Using value pricing to grow your practice:

# Your guide to getting the optimal price for accounting services

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# Why your clients hate hourly billing

Whenever we buy anything, we want certainty. That means certainty over what we are getting and certainty over the amount it will cost us.

The old-fashioned way of pricing in the accounting profession does not give certainty.

Pricing based on how long the work will take means clients do not know what the final bill will be until after the work is completed and the hours added up. They hate it. They can't budget and plan for the cost.

There's another big problem with hourly rates, too.

When you give your clients an hourly rate, they will always see it as being expensive. Have you ever quoted your hourly rate and the clients have said something like, "That's expensive?"

It's a common reaction because there is no perceived value in an hourly rate. Clients don't come to you to buy time and so they see no value in an hour of your time.

Not only that; price psychology is working against you. I'll explain what I mean by this when we get to the section, "Why your clients have no idea what your price should be."

Clients hate hourly billing because there is no certainty. So, does that mean the solution lies in fixed pricing?

Absolutely not. Fixed pricing is certainly fairer for the client, but it won't help you to get paid what you are worth.

## There Are Only Two Ways to Price

Ultimately there are only two types of pricing: Cost-plus pricing and value pricing.

That's it.

Everything else, from fixed, percentage, menu, dynamic and other ways to price, are different methods that are a form of either cost-plus pricing, value pricing or a combination of the two.

Cost-plus pricing is where you add up the costs and add on a "hoped-for" profit or markup. The old-fashioned way of pricing in the accounting profession with timebased billing or hourly rates is a form of cost-plus pricing. Charge-out rates are arrived at by multiplying hourly salary costs by a multiple to give a rate designed to cover salary costs, fixed costs and to give some profit.

Cost-plus pricing is a terrible way to price because it completely ignores the demand side of the equation or what matters to the client. Your clients do not care about your costs, only about the value to them.

The only other type of pricing is to ignore cost and focus on clients and what they value. This means you should set your price based on the value to your clients.

When you master value pricing, the rewards are huge, both financially and emotionally, as you'll see in a case study at the end of the next section.

*When you master value pricing, the rewards are huge, both financially and emotionally.*

## So why are so many accounting firms getting value pricing wrong?

Very, very few accounting firms are successfully value pricing, although the numbers are growing fast every day. One of the big problems is a lack of understanding and misconceptions. Here's a big one, which I touched on above:

**Fixed pricing is not value pricing**
This is one of the biggest myths in the profession.

Unfortunately, there are a growing number of so-called experts emerging in the profession teaching accountants how to do fixed pricing, but they are calling it value pricing.

Of course, value pricing often means giving the client a fixed price, but fixed pricing is just another form of costplus pricing.

So, let me explain why fixed pricing is not value pricing.

Value pricing is difficult. It's one of the hardest skills to master, but when you do, the rewards are big. It's hard for three reasons:

1. Value is subjective; it can't be touched, felt or measured.
2. Everybody values things differently.
3. Accounting services are hard to price because every client is unique in terms of size, sector, entity, quality of recordkeeping, needs and other factors.

*Fixed pricing is not value pricing.*

Having a fixed price for any service cannot be value pricing because of the second point. Everyone values things differently. Let's use a simple example.

Imagine you help businesses get their accounting systems on the cloud by setting them up with QuickBooks® Online. Perhaps, in the past, you priced that as an hourly rate and decide to have a fixed price of $500 to transfer their accounting system on to QuickBooks Online.

That $500 price cannot possibly be a value-based price because everyone values things differently. You have to have a value conversation with the business owner to identify what he values and then give him a unique price.In fact, every client should have a different price.

In fact, a single-fixed price is always the wrong price. In this case, $500 will always be wrong!

You see, when you are talking to business owners about your services – in this case setting them up with QuickBooks Online – they will have a number in their mind they are prepared and willing to pay. The chances of that number in their mind being exactly $500 is so remote that it's practically impossible. They will have a number in mind. That number will either be bigger or smaller.

If their number or perception of value is less than $500, you lose out because you are too expensive and they don't buy.

If, on the other hand, their number is greater than $500, you make a sale, but you still lose out because they would have paid you more. You've left money on the table.

You always lose with a single fixed price.

*Every client should have a different price.*

By the way, if you do charge $500 for setting up QuickBooks Online, then you are too cheap. Raise your prices! My research shows that most CPAs and bookkeepers in the United States charge less than $500 and about one third will do this for free.

So, where has that $500 come from?

It can't be based on value because it's a fixed price offered to all clients, and remember that all clients value things differently. No – that single fixed price has been arrived at as a best guess of how long it typically takes to set someone up on QuickBooks Online. That's why fixed pricing is just another form of cost-plus pricing.

