TAX TALKS

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206 | Pricing

The secret of pricing is not in the WHAT but in the HOW.

Pricing

Pricing doesn't stand alone. It is an important part of your overall strategy. The market position you seek, the story you tell, how you present yourself.

Pricing is easy to get wrong. Set your price too high and you price yourself out of the market. Set it too low and clients see no value. There is a sweet spot somewhere in between, but how to find it? This is the questions we asked Ed Chan, co-founder of WIZE Mentoring and founder and non-executive chairman of Chan & Naylor.

Here is what we learned but please listen in as Ed explains all this much better than we ever could.

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Pricing

There are three types of pricing – time, fixed and value pricing. Charging an hourly rate (time) used to be the most common approach, but fixed and value pricing are gaining in popularity.

Time

You just charge the time it takes. If it takes longer, so be it. If it takes less, great.

The argument for charging actual time is that it is safe – for you. You transfer all risks to the client. If it takes longer than expected, the client pays.

The argument against time cost is that there is no incentive to become more efficient. The less efficient you are, the more money you make – within reason. Another argument is that it creates angst in clients and fee disputes.

Fixed

You quote a price and that is it. It is fixed. You take the good and the bad. Sometimes you finish early and make extra profit. Other times you go over budget and lose money.

The argument for fixed pricing is that is is simple and predictable. The argument against is that in our industry it is often hard to predict how long something will take. There are a lot of nuances from client to client. You bear all the risk.

Value

Value pricing is based on the value your client receives. If a service is of high value to a client, they are willing to pay more. If it is of little value, they will want to pay less. So you adjust your pricing accordingly.

Mix

These three approaches rarely stand alone. You often mix them without realising.

If you invoice by time and charged around $1,000 in the past, but this time it took 3 times as long, you are not going to suddenly charge $3,000. You will charge more, but probably not the full amount. So there is some fixed pricing in your time pricing.

If something was actually really easy and fast but saved your client a lot of money, you will probably charge more than if you hadn't produced such a good outcome. And so there is some value pricing in there as well.

It is the HOW, not the WHAT

But pricing is not really about the What, but about the HOW. The method you choose – the WHAT – doesn't go to the core of the issue. The core of the issue is HOW you do it. How do you manage your client's expectations re price and outcome? How do you communicate the price?

The WHAT is just a method. It doesn't matter what method you use as long as you communicate it. You will run into issues with any method if you don't properly communicate your pricing.

The secret is not in the WHAT but in the HOW.

Summary

So pricing is not just about the actual amount you charge and the method you use to come to that amount – be it time, fixed or value. Much more important is how you communicate this price.

To hear more of Ed's business growth strategies for accounting firm owners, please visit www.wizementoring.com/taxtalks where you can download a copy of WIZE Mentoring's free eBook – The Accountants 20 Hour Workweek.

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