

Pricing Your Services Effectively

BY JANE AYLWIN

Fundamentally, changing the price you charge is the simplest way to change your results. But it's not that easy, especially if you have historically charged by the hour.

This document aims to give you a solid understanding of the problems that bookkeepers and accountants face with pricing, practical tips on how to improve your pricing and an understanding of pricing strategy and value pricing.

A problem

Accountants and bookkeepers are too cheap! This leads to numerous problems:

- You have too many clients, and cannot service them effectively
- You work too hard, you don't perform to your highest standards
- Your business struggles, making it hard to grow and develop
- Your work/life balance is way out of whack!

And, (and here's the really interesting thing), because you are cheap, your clients do not value the work that you do and they often resist you putting up your prices.

And, because the rest of the industry is charging too little, there is a very low 'price point'. The point at which we are comparing ourselves to our competitors, and to which we worry that our clients are comparing us to as well.

When accountants and bookkeepers go into business, it is usually because they have technical skills in the industry. It is *not* usually because they have the skills required to run a business. This is surprising as accountants and bookkeepers provide a service that helps people run their businesses better.

However, technical knowledge of what the numbers mean does not necessarily give you the skills you need to improve them – accountancy has historically been an analysis of what *has happened*, and not how to change it going forward.

This is changing as we are now expected to give more and more business advice, helping companies grow, not just stay compliant.

But how can we do this for our clients, when we struggle to do it for ourselves?

One of the things frequently missed when we start our businesses, particularly for bookkeepers who often start as a very small self-employed business, is *strategy* – strategy is the key to a successful business. When you have a strategy, you have a plan, and when you have a plan, you have a much better chance of achieving the desired results!

What is strategy?

The concept of ‘strategy’ really isn’t complicated, although the word carries significant authority in the business world, and a service providing ‘strategic advice’ is often seen as being very valuable (and is!). The concept is very simple...

Your strategy is your plan to get from ‘A’ (where you are now) to ‘B’ (where you want to be). Once you have the start and end points, what is your plan (or strategy) to get there? What steps do you have to take, what are your milestones, what are the decisions you have to make that will enable this plan to work?

Imagine that you had done this exercise *before* you started your business, it might have gone something like this:

A (where you are now):

Sitting at the kitchen table with a laptop, no clients, no income but a vision...

B (where you want to be):

Running a successful bookkeeping business, servicing clients in the retail industry, with a team of no more than five highly capable bookkeepers. You do not do any of the bookkeeping work, you run the business, work on new clients and developing new services. You have one administrator. You work 37.5 hours per week and weekends are free to spend with your family. All of your clients value you, and your team are an integral part of the businesses you work with. The business turns over £500,000 and you earn £75,000 from it.

You want all of this to be reality within 3 years.

Now, clearly, there is a journey there, but you need to have a number of strategies in place to help you get to the goal, the point ‘B’.

What will you need to consider, what strategies will you need to decide upon to reach that goal?

Marketing strategy

How will you reach the specific target market you want to work with?

- What is your budget, and how does that change over time?
- Where should you advertise?
- How should you advertise?

Client Strategy

Who are your clients?

- Do you want to be niche?
- If yes, do you need additional or special skills?
- Where do you find the clients you want to work with?
- Is there a need for your services in this sector?
- How do you prove you are sufficiently different and better – so the best of these clients want to work with you?

Recruitment Strategy

How will you ensure you find the right people to help you get there?

- Will you use a recruiter to help you?
- What specific skills will candidates need?
- Will you directly employ your team or will you use freelance or offshore staff, or combine these?

Delivery Strategy

What services will you deliver, and how will you deliver them?

- Will you offer on-site support, or will you be a remote service?
- Will you offer any additional services, such as management accounting or business advice?

Skills Strategy

What skills do you need, and how will you acquire them?

- Business advisory – what courses could you do, or should you recruit someone who already has the skills?
- People Management – can you do this, if not, how will you obtain the knowledge you require?

Pricing strategy

How are you going to price your services to achieve the business turnover, ensure you can afford the best employees, and earn the amount that you want to from the business?

The next section delves into pricing strategy

It's actually much, much easier to set your strategies *before* you start your business, but most of us do this too late, when we realise we're not achieving what we want – by then, we have a legacy business that is unwieldy, not performing very well and definitely not making us happy!