So how do you give a value-based price up front that ensures you will make a profit every single time?

We'll look at how to do that in the next section, but first, continuing the theme of how to value price setting someone up with QuickBooks Online, let me share a great case study from one of the firms I mentor. Jan Baudat is a bookkeeper in Sedona, Arizona, who sent me the following note:

## Case Study

*Yesterday I had a new client sign up for a QuickBooks Online setup for her nonprofit, as well as ongoing bookkeeping using the Cloud Pricing software.*

*This is a brand new start-up nonprofit, so I suggested that we have our first meeting with a CPA in our area who specializes in nonprofits. The CPA agreed to the meeting and she does not use value pricing. Since I have worked with her before with other clients, we have a good relationship and I wanted her to be able to have this business as well, since I do not do taxes or 990s for that matter. The meeting was a wonderful success for everyone involved!*

*The CPA went first and answered so many questions the client asked, and as far as I know will not be charging her anything for that knowledge. The client is very grateful, of course, and also wants her to do the 990s for the nonprofit, her personal taxes and the taxes for her husband's business. So, the CPA will have some income from this down the road, but I couldn't help but think about you telling us how much we give away so many times.*

*So, after the CPA left the conference room, I proceeded to show the client my brochure on bookkeeping. Because this client was referred to me by another client, she was already sold on having me do her accounting. Although I didn't need to sell her on anything, I took her through the brochure to educate her on what we do as accountants and bookkeepers. I had decided to start with the Cloud Pricing bookkeeping template and then price the QuickBooks Online setup after that.*

*It really worked out quite well that way for her and for me. Most of the prospective clients I have presented to felt that the prices were somewhat high, but this client really had no benchmarks for prices, so there was no pushback. However, she did have a budget in mind, and when I started to go through the extras that she could add on, she shared with me that she was pretty much at her limit and that we should just go with what we're starting on for now. I learned that clients will tell you when they feel they have gone beyond their budget.*

*She also told me she was clueless about what she needed to do and was truly relying on the CPA and me to guide her as to the correct way to go.*

*She chose the "Full bookkeeping package" ($305 per month), along with the "Entry-level QuickBooks Online setup" ($645); since it was a brand-new business there was nothing to convert and I was able to keep it at a simple setup for her.*

*Prior to using value pricing, I would have charged about half of what I was actually able to get for the services. Also, she asked us to do all of the work and doesn't want to do any of the bookkeeping herself, which eliminates really having to do much training; instead, it enables me to advise her as we go and teach her how to read her reports that provide her with the information she needs to manage the nonprofit.*

*We both agreed that we would need to revise the agreement as her organization grows.*

*I no longer have to charge by the hour, and because I'm fast, I don't have to make less, either! In addition, the client doesn't have to worry that the phone calls we have together are going to increase the bill.*

*It is very exciting and satisfying to sign up a client who is not only willing to pay for good services, but also trust that you can help them succeed by truly partnering with them to help them achieve their goals.*

*Thank you Mark and Sarah for making it so much easier for us to help our clients!*

**There are so many great learning points from this case study. Here are some of them:**

- This is a nonprofit and a start-up business with limited cash. We often mistakenly think this sort of client is price sensitive and we need to keep our price low.

- The CPA gave so much knowledge away for free. Why do we do so much for free?

- Jan used a system, a professionally designed brochure, to help her build up the value of what she does.

- She used a system to create a bespoke set of prices and options for that client (we'll come back to this point). For the bookkeeping, the client did not choose the cheapest option she was presented; she went for the middle option at $305 per month – so, the client chose to pay more for a different package.

- Jan says, "This client really had no benchmarks for prices," which is a point I will come back to later; for now, the huge significance of this might not yet be apparent. When she priced the QuickBooks Online setup, she used price psychology to manage the client's perception of what the price should be, which helped her win this work at $645 for the simplest possible setup, since there is no data conversion required.

- This approach enabled her to get double the price she would have gotten under her old way of pricing.

## The game-changing concept of optimal pricing and how you use it to maximize your profit

If you want to get the very best price and maximize your profits then you need to use Optimal Pricing.

The process of **Optimal Pricing** is setting your price at the maximum each individual client is willing to pay. Economists call this the buyers reservation price. This is the optimal price.

In the accounting profession, every client gets a unique price because he has unique circumstances, needs and wants. Further, the selling process (and therefore the pricing process) is done using one-to-one meetings – or at least it should be! So, Optimal Pricing is possible and what you should be aiming for.

So how do you achieve Optimal Pricing?

