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Changing The Business Model Without Ditching The Timesheet



Michelle Golden River

Pricing consultant **Michelle Golden River** says that, for the first time, even large firms are taking huge strides toward a complete transformation of the profession's business model, which was founded on a bill-by-the-hour system that's changed little for decades.

Within the last few years, firm leaders have begun accepting that a new revenue model is inevitable, spurred by the rapid introduction of time-saving technologies. Since fewer hours mean reduced WIP-based billings, firm leaders are implementing – or at least investigating – different revenue methods that capture each solution's worth, not the time spent on it, which is irrelevant as far as the client is concerned.

The impact of work speed on traditional billing is already being felt, says River. One East Coast firm, for example, implemented data analytics and reduced time spent on one aspect of audit from five hours to about 15 minutes. If an hours-X-fee system is used, the time reduction across hundreds of clients means a serious revenue deficit, River says. Another example is an IPA 200 firm that implemented Lean Six Sigma techniques and a workflow product that reduced tax preparation time up to 50% in some cases. Without another revenue model in place first, even after adding clients, they had a \$900,000 shortfall between their 2017 and 2018 WIP.

Under scenarios like these, not only are fewer dollars available for future improvements, but partners start to worry about how their retirements will be funded. Many firms are turning to more lucrative advisory services as compliance time drops, "but they're pricing those poorly too, if they are charging by the hour," she says.

River spent four years as a partner and growth leader at Salina, Kan.-based **K·Coe Isom** (FY18 net revenue of \$68.2 million), a national food and agriculture firm that was the first IPA 100 firm to institutionalize upfront pricing. A growth consultant for 20 years, she consulted for other Top 100 firms while with K·Coe. During the summer of 2017, she was fielding three to four calls a week from other firms interested in a new billing model. She left K·Coe in 2017 to start a new consultancy, **Fore**, focusing on changing the business model.

Momentum is building, she says, to look at pricing in an entirely different way. River advocates price certainty for buyers, who should never receive a surprise bill when a project takes longer than

expected. She looks at pricing through a customer-centric lens she calls “the new WIP.” Rather than Work In Progress, it stands for Why, Impact and Paths.

Why – What does the client want to accomplish and what is the reasoning behind it? Example: “My kids are fighting about the business. I just want peace in my family.”

Impact – What can a firm do to get the client closer to their goal? In other words, ask, “What’s troubling you and what would it take to overcome that?” Impact examples: Address the entire transition including the psychology of it, set up everyone’s roles, equip people to lead, and ensure everyone is treated reasonably and transparently. “The ‘why’ is personal, and ‘impacts’ are transformational,” she says.

Paths – What are the specific steps (combined firm services) that can move the client to the transformation they desire. Example: Offer strategic and succession planning, leadership training and mechanisms for knowledge transfer. “Instead of attaching dollar signs to the names of individual services, like CRM, HR consulting and succession planning, you associate the price tag with the collective purpose and specific impacts.”

In this hypothetical situation, the client may agree up front that it’s worth \$100,000 to create harmony in the family and transfer leadership. At the same time, it’s got to feel good for the firm, too. Does the work fit the firm’s strategic direction? Will the timing work well or is it a crunch? Is it a good personal fit? Do they respect the firm’s advice and value the relationship?



“Both parties must profit for a relationship to be sustainable,” River says. Accountants can easily learn how to more accurately determine the project scope, but to arrive at prices that make sense, they must also improve at communicating with their clients about their challenges and desires for the future to gain a deeper understanding of what the solutions are worth.

What River does not beat the drum about is ditching timesheets. Her pricing model isn’t time-based so timekeeping isn’t necessary, but she says professionals don’t need her to tell them to stop tracking it. “Pressure to get rid of timesheets is a sidebar discussion that creates a huge distraction as they struggle to envision what replaces it. It’s polarizing and turns firms off to exploring other ways of

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doing business,” she says. “They’d need new skills and metrics first – especially large firms – before they’d take that step.”

She explains that once firms experience collaborating with clients to define worth and build offerings to suit the worth, they see it works. Some firms conclude that timesheets aren’t necessary. After a few years using River’s approach, Ridgeland, Miss.-based **HORNE** (FY18 net revenue of \$91.3 million) elected to stop keeping time for all but one highly technical practice area, largely because they weren’t using the data anymore and it’s expensive to gather.

Fore’s tips on developing a new pricing methodology:

1. Offer Three Pricing Tiers – Start with a package of basic services, add services to the middle tier and charge the most for the most extensive and innovative group of services. River says that among her client firms, 60% or more buyers opt for the middle- or highest-price tier, and win rates go up 25%.
2. Try it with Just Prospects in Year One – “They rave about it,” she says. “It’s pretty rare to experience choices from CPAs. You can’t help but feel reassured with that sort of reception.”
3. Move to Existing Clients in Year Two – “You’ve got to believe in what you’re doing or they’ll smell your trepidation, so practice.” Try the tiered upfront pricing model with prospects at least five to 10 times before presenting it to current clients at renewal time.
4. Eliminate the Administrative Headache – Offer different payment schedules among your three options. Aim to be paid ahead of the work. Ask for part down, then invoice the rest over time. Automate with ACH and eliminate the agony of monthly WIP review and detailed billing.
5. Implement a Fixed Price for Single-Service Clients or Refer Them Elsewhere – For basic 1040 clients, look at the highest fee over the last three years, cushion it by 10-15% as a premium for ensuring a cap. You can mass produce invoices in early January and skip the WIP.
6. Operate with Price Integrity – Once your pricing tiers are scoped and determined, do not embark on more work without approval. The price is guaranteed.

River emphasizes that firms of all sizes can implement a new business and revenue model. It should be flexible and customizable, but the pricing process should be consistent. The result is more than just additional revenue, she says. It’s more comfort and confidence in pricing and happier clients. ■IPA



Fore LLC will be presenting at the 2019 PRIME Workshop (Advanced Pricing Methods) which will be an open-to-the-public offering. The date is November 5, in Indianapolis. The PRIME Workshop is limited to 50 guests, so please contact prime@plattgroupllc.com for details.