



Effective Pricing for Accountants

**A practical guide to pricing
your accountancy services
for maximum profit**

Mark Wickersham
Special thanks to Steve Pipe

2011 EDITION: *Containing Brand New Research*

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“A brilliant book and some real common sense at last! Effective Pricing for Accountants turns your accountancy practice the right way up; Mark truly knows his stuff and you’ll find tried and tested and proven tactics inside.”

Lee Gilbert, The Serious Players’ Internet Marketing Consultant

“I have attended many of Marks courses on pricing and have always been amazed by the practical skill and knowledge he brings to such a complex subject. Nobody in business as an accountant can fail to get some really great ideas from this book. And the best thing is - they all work.”

Jonathan Holroyd

“I met Mark a year ago and he has transformed the way I think about pricing. Pricing is a difficult area for many professional service companies and it is very easy to undervalue the services that we provide. Mark has provided clarity in respect of my pricing, meaning that both my clients and I are happy with the fee structure.”

Alison Lynch, the UK’s leading expert in R&D Tax credits

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About Steve Pipe

Steve is my inspiration, my mentor and friend. I first met Steve in November 1998 when I was running my own Accountancy Practice. And, as so many other accountants have found since, Steve completely changed my life. He helped me to think about running an accountancy practice in a completely different way... his passion for this great profession gave me the hunger to learn about business, about best practice and about the skills necessary to truly make a difference to the clients accountants work with.

For over 10 years we have worked together to help make a difference to the accountancy profession. Throughout those years it has been an honour to work with Steve; I have learned so much and continue to be inspired by his thinking.

Over the years Steve and I have created thousands of resources for accountants. Over those years we have learned from each other and worked together on ideas and resources. This book borrows from some of those resources, many of which were written by Steve. So this book would not have been possible without the massive input from my friend, Steve.

Other people to thank

Susan Clegg: Susan is a gifted writer who co-authored the 2005 book “Everlasting Phone Impressions” with Paul Shrimpling. She regularly writes newsletters and articles for the accountancy profession and has been simply brilliant in proof reading this book.

Tom Holdsworth: Tom is a recent graduate in English who joined the AVN team in late 2010. And in the short space of time that Tom has been part of our great team he has proved that he has a gift for writing. Tom has a great career ahead of him (hopefully as part of the AVN team) and, like Susan, has been a huge help in proof reading this book.

The AVN Team: AVN has a wonderful team of people who are passionate about making a difference to the accountancy profession. At the time of writing this team consists of; Andy Bond, Andy Wells, Claire Glossop, David Williams, Debra Lowndes, Elaine Horrey, Emma Slack,

Ian Patterson, James Miller, Jane Donoghue, Jean Bray, Jenny Lukas, Joanne Law, Jonathan Holroyd, Julie Twigg, Kate Wickersham, Laura Newby, Luke Jackson, Lynsey Ayling, Michael Pipe, Paul Herrett, Paul Bradley, Paul Flynn, Philippa Jennings, Rachel Clark, Ryan Sample, Sarah Cross, Shane Lukas, Steve Pipe, Steven Baldwin, Stuart Finlayson, Sue Davenport, Susan Clegg, Suzy Gunning, Tom Holdsworth, Tom Scott, Tracy Bettley, Trevor Hinds and Vicky Martin.

Ron Baker: Back in 1999 I came across “Value Pricing” by Ron Baker. This book had a massive impact on the way I thought about pricing. Shortly afterwards Ron was the keynote speaker at an AVN conference. Ron’s thinking made me realise that accountants in general know very little about pricing, and yet the opportunities from getting it right are unlimited. It was Ron’s first book that inspired me to help the UK accounting profession make better pricing decisions. And it was Ron’s first book that was the inspiration for creating “Time’s Up”, the UK’s first and leading software for helping accountants price compliance services.

Foreword

The quickest way to improve your profits

The easiest way to make more money is simple... get the price right.

It's also the fastest way of transforming your profits. If you put your prices up by 10% the impact is immediate.