First, you must forget the timesheet. There is no link between how many hours you spend doing work and the value to the client. Time doesn't help, other than the fact you need to make a profit. However, if you cannot provide value at a profit, then do something else!

You need to find out what the client values by asking questions.

Once you understand what they value (the pain they are trying to avoid and the gain they are trying to achieve) you present a high price, not because you expect them to say "Yes" (if they do, you're too cheap!), but to create a reference price. This is called anchoring and I'll come back to this soon.

You then work with your client to refine the package; such as taking things out he doesn't really value, and change the price. You do this until the client says "Yes." By starting with a high price and working down, you discover the highest price the client is willing and able to pay.

Optimal Pricing is the ultimate form of value pricing. The definition of value pricing is "To find the price for any given client that is the maximum they are able and willing to pay."

*First, you must forget the timesheet. There is no link between how many hours you spend doing work and the value to the client.*

*If your price reflects the value you give to the client, the client sees that value and agrees to your price. Everyone is happy.*

The big mistake we make is to try to be competitive and start with a low price. If you ever have a client say yes to your first price, then very simply you have gone in too cheap. The client would have paid you more. You've left money on the table and this is killing your profits.

Isn't this ripping the client off?

Absolutely not.

It does not matter if your price is expensive. If your price reflects the value you give to the client, the client sees that value and agrees to your price. Everyone is happy.

Some may consider the Apple iPhone to be expensive, but Apple didn't rip me off when I chose to pay more than $1,400 for the iPhone 8 Plus. The value is much greater than that because, for me, that's a great price for an awesome camera.

There is nothing wrong with being considered expensive if you deliver huge value.

The people who are in danger of letting their clients down are the cheap accountants and bookkeepers. They are also in danger of negligence.

When you charge a low price, you can only afford to do the bare minimum. In the United Kingdom, a common service carried out by accountants is incorporation, where a sole trader or partnership business is transferred to a limited company such as an S corporation. Often, this is done for tax reasons, but there are other benefits as well.

Most U.K. accountants charge about $500 for this service. This is a crazy price and in danger of being negligent.

The reason they charge so little is because they are scared of pricing. They don't understand the true value and their mindset is buying a company off a shelf. Yet, there is so much more to it with planning opportunities and many potential pitfalls if corners are cut.

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*The people who are in danger of letting their clients down are the cheap accountants and bookkeepers. They are also in danger of negligence.*

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Let's examine what is really involved with setting up an S corporation:

- Consider whether this is the right business entity choice for this client.
- Consider ownership (structure of shareholdings) and possible group structure.
- Formation and issue of shares/member units.
- EIN and EFTPS setup.
- Advice on setting up the new business bank account.
- Setting up payroll and EIN.
- Accountable plans created.
- Payroll and sales tax set up in new company.
- Remuneration planning, or how best to take profits out of the new entity.
- Cessation date and transfer of trade date.
- How to treat any existing cars and vehicles in the business.
- How to treat property and other asset transfers and planning considerations.
- Goodwill valuation and planning.
- How to treat any leased assets.
- Setting up capital accounts.
- Registered office and registered agent.
- Setting up and maintaining corporate record books.
- Setting up the new accounting system – accounting records and bookkeeping.
- Legal issues, including shareholder or LLC operating agreement.
- Financial planning around retirement and profit sharing plan.

That's a lot of stuff, and if you only charge $500, you cannot possible consider all of that. In the United Kingdom, most ordinary accountants will probably deal with a few of the basics – and that's all. There isn't time to do everything else.

When I talk to ambitious business owners, so often I hear them say, “My accountant/bookkeeper is OK. They do my books and file my returns, but I wish they’d do more. I wish they would advise me on how to grow my business, improve my margins, improve my systems, help me improve my cash flow and help me make more money.”

That is so common.

So why isn’t the profession doing more for business owners?

Very simple. We’re charging too little. As a result, we’re working too hard and making too little money. We’re working so hard doing the compliance work that we don’t have the time to do anything more. And, yet, it’s the other stuff where the value really lies.

We owe it to our clients to increase our prices, and freeing up time and resources so we can do more for them.

I’m not going to kid you by saying this is easy. It’s not. Value pricing is hard. I started this in my accounting firm in 1999, have taught it for 17 years and I’m still learning. If you’re feeling overwhelmed, don’t worry. You’re not alone. Just take things one step at a time.

*We owe it to our clients to increase our prices, and freeing up time and resources so we can do more for them.*

## The first step toward value pricing

Here is a fundamental thing about value pricing; remember, I said each of your clients values things differently.

A very simple, yet effective way to do this is to present your client with three options. Each option is a package or bundle of benefits. I call this Menu Pricing.

Why three options?

