but that is probably because, to date at least, we were not hit by the global financial crisis as hard. Most businesses are seeking much more certainty over prices,” says John Chisholm, principal of Melbourne-based John Chisholm Consulting and a senior fellow of the VeraSage Institute, the professional services think tank founded by Ron Baker.

Chisholm adds that the move to value pricing is already being seen in industries such as IT, engineering, law and finance.

“Accountants are probably ahead of lawyers in fixing more of their compliance and commodity work but, with the exception of the Big Four, they’re not so good at the high-end, value-add stuff where I think many accountants are leaving a lot of value on the table.

“I see so many firms and they’re leaving so much value on the table with time-based pricing. They couldn’t lie enough on their timesheets about the value they’re providing to some clients.”

This is where value-based pricing can bring great rewards. It removes the time factor from profits, which increases efficiency, and it encourages a deeper relationship with clients – the more you know their needs, the more value you can add.



John Chisholm, principal of John Chisholm Consulting

Cloud computing has also created greater flexibility for companies. And on a practical level, value-based pricing means invoicing can be done at any point during a project.

Charging by value also means that work is costed upfront according to what clients believe it to be worth, which creates certainty for both parties.

“Like beauty, it is in the eye of the beholder and it’s what your client thinks is value,” observes Chisholm.

“But once you agree on the scope of work and the cost, you can get on with it and not have to keep worrying about the price.”

Peter Ambrosiussen FCPA, of Toowoomba-based firm Ambrosiussen Accountants and Advisors, switched to a value-based pricing method in 2007 after spending almost 20 years billing with the traditional time-based approach.

He had attempted to fix his pricing some years earlier, but he says adding value to the equation has transformed his business.

“We’re turning over more money with 90 clients than when we had 600,” he says.

Ambrosiussen says most of his clients were receptive to the change in the billing method.

“It really blew me away how it unearthed a lot of latent demand. Clients didn’t know that we did things like budgeting, cash-flow forecasting and succession planning,” says Ambrosiussen, adding that almost half of his business now comprises management accounting.

Value-based pricing has also enabled Ambrosiussen to develop a greater understanding of his clients' needs.

“When you have timesheets you’re thinking about whether you’ve clocked up enough chargeable hours for the day and whether you’re going to meet your quota for the week. This is totally inward in its focus, whereas what we’re focused on now is doing a good job for the client, delivering value and getting the job done promptly. It’s all focused on outputs rather than inputs.”

Ambrosiussen offers clients a tiered pricing structure – bronze, silver, gold and platinum levels of service. If more needs are identified during the year, an estimate of additional cost is provided.

Ambrosiussen also offers an “unlimited access” service.

“It can sound a bit scary but the clients love it. They know they can ring us, send emails, have meetings – it’s all built into the value price and they’re not getting a bill every time they ring us,” he says.

However there are still benefits to charging by the hour. Jon Manning of strategic pricing consultancy Sans Prix, says it offers a number of advantages.

“It’s simple and everyone understands it. It also works regardless of the volume of work that’s being performed.”

Manning adds that hourly prices can also provide benchmarks for potential clients. “Some clients, particularly the big corporates who are using a procurement function, want to be able to compare one proposal to another and they often ask for a common denominator to evaluate the proposals. Typically, that comes down to the hourly rate.”

But Jason Bertalli CPA, business services and franchise director at Melbourne-based BNR Partners, sees little value in hourly billing.

“Clients should know what they’re getting upfront. It’s what happens in the real world and it should be the same for accounting,” he says. “Hourly billing encourages poor performance and has a negative impact on productivity.”



Peter Ambrosiussen FCPA, Ambrosiussen Accountants and Advisors

BNR Partners has been offering value-based pricing to clients for more than a decade. “We use it as a selling point,” adds Bertalli.

Hours are still tracked at BNR, but more as a measure of internal productivity than a method of billing.

A quote for a value-based job depends on its individual requirements.

“We look at what the client wants and what they need and quote accordingly. But you’ve got to sell the process first. There’s no point quoting A\$3000 for a job if your client doesn’t know what they’ll be getting for it.”

Manning says many clients are more receptive to value-based pricing as it offers greater transparency and removes the element of surprise.

“People are becoming increasingly price sensitive everywhere. The billable hour is seen by many as akin to writing a blank cheque to the service provider,” he says.

He recommends any pricing proposal include three options. “If you put one offer in front of a client you’ve got a 50-50 chance of closing the deal. If you put two options in front of a client you are forcing them to make a price-based decision. If you put three options in front of a client you are forcing them to make a value-based decision,” he says.

Despite the benefits, value-based pricing has been slow to take off. Peter Knight FCPA, business accountant with Knight Partners in Sydney, says inertia is to blame.

“There’s a fear of change, a fear of losing out somehow, of losing money,” he says. “The concept has been discussed in the profession for years now, yet so few seem to have changed. I guess it’s understandable. Accountants are constantly being bombarded with change and this is another one. Yet I see it as a marketing opportunity.”

Knight, whose own value-based billing structure allows clients to pay by the month, adds that as technology has increased efficiency, charging by the hour should mean charging less.

“Hourly billing flies in the face of technology,” he says. “Technology has made tax research simple and the cloud has opened up opportunities for outsourcing and offshoring, so a lot of the grunt work can be done at a much lower cost.”



Jason Bertalli CPA, BNR Partners

Knight acknowledges that hourly billing still has a place, but only in limited circumstances.

“It can be valid where there are clearly open-ended cases, for instance, family law disputes where there is a family business involved, or purchase or sale negotiations for a client. However, for the bread-and-butter standard work, there’s really no excuse,” he says.

“Imagine asking a painter how much it would cost to paint your house. If they said it would depend on how long it took, you’d laugh and go elsewhere. We’ve been keeping timesheets for long enough now to know how much a job should cost.”

Ambrosiussen says his staff were happy to bid farewell to timesheets. They’re no longer chasing debtors and write-offs are now rare.

“Clients like the fact that we take the time to understand their needs. There’s certainty around the fees and they know what they’re getting. We’re adding value to the client – we’re helping them make more money.”

For large financial consulting firms such as PricewaterhouseCoopers (PwC), value-based pricing is generally employed for consulting assignments.

However Andrew Jacka, director at PwC in Sydney, says pricing methods depend on what the client values.

“In accounting and finance it’s not really about one pricing approach taking over another. It’s a bit more nuanced,” he says.

“Value-based pricing is used more often in consulting. Clients may prefer it as an incentive for their provider to deliver the best possible outcome. The drawback of value-based assignments is that they can sometimes be slow to get off the ground because a level of negotiation is required between the client and the provider to define what a good outcome looks like and how the benefits of this outcome are shared.”

Most of PwC’s accounting business is fixed-fee for the core, defined work and time-based billing for variations to the scope.

“Some clients prefer time-based billing as it allows a very quick and efficient engagement of the service provider. Other clients may prefer the certainty of a fixed fee and are prepared to put in the up-front effort to carefully agree the scope and the required deliverables.”

Jacka believes that value-based pricing has more limited application in accounting and finance because of legal and regulatory restrictions. “Auditors, for example, are required to be independent and objective and value-based pricing might undermine this.”

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- “**The Suits Loosen Up**”, by Arshy Mann, *Canadian Business*, 2014
- “**Clients Hate Billing by the Hour**”, by Charles B Larson, *The Practicing CPA*, 1998
- **Guide to Practice Management for Small- and Medium-Sized Practices** by CPA Australia

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