As you'll see when you read this book, the evidence is clear:

- The market does not set prices; firms do.
- In other words, prices are a choice made by practitioners.
- Some firms are much better at making pricing choices than others.
- The way firms make those pricing choices has a fundamental impact on their profitability and success.
- By studying how the most successful firms price other practices can transform their results.

Time and time again we see firms that fully understand value pricing (and that doesn't mean simply giving a fixed price in advance of doing the work) get superior results.

There are many great books on pricing theory. What I wanted to do in this book is focus on making everything relevant to accountants and as practical as possible. I wanted to make it as easy as possible for you to take the ideas and do something with them.

I hope you enjoy reading this book, and most importantly I hope you take some action. And when you get great results please, please tell me all about your successes. You never know, you might appear in the next edition of this book.

A handwritten signature in black ink that reads "Mark". The letter "M" is tall and thin, with a long vertical stroke extending downwards. The word "ark" is written in a cursive, lowercase style.

Mark Wickersham FCA

The UK's leading thinker on pricing for the accountancy profession

www.4P-marketing.co.uk

P.S. Although there are some amazing real-life stories contained within this book, my personal favourite is the one in chapter 14. This is a must read.

Preface

A horrible mistake

I started my accountancy practice on 31 May 1996 at the age of 29.

I thought I knew everything.

That was my first big mistake in business... you can never know everything. Learning is a continual process and if we want to get better results, we need to keep learning to find a better way. Steve Pipe opened my eyes to this in 1998.

I qualified as a Chartered Accountant in 1991 and worked for three different accountancy practices before setting up my own practices. It was a big leap of faith to leave full time employment and start a practice from scratch. And this may not have happened if – two weeks earlier – I hadn't travelled to London one Saturday to hear Chris Frederiksen's "How to set up your own CA practice." This seminar gave me the confidence and sufficient knowledge to realise that it was possible to build an accountancy practice from scratch.

Over the next 2½ years I built my practice to just over £200,000 of recurring fees with about 200 clients and somewhere around that time had a team of 13 people. The practice grew very quickly, largely from sending out mailshots and following them up using telesales.

From a growth point of view it appeared successful. Unfortunately I never made a profit in that first 2½ years and cash flow was a constant battle. Quite simply I was over-trading... I was growing far too quickly (had moved office premises twice in those early years), my fixed costs were spiraling out of control and my bank debt was getting unsustainable.

Fortunately, in November 1998, I met Steve Pipe at his 3-day Masterclass in Exeter (this was Steve's third Masterclass – AVN having started two months earlier in September).

Steve helped me realise that I actually knew very, very little about running an accountancy practice. And that many of the things I had learned on more conventional 'practice development' courses were actually wrong. In the couple of years following that Masterclass, my practice and my life changed considerably. I focused on getting the right clients and the right team and ended up generating the same level of fees with considerably less clients and considerably less people, started to make money and clear the bank debt. A few years later I sold the practice to the client managers through a management buyout.

I made lots of mistakes in those early years... too many to list here. However, there were two mistakes that nearly crippled my practice:

1. *Hiring the wrong people* – I now realise that I knew absolutely nothing about how to find, interview, recruit, motivate and keep great people. I made the mistake that many small practices make of trying to keep costs down... I didn't use recruitment agencies so that I could save their costs and this meant I never had a very big pool of candidates to choose from (I often recruited someone because they were the only option!). I recruited lots of school leavers and graduates and trained them up because they were cheap. But I realised that they needed so much hand-holding that I wasn't getting much work done myself. Most of them were never going to make good accountants, and the few that showed potential left as soon as someone was prepared to pay them more. Hiring the wrong people cost me a fortune. Today – at AVN – we use a completely different process to recruit great people, and I'm proud to say that we have one of the very best (if not the best) team of people that any business could wish for. A team of passionate and enthusiastic people – every one of whom is making a real difference to the lives of so many UK accountants. And this comes from a unique recruitment process we have developed over the last 5 or 6 years (if you want to know how that works I would be delighted to tell you sometime).