It's called the Magic of Three. It simply means that when you create your packages, you should always create three packages, unless you can prove otherwise through testing. For simplicity, I'll refer to these as Bronze, Silver and Gold.

There is some science and psychology behind the Magic of Three. What tends to happen is most people will choose the middle option; it's seen as being the safest one. That simple fact creates a big opportunity for you and your pricing.

If you are skeptical about the idea of increasing your prices, then why not create three options and present them to your client?

You can make the entry-level option (Bronze) the same package and price as you charged last year, perhaps with an inflationary increase. Then create another option – a middle level (Silver) – with some extra value, followed by a premium higher priced option (Gold), and test the three.

What you will find is that some of your clients will choose to pay you more money because they see greater value in the middle option or even the premium, most expensive option.

We see this in the world around us. All of the most successful and profitable companies on the planet use menu pricing and use the Magic of Three. When you go to Starbucks for coffee, you will see three choices for size.

Starbucks describes them as Tall (which is the small one strangely enough), Grande and Venti. They are using the Magic of Three and recognize that different customers value things differently.

Some people who perhaps are less thirsty or a little more price sensitive may choose Tall. There are other people at the other end of the spectrum who see more value in the extra size offered by the Grande or even the Venti. They will voluntarily and eagerly choose to take more money out of their pocket, and pass it across the counter to Starbucks for that size option. Starbucks' profit just went up considerably.

For Starbucks, that means millions added to bottom line profits, something that have been thrown away if all Starbucks ever offered its customers was just a Tall size.

Menu pricing is the first step toward value pricing. Although the value is subjective, your clients will choose the package that best represents the most value, so by giving them three choices, they will self-select and choose the package that has components in there they value at a price they can afford.

*We owe it to our clients to increase our prices, and freeing up time and resources so we can do more for them.*

I have seen firms implement this one idea and they have reported back to me that just by giving clients a choice, they increased their average prices across their entire firm by 20 percent or more. That price increase goes straight to bottom line profits, which for a typical accounting or bookkeeping firm could equate to a 50 percent increase.

If you could increase your income by 50 percent over the next 12 months, how would that make you feel? What could you do with that additional income?

Here's a great case study from one of the firms I mentor. Cindy Hovig is a bookkeeper from California. We met during QuickBooks Connect 2017 in San Jose, where she asked my help for a complicated cleanup project she'd been asked to price. A few days later she wrote this to me:

## Case Study

*"Thanks, Mark, for helping me with coming up with the three offerings for a big project. The client has three years of cleanup to be done. I knew that we would need to break down the project into phases, but I was having trouble coming up with three offerings for the first phase.*

*Based on your suggestions, we included premium offering with expedited service, a full service offering and a third, basic offering that would have required the client to do some of the work.*

*We had a meeting with the client yesterday who went with the middle offering for Phase I.*

***Cost was a big concern, so I was happily surprised that the client went with the middle offering rather than the basic one.***

*I am excited about this project. It is the biggest cleanup we have done to date. Wrapping my head around what differentials to build in the offerings has been my biggest challenge with clean-ups. I feel that I have made a big leap in value pricing with this proposal."*

**There are a few great learning points from this case study:**

- When I initially spoke with Cindy, she couldn't see how you could create three packages/options for cleanup work. However, with some creativity, you can always come up with different options.
- Despite the fact this is a business where cost is a big concern – it happened to be closing down and needed to bring everything up to date for compliance reasons – the client did not choose the cheapest option.
- Cleanup work is one of the hardest things for bookkeepers to price because of the uncertainty involved. Nevertheless, Cindy did not revert to the old-fashioned method of adding up hours. Instead, she broke the project down into phases.

*With some creativity, you can always come up with different options.*

So, how do you come up with a price for each of your three packages?

One option is to assign a fixed price to each one. I sometimes refer to this as Starbucks pricing, which I covered above.

But you're probably thinking, "Hang on Mark; you said 'fixed pricing is not value pricing!'"

With fixed pricing, most accounting and bookkeeping firms are basing their price on their best guess of how long the work will take, but remember, a single fixed price is always the wrong price.

*The minute you give clients a choice, they will choose the package that represents the best value to them.*

However, as soon as you give three choices, you are now moving one more step toward value pricing. The minute you give clients a choice, they will choose the package that represents the best value to them. Different clients will choose a different package because they all value things differently.

Of course, having created your three packages, you might assign a price to each one based on your best guess of how long the work will take. In this case, you are still closer to cost-plus pricing, but at least by giving three options you've taken a small step toward value pricing.

The next step to take on the journey is to make sure that what you put in the middle and top options are things that have a high value to the client and low cost to deliver – for example, management reports – and then you price those more expensive packages to reflect the value.

