# A Better Value

## As the Profession Continues to Change, Does It Still Make Sense for Firms to be Selling Time?

**BY: MARK LOEHRKE**

Conversations about the need for accounting firms to move away from the tried-and-true hourly billing formula have been around for almost as long as it has taken for the word value – as in value pricing – to become tarnished to the point where **Michelle (Golden) River** believes it's time for a rebrand.

"The word 'value' these days has the baggage of being interpreted to mean cheap," says River, the founder of **Fore LLC** and a longtime proponent of alternative billing models for accounting firms. "If you say we're going to give you a value price, the client thinks they're going to get a low, cheap price. It has a Wal-Mart type of association that is not necessarily a positive one for the profession."

River prefers the term "worth-based pricing" because she feels it simultaneously expresses the notion that a price the client and firm agree upon must be worth it to the buyer for what they expect to get and, separately, worth it to the seller based on the work they expect to do for that price. But it's more than just a semantic argument, she says, because one of the biggest problems with getting firms on board with a switch to so-called value pricing is the fact that most of them probably can't even agree on what the term means.

"Value pricing is a term that our profession has convoluted into something that it's not," she explains. "Value pricing has always meant a price that the client determines – the value that the client places on those services. Worth doesn't have the baggage that value has right now, and better represents the notion of a collaborative negotiation."

Beyond nailing down a definition for what exactly value pricing means, River says even firms that have a pretty good idea of what it is – and want to give it a try – often simply don't know where to start.

"Current partners are probably the fourth or fifth generation in these firms who have been taught that they sell time," she says. "It's not that firms don't want to do this – they really, really do – but they struggle because they have not developed skills to go about this in a methodical way; it takes a consulting skillset, really. So even if it makes sense to think about value pricing, they tend to keep going back to what they've always known."

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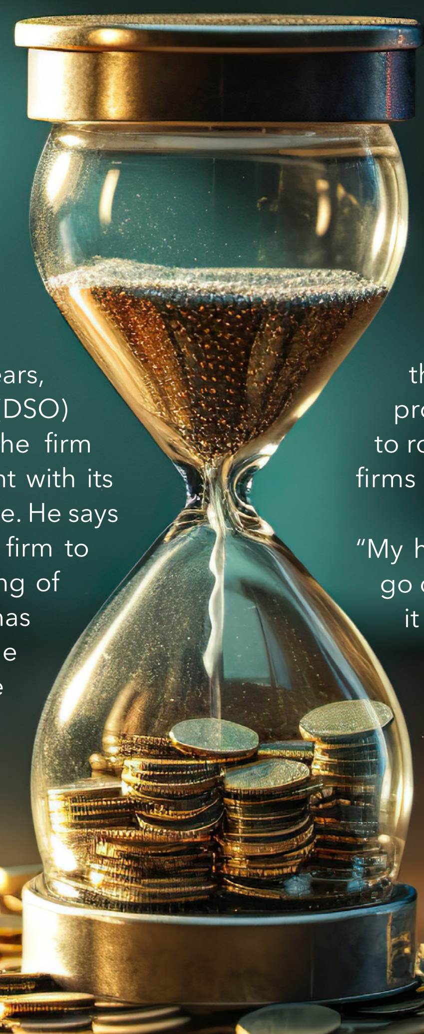
> **FOUNDER, FORE LLC**

While the reasons behind firms' resistance to value pricing may involve some combination of River's multiple theories, the numbers certainly back up the fact that few have been moving in that direction. Just under 4% of billing in non-Big 4 firms that participated in the 2023 IPA Practice Management Survey is based on value pricing — a number that hasn't changed significantly over the past several years. While smaller firms under $5 million in net revenue (9%) and IPA Best of the Best firms (7.8%) are more likely to employ a value-pricing approach, these nevertheless represent outliers across the profession.

Still, one of those outliers has found value pricing to be exactly what makes sense — for both the firm and its client base. Indianapolis-based IPA 200 and 2023 Best of the Best firm **CapinCrouse LLP** (FY23 net revenue of $35.3 million) derives nearly all its revenue (95%) from a value-pricing approach for its main attest services (and, more recently, for tax consulting services as well), something MP **Fran Brown** says has worked for the past several years for two main reasons.

