



THE ULTIMATE

# Pricing strategy guide for Accountants + Bookkeepers

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Discussing prices with clients can be an awkward conversation, especially when it comes to communicating value. But in the accounting and bookkeeping industry, pricing feels a bit more unclear. “It’s not that you’re hiding anything from your clients, but their needs will vary,” says Joshua Lance, Ignition’s U.S. Head of Accounting and Founder/Managing Director of Lance CPA Group. “Some will require basic services while others have more complex needs, the layers of detail going deep.” If you’re like most professionals in your field - it’s not your favorite conversation to have. After all, you didn’t get into accounting to “sell” to people. You got into it to help people with their finances. But talking about your rates, and justifying your cost — any cost-related conversations can often make us feel uncomfortable. The good news is, discussing pricing doesn’t need to be awkward at all.



Written by **Joshua Lance, CPA**  
with **Rebecca Mihalic**

## Understand the different pricing models

Before you can start pricing clients effectively, you need to understand the different pricing models that accounting and bookkeeping firms can use and how they apply to your clients.

### Hourly Model

The simplest and one of the most common models firms use is the hourly pricing model. All you need to do is come up with hourly rates for your employees to bill to clients and then just take the total hours worked and multiply that times the hourly rate and you have your price. While that might be easy from the firm's perspective, it's not as client friendly. They generally do not know what the price is until after the fact and the bill they receive is not aligned with the services performed.

### Fixed Fee

Another model that has gained popularity and relevance is the fixed fee pricing model. This pricing model sets a fixed price for each service based on a narrowly defined scope. Coming up with a fixed price for each client

can be complicated based on the services being performed as there can be multiple variables to consider. However, standardizing your services will allow for a better way to come up with the fixed price necessary for each service.

### Value Pricing

A newer model that is being used by accounting and bookkeeping firms is the value based pricing model. Value pricing determines the price based on the value of the work performed to the client. This pricing model requires having a good understanding of the client and the work to be performed in order to determine the price for the client. The price given can be billed all at once or done on a monthly recurring basis.

While hourly pricing has been the standard for firms for years, that does not mean it's the right pricing model for your firm. To determine the right pricing model, you need to look at the type of work you are doing and what pricing model makes the most sense. Here are some examples of different types of work and pricing models.





### **The Fixed Fee pricing model is ideal when:**

- Performing tax returns or compliance based work
- Scalable services
- Well defined scoped projects

### **The Value Pricing model is ideal when:**

- Performing advisory services
- Niche within an industry
- Slower sales process

### **Hourly pricing model is ideal when:**

- Undefined scope of services
- Time intensive service work
- Ambiguous project work

As shown above, hourly pricing is not ideal when performing compliance or advisory services. Your firm is better off when it can price the work and provide the price upfront for the majority of work accounting and bookkeeping firms do.

### **Why it might be time to rethink hourly billing**

#### **It's inefficient**

Some tasks need to be completed urgently, but may be very quick to do; others are

not at all urgent, but can be very time consuming

#### **It's quantitative, not qualitative**

Hourly incentivizes the amount of time you put into your clients' work, as opposed to the quality and value of the work.

#### **It's unpredictable**

Clients don't like being surprised by unexpected billed hours – they'd prefer to know what the cost of your service is upfront.

Still using hourly billing? No problem, Ignition can tailor your proposals - bill clients with endless combinations; hourly, monthly, quarterly, and annually or per unit (i.e. per hour or per employee).

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## Why you're probably already using one of these methods

Do you practice time-billing within your firm? If so, this method means that you're tracking time with hourly rates to come up with a work-in-progress (WIP) figure. Correct? Now if you're like so many other accounting firms out there, you're probably familiar with write-offs: when you accrue WIP that is never going to be billed. This can happen for a variety of reasons. Perhaps the WIP figure was inflated, there were technical issues with the work, someone was training on the job, or the work was out of scope. So as you aren't going to bill this WIP, you write it off. When this happens, you're effectively using a fixed fee—it just hasn't yet been communicated to your clients. When you have a WIP balance of £4,000 and you know the client will be expecting to pay £3,000 so that's what you end up billing, it's the same concept as fixed-fee arrangements.

## Why you should embrace a new pricing model

Client expectations have changed over the years. One key thing that stands out is that clients nowadays expect to have a great degree of clarity and transparency not only over their accounts, but also over the fees that accountants charge to work with them. Business owners want to know upfront what each service will cost them. If anything, they will be the biggest drivers for the change to fixed-fee agreements—and if we're honest with ourselves, we know what a job is worth to us and how much we want to charge for its successful completion.

A good engagement letter will also contain a clause and a method for you to adjust the fees if you ever find that you

have underquoted. This means that if you properly scope work and quickly contact clients if you find something unexpected, there should be no fear in pricing your services upfront.

Ignition automatically generates contracts and engagement letters to accompany your proposals. With our contract generation system, every contract will be error free and keep a history of legally binding e-signatures for your records.