In other words, when you're new to this value pricing journey, you might set your price for your entry or Bronze level based on some assessment of cost, but set much higher prices for the middle and top options based on your judgment of the value to the client of the extra benefits in there.

You're now making a bigger step toward value pricing – and this is a great place to start.

Eventually, you want to get to a point where every single price you reveal is based on the value to the client with no consideration given to how long the work will take. This takes time to master, and when you do, you'll often be pricing at amounts that are twice as much as you used to price. I know this because I have dozens of case studies from bookkeeping and accounting firms around the world getting these results.

*This takes time to master, and when you do, you'll often be pricing at amounts that are twice as much as you used to price.*

Now, remember the concept of Optimal Pricing? Your goal is to discover the maximum price any given client is able and willing to spend. To do that, you must ask questions.

Of course, that means you must have a conversation with your clients. Please do not put prices on a website or send proposals through the mail – that's a big mistake.

So, let's consider the types of questions you need to ask before you can come up with a value-based price.

## The 5 types of questions you must ask to understand the scope of work and what your client values

**Question Type I – Scope Questions**
Remember, one of the things that makes value pricing so hard for the accounting profession is the complexity of what we do and that every client is different. It's much harder to price than selling cups of coffee.

So, we must ask scope questions to understand the client's circumstances. For bookkeeping work this might include the following:

- Is your bookkeeping up to date?
- How many transactions do you raise per month?
- What type of business are you in?
- Are you registered for sales tax?
- How many bank accounts do you operate?
- Do you need payroll journals posting?
- Do you have foreign currency transactions?
- What accounting system do you use?

These questions help you to identify the scope of the work. Obviously, a business with 1,000 transactions per month should pay much more than one with just 100. You might also know from your experience that certain business types, such as the construction industry, create additional work; as a result, the price should be higher. If the business has to report sales tax, you will have additional bookkeeping entries to make.

Asking these questions helps you to build up a picture of the client's circumstances and the amount of work you will need to do.

Questions also help to establish the value. A larger business might place more value on you doing the bookkeeping because the business is more serious about its business, and to be compliant, the numbers need to be accurate for decision making purposes. In contrast, a small business might be running itself as a hobby and doesn't care as much about the accuracy of the numbers; it just wants you to keep them out of jail!

This is the difficulty with value pricing; value is different for different people.

As you get more proficient with value pricing you'll get better at asking great questions that help to uncover what a client really values.

*Asking great questions will help to uncover what a client really values.*

**Question Type II – Tangible Preferences**

What other things could you offer client that he might want? When the client says “Yes” to these things, he is indicating he would value these things, and so you add them into your price, even if the time to deliver these extra things is zero. Remember time is irrelevant, it’s value that matters to the client.

For example, if you are talking to a business owner about doing the bookkeeping, here are some other things you could offer to do:

- Do you want us to run your bill pay?
- If so, how many users would need access to Bill.com?
- Do you want us to post your transactions to different divisions/locations so you can report on each division/location?
- Do you want us to scan your records whilst we are doing the bookkeeping so everything is digital?
- Do you want a meeting to go through your results with advice on how to improve your business?

These preference questions play a very important role in the value pricing process, as you’ll see very soon.

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*When the client says “Yes” to these things, he is indicating he would value these things, and so you add them into your price, even if the time to deliver these extra things is zero.*

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**Question Type III – Intangible Preferences**

Now we are turning our attention to the experience. Questions we might ask when pricing bookkeeping work include:

- How often do you want us to do your bookkeeping?
- Do you want us to perform the work at your premises?
- If not, would you like us to collect and deliver the paperwork?
- If you want a meeting to review your results, how often do you want that meeting?
- Who would you like to have as your primary point of contact at our firm?

**Question Type IV – Outcome Preferences**
What outcome does the client want?

This is where we look at the end result. For bookkeeping, this could be offering a report on the financial recordkeeping. For other services, such as setting the client up with QuickBooks Online, it could be ongoing support and training.

All of these questions you ask before you decide what the price of each of your three packages should be. The next one is different. Question type V is after the client agrees the price.

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*Up-sells are powerful. When clients agree to buy something, they are in buying mode. That means they are more receptive to buying other things.*

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**Question Type V – Enhancement Questions**
How can the client enhance his or her experience?

This is an advanced and optional step.

Once a client selects one of your three packages and agrees to the price, consider the up-sell – not to be confused with the cross-sell. This is where you offer things that will improve the outcome. For example, one of your preference questions might be, "Do you want a quarterly meeting to review your results?" The up-sell might be, "Many of our clients choose to upgrade to a monthly meeting, would you like that?"