What do we do now?

Firstly, we have to establish where we are now, and luckily there are many tools and techniques that we can use to do this. You may have heard of some of them, for example, SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis. What does your business look like today? What is its current situation? What are the strengths and weaknesses of your business? What are the opportunities? What are the threats?

And most importantly, what do you need to change, and why?

Once we've established point A, we have to establish point B.

Start by working out what your goals are. Write them down.

What do you want your bookkeeping business to look like three years from now? What do you want the sales or turnover to be? What do you want the profit to be? Where do you want it to be based? Do you want to be working from home three years from now, or in an office? How many people do you want to have working for you – or will it just be you? What sort of clients do you want?

And then we can start to work out how to get there, by creating and starting to implement strategies as outlined above. But remember, you will have additional work to do to *change* a business, rather than *start* one, so a key strategy for you will be:

Change Strategy

What do I need to change, why and how do I change them?

- My price
- My customer base
- The hours I work
- etc.

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Pricing strategy

Pricing is a key part of your business, and you *must* have a strategy. Although most businesses have never thought about one, it's critical. Essentially, you have three options.

1 / Low-cost pricing

One strategy is to focus on being cheap. The only way you can be cheap *and* successful, is to have a very low-cost structure that enables you to offer your services at a price that no one can beat you at.

This is virtually impossible for accountants and bookkeepers! You might argue that as you work from home and you have no overheads, you can always be cheaper than everyone else, and this is true – but only by reducing your income so low that no one *wants* to match it – because they certainly can – there is nothing unique about this cost structure, it's actually prevalent in the industry. So the only way you can guarantee to be the cheapest is if you are happy to earn *no money!*

And remember, your goals may not rely on you always working from home with no overheads – so if you use this price strategy, you will prevent any growth as your cost structure must change!

2 / High-value, premium service

At the other end of the spectrum, your strategy might be (I would argue, *should be*) that you will be different, and better, than all of your competitors and therefore your prices will be higher – you will charge a premium for the premium service that you offer.

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3 / The trying-to-be-competitive default

This is a strategy so many accountants and bookkeepers use. So often we ask to see last year's accounts, and what is the first thing we do? We scan to the line that says bookkeeping and accountancy fees, and we price based on that number!

You will almost certainly win lots of clients, but you will find it hard to make any money. You are basing your prices on prices that are already too cheap!

You should not be worrying, or even considering, what the competition is charging – it should be irrelevant to what you charge.

You certainly shouldn't be worrying about winning every client who comes your way – 99% of them are not the right clients for you. If you price this way, you will probably win every quote, but 99% of the clients you win won't be a fit for your business and it will be very difficult for you to achieve your goals (unless of course, your goal is to work crazy hours for little money or reward!).

Why pricing is often wrong

There are three limiting beliefs prevalent in the industry which lead to poor pricing strategy.

People are price sensitive

We all think that our clients buy on price, that they are price sensitive and that if we are more expensive, we will not get clients.

Yes, there are some people who *are* price sensitive, but most of these people are not your clients! And if they are, they are the wrong clients.

An unfortunate by-product of being too cheap is that you *create* price sensitivity in your clients, when you try to put your prices up, you meet resistance (I will tackle repricing your existing clients in the webinar). This is something that the industry has done to itself over decades of being too cheap, and, in many cases, not delivering value.

Anyone who owns an apple device is not price sensitive – you can buy a cheaper smartphone or laptop that does more or less the same thing, but many people choose to buy Apple because they see more *value* in the product than in the solutions offered by the competition.

What most people are is *value* sensitive – most of us want to feel that we have done better out of the deal, not that we have the cheapest deal.

If your clients see that they are getting value for money, they will pay your fees. Provided the value of the service you deliver is in line with the fees you charge, you will not meet resistance from the people you should be working with.

You don't know the difference between fixed pricing and value pricing

Many firms are moving away from pricing by the hour – and we absolutely should be – one of my favourite responses to anyone who asks me what my 'hourly rate is', is...

"My time has no value to you and how long it takes me to complete something is irrelevant, it is the output which is important. Therefore, my quote is not based on how long I think it will take me, and I certainly don't want to feel restricted by the clock on this project, it's too important."