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By taking payment details once you send out your engagement letter, you will reduce your accounts receivable, firm up on your own payment terms, eliminate bad payers, and take control over your own cash flow. Imagine getting paid on time, every time, for all of the great work that you do for your clients. By transitioning towards adopting a fixed-fee billing structure, You can link payments with engagements and take complete control over your billing process going forward.

## Why taking payment is the next logical step

Once you've set a fee for a service and both you and your client have signed off on the engagement, taking payment upfront is the next logical step. Why? Well, you already have their agreement on the price, so why not also ask to be paid on time? If you're working off the basis of monthly recurring fees, taking payment details in advance



and being in control of the payments is the only way that this really works. For clients that you bill on completion, you still have the ability to raise an invoice and advise the client that you will be taking payment on the due date—they then have your terms period to query the invoice if there are any concerns with the service.

## How to figure out what to charge

When it's time to take the plunge, do away with hourly pricing in arrears, and embrace the upfront fixed-fee billing mode - you might be asking what you should be charging.

Whether you decide to do this using bill on completion, monthly recurring, upfront payments, or any combination of these methods, the first thing you need to do is figure out what services you currently offer and what you're charging for each of them.

### Step 1: List your services

If your services are set up in your firm's accounting system or billing system as items or products, determining your services should be as simple as exporting a list from your system you are using. Even if you don't have this setup, you probably still have a good understanding of what services you currently offer.

**Tip:** Did you know you can import your firm's services directly into Ignition to help get you up and running fast?

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### Step 2: Calculate your average fees per service

If you can export details from your accounting software then you can complete this step pretty quickly. If possible, export a detailed list of transactions from your income accounts within your ledger. Sort these by description/service, and you should then be able to total everything up before calculating the average price that you currently charge for each of your individual services.

### Step 3: Set your minimum fees as a baseline per service

Now you know your average fee per service type, and you can also filter the data to see your current minimum and maximum fees. This information will enable you to set your minimum fees for your services going forward. This can have a transformative effect on your revenue. For example, upon reviewing your current charges, you may well actually find that you often end up charging too little for your work—so this obviously needs to change, fast.

### Step 4: Determine your tiered pricing

Last but not least, have a think about your tiered pricing structure and create a detailed pricing matrix. To do this, consider each step that is involved in providing your services—think about any factors that might delay or complicate your ability to complete the jobs in question. Use this information to devise a way to categorise your clients. Here's a potential example of how this might look (See table 1).

**Table 1**

Example Client Categorization Tool			
	Small Client	Medium Client	Large Client
Bank accounts	1-3	3-5	>5
Loans	1-2	2-4	>4
Employees	1-5	5-10	>10

**Table 2**

Example Pricing Matrix			
Service	Small Client	Medium Client	Large Client
Monthly Accounting Services	£400.00	£750.00	£1000.00
Tax Returns	£2,500.00	£3,500.00	> £4,500.00

If a client exceeds more than 2 categories, move them up a pricing tier. So a client with 2 bank accounts, 2 loans, and 6 employees would be a 'medium' client according to table 1.

Once you determine your categorisation methodology, you can then determine your pricing matrix. Using table 2, we'd charge a 'medium' client £350 for monthly accounting services and £3,500 to complete their annual tax returns. We suggest a minimum of three tiers for each service. Remember: you can always edit these on a case-by-case basis if you have a client that's significantly larger or smaller than the ones that you usually work with.

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## What to do with unbilled work

You've finally decided to take the plunge. Not only are you moving to a new pricing model, but you're also taking full control over your revenue by moving all your clients over to monthly recurring fees. Once you understand the concept and how pricing in advance works, the transition over to recurring revenue isn't difficult. The biggest, and maybe only inhibitor to this move is the uncertainty around existing work-in-progress (WIP) or unbilled work—so how do you deal with this and ensure that you're fully protected going forward?

### The Problem

You want to move your clients to fixed fees from the beginning of the new financial year, but there's a problem. You'll be busy completing their tax return and/or other time-consuming work early on in your engagement. Fixed fees essentially mean a smoothing over of fees throughout a 12-month period—so what if the client leaves halfway through the year, and you have already spent a significant amount of time on work that they haven't yet paid for?