You've already made the sale. The worst that can happen is the clients says, "No thank you, I'm happy with what we've agreed." However, sometimes they say yes and you increase the price by, say, 10 percent.

Up-sells are powerful. When clients agree to buy something, they are in buying mode. That means they are more receptive to buying other things. If you don't have a system to offer enhancements, they can't possibly buy more from you!

**But what do you say when you reveal your price and it is too high?**

We hate it when a client says, "Ouch! That's too expensive." We hate rejection. For that reason, we either consciously or subconsciously try to be competitive – which means keeping our prices low – so we don't get that reaction.

The trouble is, if you never get that reaction, you are too cheap. You're throwing away money.

You need to have a change of mindset. You want to welcome that reaction. Your objective should be to get that reaction with the first price you give. That first price sets the anchor, which we'll cover more about later.

When your first price is too high, this is where all those preference questions come in. When you give clients choices they often say "Yes" because they haven't yet seen the price. If the price is too high, you can now ask the client the following: "The reason this is the price is because you've said you want all of these things. Looking at this list of things you've said you'd like, are there any here that on reflection you don't really need (value)?"

If they say, "Well. I'm not really sure I need you to post my transactions to different divisions/locations. I've never had that done before and if I'm honest, don't really understand that."

*The trouble is, if you never get that reaction, you are too cheap. You're throwing away money.*

Now that you know the client doesn't value that service, you simply remove that and reveal a different set of prices. Because those prices are now less than the initial reference price – the anchor – there is a greater chance the client will say yes. However, if the price is still too high, you can work with the client and remove something else that isn't wanted.

You keep doing this until either the client says yes, which will be at a price close to their buyer's reservation price, which is also your goal, or you decide this client is not actually a good fit for your firm.

## Why your clients have no idea what your price should be

There is a branch of psychology called psychophysics. It has been around for over 100 years and concerns the study of how our senses and perceptions relate to different physical stimuli. What we learn from this field of study is something profound about price.

One of the things that has been discovered is we are completely clueless about price. Instead, research has shown that our judgments of monetary value have much in common with sensory judgments. In other words, we are acutely sensitive to differences, but not so sensitive to absolute values. We might know which color of two shades of grey, for example, is the darker and which is the lighter, but we don't know the absolute color.

It's the same with weight. For example, we might know that if we have two boxes, we know which one is the heavier one, but we will be unlikely to accurately tell the exact weight of each item.

It has been found in this branch of psychology that it is exactly the same with our perception of price. We haven't got a clue about the price of anything, and actually, when we think about it, it makes logical sense. Price is just an arbitrary number; there is no science behind the price. Unlike weight, color and temperature, there isn't a scientific scale to give an exact number. We can measure how much things weigh with precision. We can measure color using a scale like CMYK, and temperature with a thermometer, but we cannot measure price; it is just an arbitrary number.

*Because we don't know the price of anything, whenever a price is revealed, we have to look at other things to compare it against.*

Because we don't know the price of anything, whenever a price is revealed, we have to look at other things to compare it against to give us an idea whether it seems like the right price. That is what always happens when price is revealed: we look to see what price other things are, so we can influence that process taking place in the minds of our client. That is the world of price psychology.

### The stupidity of hourly rates

Consider hourly rates. Bookkeepers will typically charge somewhere around $40 per hour. If you quote this kind of hourly rate, the client has no idea whether that is the right or wrong number; it's just a number.

Because of that, clients will make comparisons in their head with something else. Now, of course there are many things they could compare the rate against. For example, they could compare it against the cost of one of the country's leading legal experts who charges $1,000 per hour. In this case, they could say, "Wow, $40 per hour, now that seems very fair and reasonable."

But they won't. What they are more likely to do is think about Janet who they employ as a secretary in the office and pay $15 per hour. Now, by comparison, your $40 per hour seems expensive. It's almost three times the price. That's outrageous!

That is the problem with an hourly rate. Whatever number you come up with will always seem expensive to the client because it doesn't convey any value. Instead, it will seem expensive compared with something else they choose to think about.

You need to get control of the process. Instead, you need to come up with some other ways of helping the client to see the price as being reasonable rather than outrageously expensive, which it almost certainly isn't.

*One of the most powerful things you can do is to create a reference price or anchor.*

That's where price psychology comes in.

One of the most powerful things you can do is to create a reference price or anchor. One way of doing that is to reveal a price that isn't the real price, for example, using the process outlined above. Reveal a high price and then have a system to change the package.

Here's another technique. It's called the price-order effect.

When you present your prices, does it matter how they are presented and in which order? Actually, it does.