Many firms are moving to giving 'fixed prices'. But what are these based on? Usually, it is based on how long something usually takes, multiplied by an hourly rate – so it's not really moving from hourly based pricing at all, it's just that you have imposed a cap on how much you can earn from any particular job. For example, if you advertise that a tax return is £300, this is a fixed price, but you don't know what the client would be *prepared to pay* for having their tax return done – and it's much harder to ask the client for more money if the job is more complicated and takes longer than you have estimated.

The truth is that when you give a fixed price for work, the price is almost always the wrong price – either the client would be prepared to pay more and therefore you have left money on the table, or the client is not prepared to pay that much, and you have lost the work.

Fixed pricing, while better for the client (because they know exactly what they are going to pay) is not the same as value pricing.

You are restricted by... your location, your clients, what you can offer

We all make excuses not to do something that we are worried about doing. Increasing prices is no different.

I often hear people telling me they live in the wrong part of the country, or the clients they want to work with won't pay any more, or that everyone else in the area charges the same so if prices go up, they will leave.

The fact is, that if your clients truly value your service (and it is up to you to make happen), you *can* put your prices up, and you *will* get more clients.

How to get your pricing right

Now we have looked at why the price is often wrong, we need to understand how to get the pricing right.

What is Value Pricing?

Value pricing is defined as 'a pricing strategy which sets prices primarily, but not exclusively, according to the perceived or estimated value of a product or service *to the customer* rather than according to the cost of the product or historical prices'.

So, what does that mean?

It means that in order to price correctly, we have to understand what the value of the service or product we are offering has to the person we are offering it to. People value things differently. Our job as business owners, the people who set the prices, is to ascertain what the customer is prepared to pay, and charge them that price (provided it's not too small of course!).

How do I do that?

You have to be able to charge different customers different prices.

You'll need another strategy here – you need to decide your 'price discrimination strategy'. Based on the note above that people value things differently, we need a pricing mechanism that allows us to find out what the person sitting in front of us right now values and what they don't.

If you charge a fixed fee of £750 for 'monthly bookkeeping', the person in front of you either is prepared to pay more, or they are prepared to pay less – there are lots of varying factors in 'monthly bookkeeping', both on the input required for that particular business, and for the elements of your bookkeeping service that this particular client values. So, we need to be able to find out enough about the business to price the work effectively, and enough about the people running the business to find out what they value most about the work you are discussing.

The only way to find out all this information is to have a conversation with the client about the work, and combine the output of that conversation with a pricing system that allows you to systematically price the work, making sure that the customer has the opportunity to include what they value, and exclude what they don't.

For example, your current prospect has a rapidly growing business, so whatever you price now for the 'work' is probably going to be redundant in three months' time, but you still have to price the work that needs doing now.

You need to create a system that allows you to price the work, transparently, on what the input will be now, and then revisit the price when the business changes.

That's relatively easy, once you understand how to do it.

But in addition to this, as the business is a fast growth business, they are probably going to need more from you than regular data entry and compliance – they probably need an insight into their numbers, greater control over their cashflow and management accounts that help them make informed decisions.

But then on the other hand, they might not want it – how do we find out?

One of the most, in fact, I believe, *the most* effective price discrimination strategies for bookkeepers is 'Menu Pricing', combined with a structured pricing system.

What is menu pricing?

Menu pricing is offering your clients different solutions, based around the core service you are selling.

Let's call these different solutions 'packages' and let's call them 'Essential, Standard and Premium' (in many cases where you see menu pricing, these will be 'Bronze, Silver and Gold'. I don't recommend you use these).

Each package will have a different price point (but not fixed price), with Essential obviously being the least expensive.

Some clients will only want the basic compliance service – you can offer that. Others will want a little bit more, and you offer that too. And some will want you to take care of everything, helping them in a much more comprehensive way – and guess what, you do that too.

Suddenly, the chances of losing clients because they want more than you offered, or don't want as much as you include, is hugely reduced. Most people will choose the middle option – it's a proven fact in psychology that when offered three options, most people will choose the middle one. It's called 'the magic of three'.

