Calculating and Proposing the Price of Advisory

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Pricing advisory services is perhaps the most difficult scope in a professional firm to price.

Scope can be defined as *the creation of the firm's plan of delivery, how and when the firm will deliver the service, and the final outcome anticipated for the client.*

Advisors are always at a disadvantage in pricing if the scope with a client is murky and undefined. In advisory, or transformation services as I like to call them, many of the aspects of scope are difficult or almost impossible to know up front before you begin the service. While there are "numbers of transactions" to count or "numbers of employees on the payroll system" when pricing other recurring accounting services, pricing advisory services can be difficult because these aspects of transformation are not often known in advance.

To offset this risk, advisors will often enter into an up front engagement that has a goal of actually creating the scope. In this scenario, even delivering scope to a client is valuable (and worthy of a price) as clients don't often know what they want advisors to do for them (see the Fathom Advisory Readiness Guide on Controlling and Owning the Process of Advisory).

Taking the time to walk the client through an up front engagement where the deliverable is the ongoing recurring services can be an immense value to the client. We as advisors don't have to fear an unknown scope - we can simply price the client to assess and deliver their scope in its own separate engagement.

The larger a client, and the more complex their business model, the more wary our firm is of venturing into a relationship without a defined scope. When clients begin talking about consulting or advisory, we know we are getting into an unknown area of scope (simply because clients can't define 'advisory' or 'consulting'). When this happens, we'll attempt to price an up front project to complete in the next month before the recurring services begin. Examples of up front project services may be Financial Assessments where we compare their last 3 years of financial statements together and ask key questions, or walk our client through a 3 step process build of how they use their accounting products as it relates to their team and their own clients. Then we map out how the software should be used by each person involved in the process, and what the outcome of the process build will look like. And then my partner and I take these opportunities to teach our team how to deliver the services of discovery.

Two Particular Aspects of Calculating and Proposing the Price of Advisory

Calculating Value. Value can not be calculated. Many advisory firm owners don't recognize this economic reality. In fact, value is completely subjective and an emotional perspective that differs from client to client. Price, on the other hand, can be calculated. In fact, price is the economic reality and reflection of what a client values. To make it even more difficult, clients do not know their own value. That is, it is the advisory firm's responsibility to come to an economic price that accurately reflects the value the client feels they will get from their advisory firm. If you're thinking that seems difficult, you would be right.

While it is a difficult task, it is not impossible. With the unknown nature of value, offering a client 3 options (a high, middle, and low option) is a great way to help them sort through their own mind as to what they value. Bumping their own beliefs up against what you are offering them helps the client define their own value, and thus sets the stage for a greater relationship with the advisor's firm. It is caring to aid the client in knowing the price of their own value when you offer them options.

Preparing your Clients. You may have noticed in the previous paragraph that a key to planning scope successfully with a client is in the preparation of that client. Advisory services are not accounting services. Performing a bank reconciliation is one level of understanding, while performing a cash flow analysis in Fathom for a client is quite another level of understanding. So part of the planning of scoping and pricing your services is to prepare the client to understand what your price means, and then for them to understand what the service will look like ongoing. Advisors are not only performing services, they are also coaches and counselors that recognize the fears and limitations of their clients when they are purchasing very expensive advisory services from professional firms. Advisors maintain empathy for their human clients by slowly walking them through what the client is about to purchase, and giving them the space to ask questions about the price. Let's be honest - there is no hourly calculation for prices for advisory services. So the price the firm offers the client is also a feeling that the advisor has, and simply represents what they want to receive from the client to perform the proposed service.

We tell the client what they are looking at. That is, whenever we are delivering part of an advisory service, we are probably delivering that service with a document, a screen share, a new piece of software, a documented process, and all of it delivered in an agenda to a meeting. We don't roll up into an advisory meeting and begin explaining the outcome of the service; instead, we share our screen and say "I want to go through what you are looking at on our screen." We can't begin an initial advisory meeting by explaining the content of the service, we instead have to begin by explaining the way in which we are delivering the service. We use the presentation tool Prezi quite often in our presentations, so we'll tell the client "You are looking at a private presentation we've prepared for you on software called Prezi." Giving the context to our client of the software tool they are looking at, or the words they are trying to read on the screen gives them a sense of clarity and comfort as they typically experience some level of anxiety walking into our advisory meeting. So we teach our team to coach, lead, comfort, speak out loud what is on the screen, and ask a lot of questions. "Do you have any questions about what you are seeing on the screen right now?"

