Selling Profitable Work When the Fee-Squeeze Is On

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It's a difficult selling climate for most firms right now. Competition seems fierce because firms both larger and smaller than yours are willing to come in with impossibly low prices. Firms figure out "what it will take" to do a piece of work, and then propose their walk-away price that's dangerously close to no margin or even below margin, all the while knowing that someone else will probably propose less. It's tough to win work, and it's becoming rare to win profitable work.

Sadly, when a firm competes on price alone, a vicious circle starts. The firm's team embarks on those assignments with a non-euphoric attitude, instructing team members to watch their hours. The team is constrained and unlikely to go above and beyond in their service. Clients notice something's off — that they aren't getting gold-star service — but it seldom occurs to them that it's because they are underpaying for the work. It's not really their fault they got a crazy-good deal, is it? But the result is that the client is less apt to rehire the firm, and very unlikely to refer the firm. And the firm is left to replace that work with a new, cold lead at another low price. The cycle repeats.

Some firms are breaking free of this cycle. The solutions I'm outlining are simple but not easy. It takes practice, so don't expect to do it once or twice and be a pro. It requires some new skills that aren't inborn, so experiment, observe what happens, apply what you learn, and improve over time. Break the cycle and open the door for much better prices and greater profitability.

Specialization

This isn't a new idea at all. What's potentially new is the awareness that when you are recognized as the go-to firm for something, you should begin to price that type of work higher than other firms do. Very few firms actually do this and it's kind of a BFO (blinding flash of the obvious) when a firm figures this out. But think about it: What is the purpose of developing a specialty (also known as effectively branding) if you aren't going to leverage that brand for a premium price?

And this does work with otherwise commodity services. I've seen school-district audits premium priced by a specialist firm at 20 percent to 50 percent higher than "market." Others say it's impossible to do with government and nonprofit work. It's not. Think about Procter & Gamble. The purposes of branding are to be able to command a premium price and to make sales easier. It's why we pay more for Charmin and Crest when we could buy generic. If toilet paper can be premium priced, anything a CPA firm sells can be, too.

Specializing isn't necessary for pricing more profitably; it's just smart. Whether you position yourself with specialties or not, the rest of these steps are essential to getting the right price for your work.

Scope

More not-new news is that if your scoping is poor, your profitability will be poor, too. Firms have three massive scope-related problems now: 1) ill-defined scope, 2) uncommunicated scope, and 3) unadhered-to scope. Solutions? Become a lot clearer about what is and isn't included in the work you propose. Spell out parameters like the duration of your work. In particular, be sticklers for the time period in which the work will occur, and price work that occurs outside of that window differently.

Communicating the scope with your employees is crucial, because scope can't be adhered to if it's not understood. The truth is that scope doesn't vary much from one client to the next, so it's never really spelled out well for the client or for the team. I often hear that extra work was performed because the team didn't know it was extra and partners don't learn about it until it's far too late to go to the client and sell the additional work. This leads to write-offs or worse: Firms "bill and duck." This is all the result of a definition problem.

Scope needs to be defined for both your and your client's benefit. This is key to managing expectations for the client and to managing your profitability. Partners and managers tend to feel guilty about executing change orders (and they should) when the work in question was never specified as "not included" to begin with.

Tightening scope descriptions, conveying the specs to the team, and being diligent about implementing change requests will instantly improve your profitability. I've seen firms increase profit by upwards of 10% without doing any more work than they'd done in the past, simply by capturing what they previously wrote off. But never do this by billing and ducking, which threatens client relationships. Do it by clarifying scope up front and communicating it effectively.

Options

This concept is brand new to most firms and the benefits are many. The idea is to offer the low price (at or above your walk-away price) you're offering now that gets you to the table, and to also present additional offerings that illustrate different levels of scope. This greatly helps to resolve the scope-clarity problem. By offering options, you compete with yourself, thereby changing the buyer's internal dialogue from "Will I work with the firm?" to "How will I work with the firm?" And think about it: If you never offer a premium option, no one can buy it.

> **"Options change the dialogue from 'Will I work with the firm?' to 'How will I work with the firm?'"**

Present three options (there is buying psychology behind three or more) because options help people decide what they want — we don't usually know until we see it in the context of price and options. Think of car buying or lawn-mower shopping. There's usually a rude awakening where you say, "Hmmm, if I want that, I'm going to have to loosen the purse strings a little more, aren't I?" List your options with visual clarity, side-by-side on a summary page, noting that detailed scope is found on a subsequent page. Inspiration for the appearance of your high-level options can be found all over the Web. (See graphic, above.)

The goal is to make it very easy to see why someone would want one option over another. With compliance services like audit and tax, think about addressing risk-reduction concerns

Online ad for blogging service provider that demonstrates effective use of pricing options.

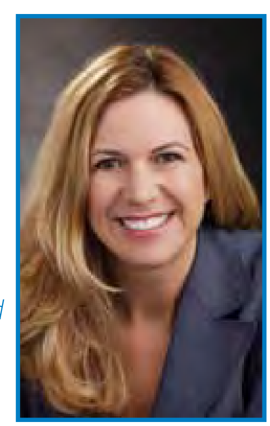
for boards and management, and conveniences to the buyer such as timing, terms, and access.

A good sales document includes upgrades and add-ons. Clarifying "extras" reinforces the fact that it is not within the original scope. If the item is included in the premium package, but a price is shown for upgrading to that item from a lower-end package, the buyer now has more context about the value of that item.

Take the opportunity to pre-price any work that your firm could anticipate in a typical scope-creep situation. For audits, this might include a per-day price for fieldwork delays, or per-each prices for balance sheet account reconciliations or reissued trial balances. For tax work, it can include timings around the receipt of client information or additional investments (per each) or other complexities. By pre-pricing these things, a change request takes the form of a quick call or email to the client to obtain permission to proceed at the price in the original proposal.

These are quick introductions to deep concepts. Scoping and options reduce your risk and reassure your client about what they get. With these approaches, it's possible to increase your firm's profitability rather quickly while maintaining the pricing flexibility that gets you in the game competitively.

About the Author



Michelle Golden, CPF, is a growth strategist teaching innovative practice management, pricing, and marketing strategies to CPAs around the world. She's president of Golden Practices Inc. and a senior fellow of VeraSage Institute. She is named by Accounting Today *as one of Ten Most Powerful Women in Accounting (2009) and one of the Top 100 Most Influential People in Accounting (2010 & 2011). Her full bio is at michellegolden.com.*