"We work exclusively with non-profits and most, if not all, non-profits need to be sure the spending in any area is within a pre-approved budget," he explains. "Value pricing allows them to know going into an engagement what they'll be spending. Also, 77% of our business is attest, so we need to be able to bill up front to cover our costs, as opposed to the industry norm of collecting down the road."



Brown says that over the past few years, CapinCrouse's days sales outstanding (DSO) have been under two weeks, allowing the firm to steer clear of debt and to be consistent with its investments since cash flows are predictable. He says the value approach has also allowed the firm to work with clients on a better understanding of out-of-scope work since the primary work has been identified and billed up front. And the reception from those clients has been more than encouraging.

"Since our client base is all non-profits, they love the value pricing," he explains. "It allows them to plan and allows them to stay within their budgets. And when it comes to out-of-scope work, they can go back to their senior leadership and/or board and explain why the fees went above budget."

Brown acknowledges that CapinCrouse's combination of client base and service focus makes the firm something of a unique case when it comes to utilizing value pricing, but he nevertheless believes the approach holds plenty of opportunity for all kinds of firms. And for those thinking of giving it a go, he notes from experience that one of the most important things to keep in mind is to hold partners accountable on billing — and not to fear negative WIP.

"The goal is to get the cash in house in order to meet payroll for the work being performed, which often requires communication with the client as to expectations on paying invoices," he notes. "We typically have negative WIP, so I can easily identify partners who have not been billing correctly if they are showing positive WIP."

River, too, believes that worth-based pricing is something that more firms should be mulling. She says those just getting started may want to first introduce the idea to prospects, who will likely see it as a differentiator and will be more open to the idea. She sees this as a good way to practice so that when partners encounter any skepticism from clients who have paid by the hour in the past, they'll have the confidence to explain and defend the practice based on the experience they've had with those prospects. That said, however they choose to roll it out, she mostly just hopes that more firms do, in fact, give it a try.

"My hope is that more and more people will go down this road and see how much better it is for both the client and the firm, and they'll decide that they're never going back to focusing on hours," she says. "We have seen progress, but getting to that point takes some practice."

# Finding the Value in Value Pricing

Having presented on advanced pricing methods for a decade or more, Michelle (Golden) River doesn't hold any illusion that firms will suddenly see the light on value (or "worth-based") pricing and move in massive numbers away from the traditional hourly billing standard. But for those that are thinking about it, she says the reasons to do so should be compelling enough to warrant serious consideration, such as:

# Plenty of clients will love it.

River believes that any controller or financial person making the decision on which firm to go with will love the certainty that value pricing offers. Younger leaders, too, are likely to appreciate an alternative to the hourly rate model. "While Boomers may be comfortable paying for law or accounting services with a blank check, younger clients don't like that approach at all," she says. "As organizational leadership turns over, you'll see younger leaders who appreciate the certainty and up-front discussion with value pricing."

# Newfound efficiency is hurting the hourly system.

River notes that billable hours are declining in many firms – not because there's less work, but because they're investing in efficiency, which has been happening for decades but is only accelerating. Now they're setting minimum billings for things like audits and tax returns to make sure they're not playing a losing hand, but where does it end? "When you can do more in less time thanks to technology or other efficiencies, you're now billing fewer hours for the same or more work," she says. "Firms have been messing around with hourly rates for a long, long time because the system is broken."

# With more efficiency comes less time spent with clients.

The more efficient firms get, the less time they also spend working with clients because they can get through a return or an audit more quickly, River says. Not only does the firm then start to lose out on revenue under an hourly billing model, it also loses out on the opportunity to deepen the relationship with the client and do more for them – suddenly there's less value, less consulting, less advising. "The KPIs make it look like they're making more money because they have more clients, but they're ignoring the things that make those clients more profitable down the line."

# Getting to "why" in pricing.

"If I can't have a conversation with a client about why I'm doing the work that I'm doing but only about how many hours it's going to take, that's a huge disconnect," River says. "How am I associating my price with the client's goals and objectives? Most CPAs just aren't comfortable having those conversations – they don't really know how to talk about anything but their time."