Advisory Principles on Calculating and Proposing the Price of Advisory

Principles are truths entrepreneurs, consultants, and advisors live by. They are sign posts of our past learning, and places we can go to when we get lost. Ray Dalio, author of Principles says “Principles are what allow you to live a life consistent with your values. Principles connect your values to your actions.” Advisory Principles are crafted statements of how and why advisors do what they do.

Let’s explore four Advisory Principles on Calculating and Proposing the Price of Advisory.

PRINCIPLE #1:

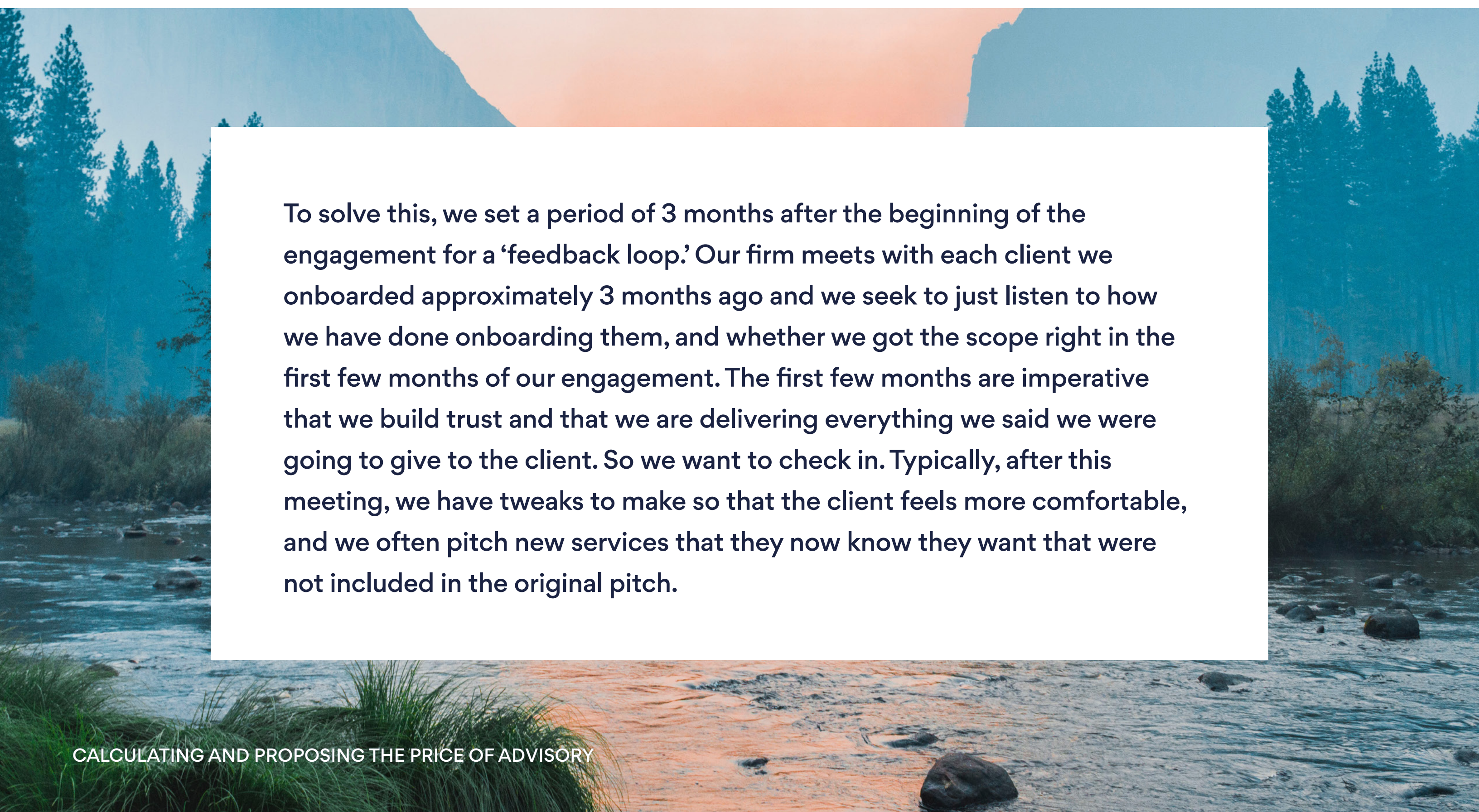
Advisors should seek to sell services the client never asked to purchase.