Back in 2012, Suk, Lee and Lichtenstein carried out some research and their research paper, "The Influence of Price Presentation Order on Consumer Choice," was published in the Journal of Market Research. Let me describe to you one of the experiments they carried out.

Taking a bar price list that listed beers from the cheapest beer at the top to the most expensive beer at the bottom, the trio measured beer sales over a period of time. After doing that, they adjusted the menu, swapping the order to list the most expensive beer at the top and the cheapest at the bottom, and again measuring the impact on sales.

They found that the average spend was significantly higher when the beers were listed from the most expensive to the cheapest. This is because when we look at a vertical list of prices, we tend to read from top to bottom, and so the first price we see, the first price we read, and therefore the most expensive beer in the second case, creates a frame of reference by which other prices are evaluated and judged.

So, if we start off with the cheapest one first and that is the first one we read, then we see everything else as being more expensive. As a result, we are more likely to settle on buying a cheaper beer. If, on the other hand, we start off by revealing the most expensive one first, then everything else seems much greater value in comparison and we end up settling on a higher value purchase.

There is another aspect here as well: the concept of loss aversion, something which behavioral economists have found that we suffer from. We associate price and quality as being related. When we see the prices going down, as we read down the menu, we associate that with a loss of quality. We recognize that as we go down the list, we are giving something up, which in the case of the beer price experiment influenced consumers to go for a higher priced beer because they become reluctant to sacrifice quality.

### How do we transition to value pricing with our existing clients?

One of the most common questions I get from the firms I work with is how to move existing clients to value pricing. However, that's not the real question; I'll tell you the real question later.

Clients actually love the idea of value pricing because every client wants:

- to know with certainty what the price will be right up front,
- to have choices so they can pick the solution that best meets their unique needs and wants, and
- to feel in control of the pricing process as part of the value conversation.

It means we apply the same process to existing clients as new clients.

The real question is, "How do I put my prices up with my existing clients?" That's a very valid question because every bookkeeper and accountant is way too cheap. They need to increase their prices.

The big problem, of course, is the price they paid you last year is a reference price. They will use last year's price to judge your new price.

Fortunately, there are many techniques we can use.
For example, there are many strategies we can use for reframing the price. Essentially, this means making it hard to make a direct comparison of this year's proposal with what you did last year. One of these is bundling. When you bundle items together, it is difficult to compare prices. This is a strategy mobile phone companies use to make it hard to compare prices with competitors.

*There are many strategies we can use for reframing the price.*

One way to build on this bundling idea is with menu pricing, which we've already looked at. If you have only ever offered one package in the past, offer three choices as in Bronze, Silver and Gold. Set the price of Bronze to be about the same as last year – ideally, a little higher, say, 5 percent. Set the Silver level to be about 20 percent higher, and the Gold at 30 percent. Provided you get the packages right in that there is enough additional value in the Gold and Silver and you communicate that value effectively, you are likely to find over half of clients choose the middle option. This strategy alone has helped many firms increase average prices by 10 to 20 percent.

Another way to increase your prices with little pushback is through framing and communication. The words you use before and during the price conversation are critical. For example, consider announcing your pricing change in advance. When you tell people the price increase is taking place in the future, it allows people to plan and budget and, if necessary, make alternative plans if they need to. In addition, people tend to be less upset about things that are going to happen in the distant future than about things happening now. So, the further in advance you can communicate the price rise the less resistance you will get.

## Next Steps

Here is your seven-step action plan for getting started on this value pricing journey:

1. Join a community or Facebook group where other accounting professionals help each other with the transition to value pricing. For example, feel free to join my Facebook group **here**, where you can ask me and other people in the group your pricing questions and get inspired by other peoples' success stories.

2. Make a commitment to yourself never to quote an hourly rate again or price by the hour.

3. For your core services (tax returns, bookkeeping, payroll or financial statements) think about how you can split them into three different packages. If you need help with this, refer back to step 1 above.

4. What more could you possibly do to add more value to your clients and build into your more expensive premium offering? Try to come up with things that are high value to the client but easy to deliver, such as management reports.

5. Create a plan for the next three months to have a pricing conversation with some of your clients. Identify at least one client per month. Ask them some preference questions and then reveal your three choices. If you're worried about putting your prices up and losing the client, set the bronze level similar to last year's price (perhaps a small inflationary price rise), set the middle option about 20 percent higher and the top one at least 30 percent higher, and see what happens. If you've done this right, you should find that more than half the clients you talk with chose a more expensive package.

6. Get some free help from me. You can visit my website **here** and you'll find an invitation to attend one of my mentoring sessions as my guest.

Read more about value pricing on Intuit's **Firm of the Future** and subscribe for email updates.