2. *Getting the pricing horribly wrong.* This was my number one mistake and it cost me many, many thousands of pounds in lost profit.

When I started my practice I was very focused on growing my ‘gross recurring fees’ as quickly as possible, rather than on profitability. This error is common amongst accountants I talk to, and probably stems from the fact that traditionally accountancy practices are valued based upon a multiple of fees (a formula that I predict will change in the not-too-distant future). And so as accountants in practice we become obsessed by building capital value at the expense of building a profitable practice... we look to get as many clients as possible, even when many of those clients are the wrong type of clients and working with them drains our energy.

My ill-thought through strategy at the outset was – when seeing a prospect for the first time – to find out what they were currently paying their existing accountant. This often involved some feeble excuse for needing to see a copy of their last set of accounts... the first thing I would look for is the line in the profit and loss that said “accountant’s fees.” Of course, some clients were wise to this, so gave me a doctored set of accounts where they had applied Tippex to that number. Being a typical accountant I would then pull out my calculator and pretend to do some tax planning calculations, when really I was taking fixed costs and deducting all the itemised amounts, knowing that “accountant’s fees” would be the balancing figure.

Having found this number I would prepare a fee quote with my proposal magically coming in at about 10% less than the current accountant. In those early days I used to kid myself that my ability to win new clients was outstanding... after all, I was signing up at least half of all prospects that I saw. In reality – and in hindsight – I was being incredibly stupid. I was positioning myself (without really realising it) as a *cheap* accountant.

It was little surprise that I wasn’t making much money.

In fact what has become apparent to me over the years is that the vast majority of accountants know incredibly little about pricing strategy, pricing psychology, pricing tactics and pricing best practice. Most accountants

charge prices that are far too cheap and do not reflect the value they give to their clients or the years of training, learning and experience we have undergone. So given that most accountants don't know how to price and price too low, why on earth would anybody have a pricing strategy based upon what the previous accountant charged? And yet that's exactly what I did. And that's what most accountants do... we base our fees on what our competitors are charging. It's mad.

I learned many things from the pricing mistakes I made. For example...

I often advised unincorporated clients and prospects to transfer their sole trader business or partnership into a limited company where they would save many thousands of pounds in tax. After I went through my internal script for explaining the advantages and disadvantages of incorporating and the tax benefits, they would always ask "How much will it cost?"

That was easy to answer. You see, I spent my first 6 years in the profession working at (and qualified at) the largest independent firm in Sheffield. A firm in Sheffield that many other practices in the area aspired to be like. And I knew that they typically charged £300 for forming a limited company.

So with my wonderful strategy of basing price on the competition, and even worse, going in cheaper, I always responded to the "How much will it cost?" questions with, "Between £200 and £250."

What staggered me is how often (and certainly over half the time) the response I would hear was "Ouch! That's a bit expensive." I'd heard that people from Yorkshire were said to be tight, but surely they appreciated all the work that incorporating a business entailed. Surely they knew that the price I was quoting was a good price. How an earth can they say, "That's a bit expensive." It made me really angry. Until some years later I realised that the fault was all mine. I knew absolutely nothing about pricing strategy. I hadn't learned any pricing tactics. I didn't know pricing psychology existed. I hadn't considered the importance of having pricing systems and tools. I just assumed I knew how to run a successful accountancy practice.

Here is just one of the many things I learned from the mistakes I made...

Never ever quote a vague range of prices. When I used to answer the “How much will it cost?” question with, “Between £200 and £250” I left the meeting thinking the client would be happy with a bill for £250. The client left the meeting thinking the bill would be £200. And so more often than not, it would end in a fee dispute, ill-will created with the client and sometimes a bad debt that needed writing off. When you give your clients a price, tell them exactly what it will cost at the outset... giving a vague range of prices is simply the wimp’s way of pricing. This is what people do when they are not confident about their ability, not confident about the value they offer to their clients, and would rather avoid any conflict (i.e. the process of agreeing a fee) than make a profit on a piece of work.