So, what we learn from this is that most people will choose to pay a little more because they want a little more in return. And there will always be those that want the best, and will pay a premium price for it.

Of course, if you are offering a premium solution, it has to be sufficiently more valuable than the essential solution, so you may need to offer additional services.

Start by writing a list of all the things that you have to do to provide a bookkeeping service, think of these things as the 'components' that make up the service. When you have done that, organise these things into 'what has to be done' and 'what can also be done' – from this you probably have your first two packages. Then you have to think 'what else could I do to add more value?' and your answers to this question will form the additional components for your premium offering.

Communicating the value

Once you have your three packages created, you have to communicate the value of each package – as accountants and bookkeepers we are notoriously bad at this. We don't believe the client will understand what we do, so we just say 'we'll do the bookkeeping', of course the client has no idea what's involved, and therefore can't even begin to understand the value of it.

We have to break it down into all the many, complicated things that we do, and we have to tell our clients. Along with explaining what we do, we have to explain the value of it as well – this turns features into benefits, and it is benefits that our customers value.

The most effective price discrimination strategy for bookkeepers is 'Menu Pricing', combined with a structured pricing system.

For example – I like convertible cars – what I like about them is the experience of driving in the sunshine, with the roof down and the music on – that’s what sells the car to me, not the fact that the roof comes down. The convertible roof is a feature, I buy what I perceive as a benefit.

One of the easiest ways to communicate your value is to have a brochure that breaks down your packages and explains the value of them – I strongly recommend that you talk through the brochure with the client, rather than just hoping they read it, but the brochure gives you an aid memoire when you are discussing your services and leaves the client with something tangible they can refer to.

Calculate the price

When calculating the price we need to consider these two variables – what input is required to complete the work (aka how big or complex the job is) and what the customer values.

Clearly an hourly rate does not do anything to help the client decide what they value, and does not offer certainty or choice – which are the two things clients really want.

Having a pricing system is critical to getting this right. You can buy off-the-shelf software, or you can create your own in spreadsheets – it’s up to you.

The first thing you have to do is work out how big or complicated the job is – so you’ll need to ask your clients questions, such as ‘how many purchase invoices do you have each month’ and ‘do you have foreign currency bank accounts’.

As the customer answers the questions, you start to build the price – you assign a value (in the background to each answer), for example, you may decide that 0–25 purchase transactions a month has a value of £50.00, 26–50 is valued at £100, and so on.

By breaking your quote down into the components of your packages, you will start to build a price based on the actual requirements of the business – and if the business changes, it is easy to reprice the work.

Once you have your price, this should be the price of the ‘essential’ offering. And now you have to work out what the *relative pricing* is for your other offerings – you can do this on a percentage basis – you may feel that your premium service is 100% more valuable than your essential – and you would therefore double the price, the standard price would sit somewhere in the middle.

TOP TIP

Don’t make this too easy to work out – it needs to look scientific, so if your premium product is exactly twice the price, this is less appealing than it being 1.8x, or even 2.15x.

Test

You need to be able to measure the effectiveness of your pricing – which is another reason why a system is so useful.

Unfortunately, there is no such thing as ‘the right price’. Price is arbitrary and subjective. However, there is always a ‘better price’ and your ongoing job as a business owner, is to keep trying to find that better price.

If you just make up a price you can’t test it, or measure it against other prices that you are charging, or rather, other prices that customers are paying.

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While I don't believe in time sheets for use in charging, I do believe in them for use in working out what jobs are more complicated or involved, and why. By using this data alongside the data from your pricing system, you will start to build a picture of where you need to increase (or indeed, decrease, although I wouldn't necessarily recommend it), your prices against your components.

A quick and easy test is which package people buy the most – remember, psychology tells us that most people will buy the middle package, so what if everyone is going for the cheapest option? It could be that the price difference between the lower package and the middle package is too wide, and you may need to change it. Or you may need to change the package. If everyone buys your premium service, it's way too cheap!

Next steps

I know from personal experience what happens when you start to price things the right way, and I would like to help you further understand the points addressed in this document, and give you practical examples, tools and tips on how to really get the results you deserve.

Join me on a live, free webinar to find out more:

[‘The Journey of Continuous Improvement – Part 1: Price’](#)

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