This is the creative part of being an advisory firm (and honestly where firms struggle greatly). Advisory services are unknown services, so your client will not be coming to you to tell you what to sell to them. They can't. They don't know what will transform them, or they would have already done it themselves. They are coming to you as the advisor to solve their problem. That means you will have to 'back into' the solution from the problem. And you will likely be creating brand new services that have never existed before. This need for creative thought really stretches accountants. But I believe all humans are creative, whether they are accountants or engineers. Accountants just need someone to give them license to create. You should be dreaming up a service that a client needs to solve their problem, giving it a name (e.g 'The Blumer 5 Step Process to Software Implementation'), and then putting a price on it to see if the client will buy it. You will get better and better at this process the more you do it.

PRINCIPLE #2:

Check in with the client to make sure you got the scope right at the outset of the engagement.

As we've discussed in this Advisory Readiness Guide, the scope of advisory services is quite murky. So you probably won't get it right when you first create it. That makes it difficult. Because even though you may get the scope wrong you have to give the price up front. So the danger is in underpricing the scope of advisory services (which you will most definitely do along the way). You don't have to lock your scope down in concrete with a price for the next 12 months. Instead, you can check in on the scope 3 months and 6 months after the engagement begins to make sure the client is willing to tweak the timing and/or projected deliverables mid-way through the project. A trusting client will do this with you, especially if you have told them this is the common practice of your firm.



To solve this, we set a period of 3 months after the beginning of the engagement for a 'feedback loop.' Our firm meets with each client we onboarded approximately 3 months ago and we seek to just listen to how we have done onboarding them, and whether we got the scope right in the first few months of our engagement. The first few months are imperative that we build trust and that we are delivering everything we said we were going to give to the client. So we want to check in. Typically, after this meeting, we have tweaks to make so that the client feels more comfortable, and we often pitch new services that they now know they want that were not included in the original pitch.

PRINCIPLE #3:

Advisors are price makers, not price takers.

Advisors have the right and power to create services that have new prices associated with them. We are price makers, where commodity services are price taker services. Price makers offer new services, attach a price to it and see if their market is interested in purchasing it. Price takers offer services that are not differentiated in any way as compared to any other firm, and thus must take what the lowest bidder is willing to pay. Our goal as advisors is to move away from being a price taker to a price maker.

PRINCIPLE #4:

Advisory services are by definition not commodities.

Advisory and accounting services are not commodities. Our profession may treat them as such, but they are truly transformative and unique. Unique services demand unique prices since no other service can be like the one we are selling. Calculating prices associated with the services you are selling can seem baffling to many firm owners. But your prices truly can be whatever you want them to be. Therein lies the difficulty - accountants want to ask “is this price right?” which means ‘is this price too high?’ Advisors want to ask “does this price reflect the value I know my client will receive?” which means ‘is this price too low?’

This is our firm’s pricing process. It is a multi step process in a firm. Once my partner and I hear the client in a Value Conversation, I then attempt to craft a 3 option price that may or may not have new offerings in the options, a high, middle, and low. We know there is such power in offering a service in a high option, then taking it out of the lower option. Taking it away enhances the value of that offering in the high option. After I prepare a complicated spreadsheet of pricing services, my partner reviews it. She understands the context from our initial meeting with the client and can review it from the standpoint of price vs. value, and how it will roll into our team (we have to perform the services I am pitching after all). Then I prepare a full visual proposal of our 3 options, and we present them in a live meeting. We don’t send prices over emails. Then the client often chooses a 4th option from the ones we’ve created, and then we begin to define the scope in a contract for our services. Once the client approves the contract, we kickoff with our team and the initial work begins. Advisory calculating and proposing is a long term commitment to a client, so we take high precautions to not let the wrong client into our firm. Wrong clients impede service, which will prevent us from fulfilling the purpose of our firm: We proactively lead our clients to equip them for growth.

ABOUT
Jason Blumer

Jason founded Thriveal in 2010 as a way to help entrepreneurial CPA firm owners connect, learn, and grow. He serves as the Visionary and CEO of Thriveal, and his partner Julie Shipp serves as the Integrator and COO of the organization. Since 2010, Thriveal has helped many small firms grow by providing a community, coaching services, webinars, firm consulting, monthly growth groups, and live events. Deeper Weekend is the annual live event by Thriveal, now in its 10th year.