Throughout this book I will explain everything I have learned over the last 10 years. And everything I talk about works. It worked for me whilst I was in practice. And it’s worked for dozens and dozens of firms I have had the pleasure to work with over the last 10 years (some of whom have kindly allowed me to include their success stories within this book).

The strategies, tactics, psychology, systems and more that I cover are extremely powerful. For example, once I realised what I was doing wrong with my proposals for incorporation work I put in place some systems. Overnight my pricing increased more than threefold. And because I had a system for answering the questions, “How much will it cost?” – a system that demonstrated the value – no one ever said “That’s a bit expensive” again... even though I was charging over three times the fee (and you’ll read case studies in this book where firms using these same ideas are charging in the region of **fifty times** what they and I used to charge for this sort of work).

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Chapter 1 Your Pricing Strategy

“Prices are the single most important element in your profit equation. Get them right and you make a profit. Get them wrong and you make a loss.”

(Pipe and Wilson, 2010)

It's as simple as that.

So the trick – of course – is to make sure you get them right rather than wrong.

Clients care about prices. But they are certainly not the only thing they care about - and your entire business and marketing strategy should reflect that fact.

In other words, you should never compete on price alone. Instead you should start by making sure that what you are offering exactly meets the needs of your ideal clients. And then you should make sure that you compete on the basis of giving those clients “maximum value” rather than the “lowest price”.

Later on we'll look at what is meant by “maximum value”.

In 2008 AVN carried out a benchmarking survey of 209 UK accounting firms. Some of the results of this survey appeared in the July 2008 edition of Accountancy Magazine in an article written by Steve Pipe. The survey showed that firms in the bottom quartile were generating less than £52,000 in profit per partner, i.e. the bottom 25% of firms were making less than this

(and some were making losses). By way of contrast, the top quartile firms were making from £110,000 in profit per partner (and the very top performing firms were achieving more than £300,000).

That is a vast difference in performance.

That same survey identified a huge difference in pricing strategy between the top performing firms and the worst performing firms.

More recently, in September 2010 I co-authored the Tax Club's Research Report called, "Your blueprint for a better tax practice." The Research Report looks into best practice across 180 UK accounting firms and demonstrates a huge gulf in the way firms think about pricing and their pricing strategy. I have included some extracts from this Research Report within this book.

The amounts of money at stake are simply too huge to ignore the lessons we can learn from these top performing firms.

But before we look at your strategic options let's look at some more numbers.

What-if analysis

In AVN's 2008 benchmarking survey of 209 independent practices referred to above it showed that the average UK firm of accountants has fees per partner of £247,008 and an average profit per partner of £78,000.

Think about this for a minute... if you are an average firm and you increase your prices by 20%, then assuming that you do not lose any clients and that your salary costs are fixed in the short term*, your profits will increase to £127,402 per partner. Based upon the 2008 AVN survey that would move your practice from being an average firm to firmly inside the top quartile.

So increasing your pricing can be the quickest way to transform your results.

Of course you may lose some clients by doing this. So let's factor that in. Let's assume that you lose 10% of your clients by doing this. If that happens your profit per partner will still increase to £97,761.

And that's only one of the benefits. Which clients do you think you will lose? Will you lose your best clients that really value what you do? Or will you lose those clients that only want the cheapest possible accountant, that continually complain and are slowest to pay your bills?

* Although it is possible to hire more people (or to make people redundant) in the very short term your salary costs are fixed. And so for most accountancy firms variable or direct costs are negligible. Of course it may be that you outsource work and therefore have a more significant variable/direct cost. If this is the case, then the negative impact of losing clients from increasing prices is lessened because, with less clients, you will reduce your direct costs.

Suggested action: Have a look at the numbers for your practice. Investigate the impact of changing prices globally and the impact of losing clients.

Your strategic options

You really only have two strategic choices.

