



Implementing value pricing

Value-based pricing is increasingly popular with accounting firms.

During the past year I have received more phone calls and emails from accountants wanting to implement value-based agreed pricing than ever before.

After a long period of gradually increasing penetration, this billing method may be moving from the early adopter phase into more widespread usage.

Many accountants like the idea of value-based billing but struggle with how to change from their current time-based methods. It is very timely that I've just received a copy of Ron Baker's latest book *Implementing Value Pricing* in which he outlines a seven-step programme to replace timesheets and hourly billing.

For more than a decade Baker has been on a relentless crusade to "trash" time-based billing by professionals and replace it with value-based pricing. Ron has written several other books starting with his classic *Professional's Guide to Value Pricing*.

In his new book Baker gives an excellent overview of the theories behind value-based billing and provides many examples of why it is the right approach for accountants to implement with their clients.

Let's take a quick look at the seven steps in Baker's programme.

1. Price-led costing

This is where the price is determined before the costs – not the other way around as it is with time-based billing. Once a price is determined the role of a business is then to deliver the product or service to meet the specifications as expected by the customer and earn a profit. This focus on price first encourages innovation and investment to both reduce costs and provide a higher level of service.

2. Value council and chief value officer

Don't price in isolation. A value council is a process of involving a team of people in pricing jobs and defining the value provided. This leads to better understanding of pricing issues, consistency of implementation and appreciation of value provided by customers. The value council is lead by the chief value officer.

3. Fixed price agreements (FPAs) and change orders

According to Baker, FPAs codify "in a plain-written agreement what services will be performed, the price, payment terms, scope of services, and the responsibilities of both parties, as well as other clauses that help the firm communicate value and reduce customer risk".

FPAs encourage bundling of services which in turn leads to the inclusion of higher value services and the development of even closer relationships with customers.

FPAs can't include every service that will be provided or accommodate every set of circumstances. So when the unexpected occurs and additional or different services are required these should be documented in change orders. The price for these additional service also needs to be agreed upfront.

4. Project management

This involves matching the scope of services to be provided with the allowed time and agreed price. Top quality project management is important even with time-based billing. It is essential with fixed pricing as a practice would quickly go out of business if costs consistently exceeded prices. A rigorous capacity-planning based workflow management system is required to provide

the necessary level of project management.

5. Key predictive indicators – firm-wide

Baker suggests measuring turnaround time, innovation revenue (ie new services) and customer loyalty and referrals. These measures lead to greater focus on what is important to customers. This encourages an outward looking firm. In contrast time-based billing leads firms to an inward focus.

6. Key predictive indicators – knowledge workers

These KPIs cover factors such as customer feedback, effective listening and communication skills, risk taking, innovation and creativity, delegation skills, coaching skills, continuous learning skills, pride, passion, attitude and commitment.

These factors are not as easy to measure as some more traditional key performance indicators but are ultimately more important.

7. After action reviews

Carrying out a review after each job allows knowledge to be captured so that it can be shared within the firm, developed further and used again with other clients.

I've long been a proponent of Baker's philosophy of professionals focusing on a value-based regime accompanied by agreeing prices with clients before jobs begin. Such a system formed a key part of my book *Absolute Certainty*.

It requires time and commitment to change from time-based billing but the rewards are worth it. Your clients will have certainty and will want higher value service from you. Your team will have clear performance specifications and a greater focus on delighting your clients. And your practice will be more profitable and have better cash flow. ■

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