## The two potential solutions

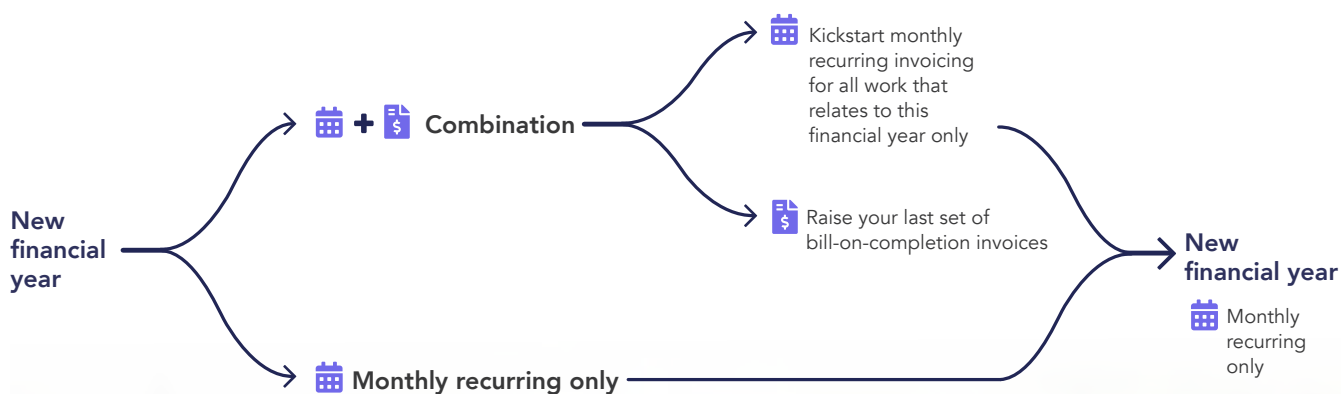
There are two possible solutions for you to pick from—so let's explore both of them in a little more detail.

### 1. A combination of bill-on-completion and monthly recurring invoicing for the first year

With this method, you kickstart monthly recurring invoicing from the beginning of a new financial year for all work that relates to that financial year only. Following on from the example above, the monthly fee will cover work that relates to the 2021 financial year work—so by the time you get to June 30, 2021, you have effectively been paid in full for all of the 2021 work (some of which may not have yet been completed). Then as you finalize the 2020 work, you will raise your last set of bill-on-completion invoices to the client to cover off all the work you have completed.

### 2. Straight into monthly recurring only

If you decide to just move into monthly recurring, then you need a mechanism to protect yourself in case your clients leave during the year before they have fully paid for the work that you've already completed. One way to do this is by breaking down the cost of each service in the proposal as if they were still being charged as a bill-on-completion client. Then, in your engagement terms, ensure there's a clause that notes the monthly fee is for all work over 12 months— and if they terminate services during the contract period, they'll be liable to pay for any completed work that has not yet been paid via the monthly fee. This process would then require you to reconcile payments made versus cost of work performed to calculate the difference and the oncharge.





## Take your pick, but communicate with clarity

Whichever strategy you choose to adopt, make sure that you do one thing: communicate with clarity. Clients hate confusion, especially when it comes to money matters. Make sure you outline all the key details regarding your billing process and ensure that you'll always be on hand to answer any queries that they might have.

Changing your pricing model? Here's how to communicate change (with samples), [read the blog](#).

### Get Paid For Your Value

You're an expert in your field and the boss of an established business, not just a skilled contract for hire. Owning that fact and adopting that mindset changes everything, most importantly how you reflect your value and how your clients perceive your value. If clients easily grasp your worth, they'll have no problem paying for it.

Talking about prices will be a nonissue - no longer a hoop to jump through or hurdle to overcome. You'll find it's easy to ask the price that's best for your business - and never feel awkward about discussing it again.

## Set clear prices upfront and stop chasing payments with Ignition

Easily create, send and sign your proposal, automate your engagements and get automatically paid in one place.

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## About Ignition

Ignition's mission is to transform the way accountants, bookkeepers and their clients do business together. Founded by an accountant for accountants, their cloud-based proposal and payments platform helps over 5,000 firms worldwide to send powerful online proposals, get paid automatically and manage ongoing client engagements. Ignition also integrates with leading ledger and practice management software such as Xero, Intuit QuickBooks, and Karbon to enable customers to automate time-consuming workflows and run a more efficient practice. Headquartered in Sydney, Australia, Ignition has offices around the globe in London, Seattle, Toronto, and Vancouver. To learn more visit [ignitionapp.com](https://ignitionapp.com).

## About This Guide

This piece is co-authored by Rebecca Mihalic and Joshua Lance.

Rebecca Mihalic is an Australian Registered Tax Agent and a Chartered Accountants Australian & New Zealand member. Rebecca

was a founding partner of Aptus Accounting & Advisory, a cloud-based accounting firm and the winner of 'Innovator of the year' at the 2018 Australian Accounting Awards for their use of technology to support clients & the firm's growth. Rebecca has earned a reputation for her leadership in the accounting industry, winning 'Thought leader of the year' in the 2021 Australian Accounting Awards.

Joshua Lance is a Certified Public Accountant and member of the American Institute of Certified Public Accountants. He has been in public practice since 2005. Joshua is the founder and Managing Director of Lance CPA Group, a virtual and remote CPA practice providing accounting, tax and consulting services to craft breweries and digital agencies. Joshua has been named to CPA Practice Advisor's 40 under 40 for 2017, 2018, 2019, and 2020.



# 50%

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\*Source: Accounting market study commissioned by Ignition