CHOICE 1: to pursue a strategy often referred to as “low-cost leadership”. This is a strategy where you make a conscious choice to be cheap and undercut the competition. However, it is very, very rare for this to be a sensible choice. To do this you must have something unique in your cost structure that means that you have lower costs preventing your competition copying your strategy. A UK business that pulls this off spectacularly well is Richer Sounds. But it is arguably very difficult for an accountancy practice to do this.

CHOICE 2: to have a highly differentiated service that adds value, so that you can charge a premium price.

Everything else is – at best – going to make you average. And looking at the state of the UK accountancy profession, average is not a nice place to be.

A word of warning... if you are a solo practitioner currently working from home with no employees it is tempting to conclude that you have a low-cost advantage and can therefore price cheaply. That is not a sustainable strategy for this reason; if you price cheaply and grow your practice, sooner or later you will need premises and some help, and this new fixed cost will kill your profits. Trust me... I once did exactly that and paid a heavy price.

In all the research I have carried out, the top performing firms of accountants all pursue option 2, i.e. focusing on being different, adding value and charging premium prices.

But my clients only choose me on price

If your clients choose you on price, it's because you haven't given them any other reason to choose you. You haven't made your products or services sufficiently different or better. So clients see you as the same as the other practices, with the only thing that differs being the price – so they'll choose the cheapest price. And that's your fault! Because you haven't given them any reason to do anything other than choose the cheapest.

What's more, if clients CHOOSE you on price, then they'll probably also LEAVE you on price. In other words, if they choose you solely because you are the cheapest, then as soon as another accountancy firm offering an even cheaper price comes along you'll lose them as clients.

So there's a double whammy from competing on price. You make lower margins. And you have less client loyalty. So the lifetime value of your clients is lower too.

So what strategic decision are you going to make?

CLAIM YOUR FREE PLACE AT ONE OF MY PROACTIVITY SEMINARS

Since you've taken the time to read this extract from *Effective Pricing for Accountants*, I would love to invite you and up to three of your team to one of my upcoming Proactivity seminars as a VIP guest (others are paying £200 to attend, but you can attend as my guest without paying a penny).

This highly acclaimed one-day seminar will reveal how you can improve your pricing, service levels, profits and cashflow easily by becoming more proactive. These events are hosted by both myself and best-selling author Steve Pipe FCA.

Visit www.AccountantsSeminars.co.uk/Mark to claim your free place.

To receive even more resources specifically designed help accountants increase their profits simply connect with me on LinkedIn: www.linkedin.com/in/markwickersham1



Effective Pricing for Accountants

**Your practical guide to making a significant
difference to your bottom line profits**

"This is a truly awesome book. Here's why: In 1994 I remember speaking in America saying "The way accountants charge by time is the stupidest thing I've ever come across." Sitting in the audience was Ron Baker, the man many people came to regard as the 'guru' of Value Pricing. We wrote the best selling 'Firm of the Future' together and I told Ron his latest book should have been called, 'The End of Time'.

Mark Wickersham has done an amazing job of making that a reality here. This book is brilliantly researched, wonderfully written and it speaks precisely the right 'language'. The almost overwhelming number of examples are stunning and powerful. It would, I suspect, be impossible to read this book and not see your revenues, profits, self-esteem and reputation grow dramatically.

This is one of the most valuable contributions to the Profession I've ever come across."

Paul Dunn

Author of 'The Firm of the Future'

"Stunning... Mark is without doubt the UK's leading thinker when it comes to helping accountants transform their results from pricing in a different way. Everything he covers is proven, based on what he has seen work in the profession, and practical."

Steve Pipe, FCA

"Mark Wickersham is the very best at what he does, and he's one of the most genuine people you'll ever meet. Effective Pricing is the most comprehensive, easy to implement methodology. The art of pricing is set out in a set of practical skills which no practitioner should be without. If you are in the business of accounting, you're going to love this book."

Mark Lloydbottom, FCA

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