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*Make a commitment to yourself never to quote an hourly rate again or price by the hour.*

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## And finally...

*Here's is one final case study from one of the small accounting firms I mentor in the United Kingdom to inspire you. Dionne Sherwood is a sole practitioner in Wales, who wrote me this:*

*I thought you might all like to hear my success story of last week. A panic e-mail from somebody "in a pickle" [that means, in a mess] on Thursday. They wanted somebody who could help with bookkeeping and found me by Googling me.*

*I rang immediately and made the appointment for Friday morning. It is a business start-up, but the CEO has good business and bookkeeping knowledge, and was just a bit overwhelmed by the volume of work. I have my payroll brochure, but not a bookkeeping or start-up brochure, yet. Anyway, I spent a couple of hours sorting out the start-up brochure and sending it to Noir [her graphic designer]. I then put together a one-page bookkeeping brochure which I printed on decent paper. I then made sure I had the three modules in the Cloud Pricing 2.0 software.*

*Next morning, I had a PDF of the start-up brochure from Noir which I printed in color. I visited the client. I went through her business, and then explained mine and how I want to work alongside businesses and not just do the compliance. I went through the start-up service then the bookkeeping and finally the payroll.*

*I explained the start-up brochure was with the printer and she could see the quality from the payroll brochure (she was impressed). She could see the value in the premium start-up service, but cash flow meant opting for the full package with a view to upgrading later in the year. We priced the full package on the bookkeeping and essential on the payroll.*

> *I got more than twice the fee I would otherwise have got and the first sentence in her e-mail was, "You are like a breath of fresh air."*

*The upshot is I got an instant reply saying, "Yes." I got more than twice the fee I would otherwise have got and the first sentence in her subsequent e-mail was, "You are like a breath of fresh air."*

*I went out to the client with the view of not accepting any new clients not prepared to pay me more than £2,500 [that's about $3,250] per annum for services. This new client, with very limited cash flow but great potential is going to pay me just short of £6,000 [that's about $8,000] in the first year.*

*Thank you, Mark. Your help has really given me the confidence and the tools to work with clients and help them grow their businesses. I still have a way to go, but it also demonstrates something you said: don't try and get everything in place before you start. Some of what I did was a reaction to the enquiry, but of course it is now in place for the next inquiry.*

## About the author

Mark Wickersham – *Chartered Accountant, public speaker and #1 best-selling author* – is known as the most sought after **profit improvement expert** in the accounting community. He is famous for helping accounting firms **double their profits** in less than 18 months without having to work harder or do any uncomfortable marketing.

Mark is passionate about this great accounting profession. He believes that we have the power to make a profound difference to the lives of our clients and in return **accountants should be very richly rewarded**. Unfortunately, the reality is very different; benchmarking studies show over half of accounting firms are actually making a true economic loss.

Mark wants to CHANGE that.

He is passionate about the accounting profession and helping accountants to become much more profitable. He believes every firm – including you – has the potential to double profits using the **7-step "Fastest Way To Double Your Profits" formula.**

He also strongly believes that the old business model (the way accountants are taught to run accounting firms) is not only commercially stupid, but UNETHICAL. We owe it to our clients to change our focus. This is something Mark learned the hard way.

Don't make the same BIG mistake Mark made.

Mark started his own accounting firm in 1996 and made dozens of stupid mistakes in the first 2 years. Mistakes which had disastrous consequences on his profits and cash balances. But in November 1999 all that changed. With help from Steve Pipe, Michael Gerber, Paul Dunn and Ron Baker he created the 7-step "Fastest Way To Double Your Profits" formula.

Not only did this completely transform the profits of his own accounting firm (which enabled him to sell it in a management buy-out a few years later), it has helped 100s of UK Accounting firms. For example…

Phil Bessant (a sole practitioner in Newport) recently wrote, "Wow! I've added over £100,000 to my fees (which will all be extra profit) in just a few short months by following the step-by-step advice and systems in Mark's Effective Pricing for Accountants programme. And it was so easy to do."

And Phil Ellerby (a sole practitioner in Leeds) wrote, "Mark's simple step-by-step guide… has increased my GRF by 400% in just 2 years, earning me over £220k."

**This 7-step formula is transforming accounting firms.**

**Number 1 bestselling author**
Mark is also a widely published author on practice issues. In May 2011 his first book, "Effective Pricing for Accountants", was a **#1 Amazon bestseller**.

Mark has over 100 recommendations from accountants on LinkedIn; CONNECT with him on LinkedIn to get access to **free resources** Mark has created for accountants in practice.

**Find out more about Mark here.**

Create more time for yourself while building your practice–QuickBooks Online Accountant will get you there, free.

**Learn more.**