Jason is also the CEO of Blumer & Associates, CPAs. The firm was one of the first to move from a traditional office to a virtual environment in 2012, where they serve as an advisory firm for the design, marketing, and creative agency services niches. He and his partner focus on business consulting and coaching with the owners and partners of firms and agencies, while their team meets the technical and financial compliance needs of the customer.

Jason is the co-host of two podcasts, the Thrivecast (since 2011) and The Businessology Show (since 2013) and speaks and writes frequently for the financial and creative industries. He has been honored as one of the Top 100 Most Influential People in Accounting (Accounting Today).

ABOUT
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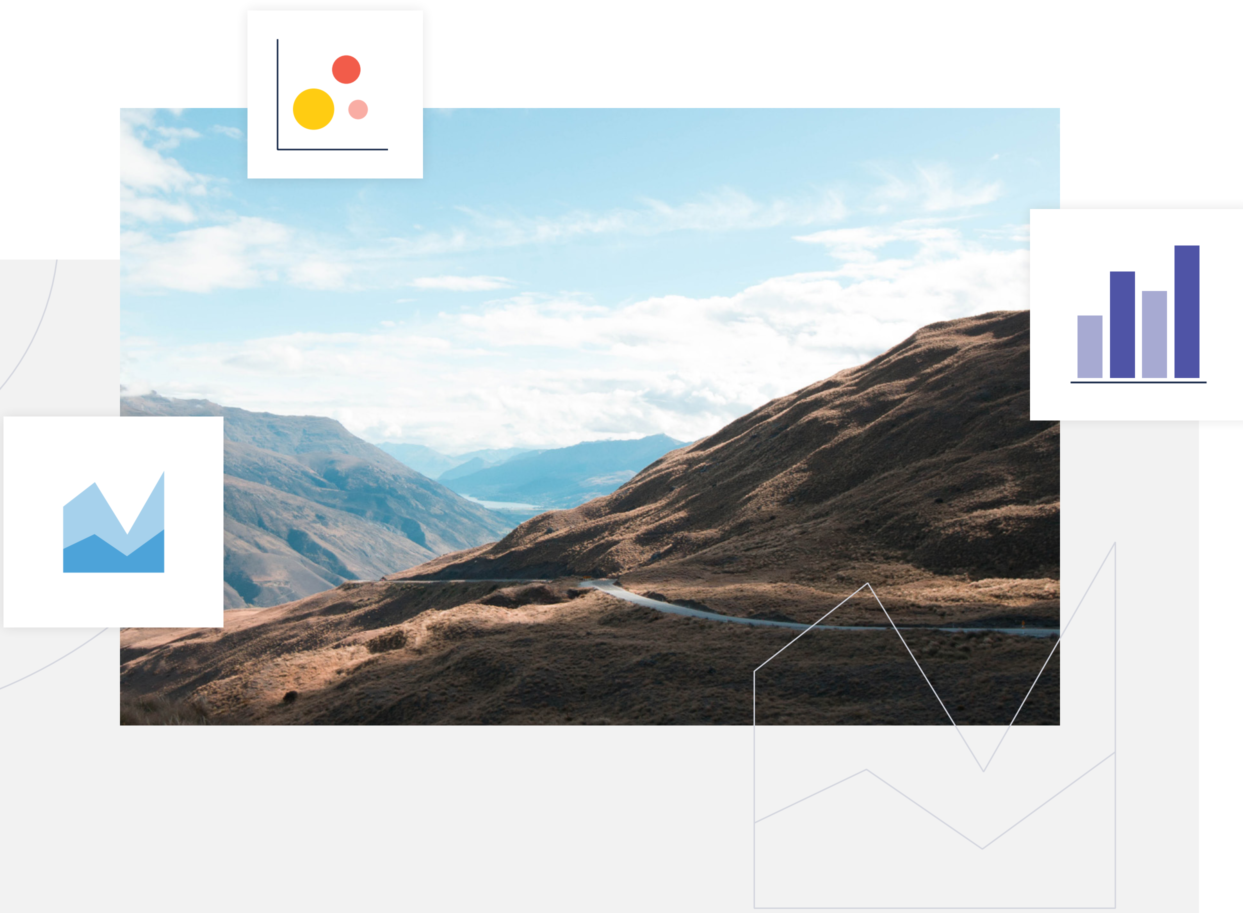

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