



August J. Aquila

## Price it right!

Making a profit was the result of something else – like providing answers to clients' questions, becoming more efficient and productive, and creating a new product that people wanted to buy. That was my first lesson.

Even if you did all of the above, you still were not guaranteed a profit. You needed to determine how to price your services to maximize your profits without alienating your clients.

### Several Ways to Price Your Services

Pricing professional services is more difficult than pricing tangible products. While you can often pinpoint the cost of making a physical product, it's more subjective to calculate the worth of your counsel. Here are the factors that you should consider when determining what price to charge for a service:

- *Competitors' pricing.* You need to be aware of what competitors are charging for similar services in the marketplace.
- *Perceived value to the customer.* This is where a lot of the subjectivity comes in when setting a price for a service to your clients. The important factor in determining how much they are willing to pay for a service may not be how much time you spend providing the service, but ultimately what the perceived value of that

service and your expertise is to them. That is where pricing becomes more of an art form.

- *Cost basis.* Accountants will focus on labour costs (wages and benefits). But, don't forget the indirect cost of administrative assistants, overhead costs, rent, insurance, etc. and technology costs.

### Different Pricing Models

Now that you understand what it costs you to provide a service, what your competitors are charging, and how customers perceive the value of your services, it's time to figure out whether to charge an hourly rate, a per-project rate, or try to negotiate a success rate for your services. Here are some benefits and risks associated with the following pricing models:

- *Charging an hourly rate.* The problem with an hourly rate is that you may be charging too little for the value of your services. If you charge \$300 per hour for a tax return, wouldn't you charge more than that for a business valuation project?
- *Charging a flat fee.* While you are bearing the risk when you charge a flat fee, most of the time you will generate more profit than just by charging an hourly rate. There will be no write-downs and you can usually get paid one-third up front.
- *Success fee.* Success fees are perhaps the most risky for you. However, they can also

be the most profitable. Say you charge a flat fee for a business search and have a success fee attached for a successful transaction. The success fee can be almost 100% pure profit for the firm.

### Monitoring Pricing and Profitability Monthly

Don't let your people costs get out of line with their productivity and efficiency. You want to make sure that your people, especially partners, are generating an acceptable profit level. You need to understand the profitability of your company every month. Firms need to pay more attention to their monthly gross profit margins.

*Don't Be Afraid to Raise Your Fees* Fees should be raised, at a minimum, of once per year. I've seen too many firms fail to do this, only to find themselves way behind the pricing curve. You can always write-off some of the fee increase. Remember that 90% of \$200 is more than 100% of \$175.

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### About the Author:

August Aquila is the founder and CEO of AQUILA Global Advisors, LLC and is a key thought leader for professional service firms (PSFs). He has worked with various types of PSFs in the US, Canada, India and England. August brings a wealth of hands-on experience to his clients and presentations. He was a partner in a Top50 US CPA firm and a

senior executive with American Express Tax & Business Services, Inc., For 30 years he has advised PSFs in the areas of succession planning, mergers and acquisitions, compensation plan designs and partnership issues.

In 2004, 2007, 2009 to 2016 he was selected as one of the "Top 100 Most Influential People in The US Accounting Profession" by **Accounting Today**.

His articles have appeared in MP (Managing Partner), Journal of

Accountancy, CA Magazine, Accounting Today, Of Counsel and other major publications.

Recent books include *How to Become the Firm of Choice, What Makes a Great Partnership, Client at the Core: Marketing and Managing Today's Professional Services Firm; Performance Is Everything – The Why, What and How of Designing Compensation Plans; Compensation as a Strategic Asset: The New Paradigm; What Successful Managing Partner Do and Engaging Partners in the Firm's Future*. August holds an MBA from DePaul University (Chicago) and a PhD from Indiana University (Bloomington).

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