

How to distinguish your firm

Get what your firm is worth in fees and avoid the crux of billable hours

By Robert C. Sawhney

Figuring out how to differentiate your firm is the foundation for a firm's survival in a depressed economy. Research on the accounting profession in Hong Kong and elsewhere has shown that clients are willing to pay between 16 and 37 percent more if they perceive your firm can deliver better value than your competitors.

Achieving this value perception, however, isn't easy, given the commodity nature of audit services and the regulations governing the offering and bundling of ancillary services.

Most professional service firms distinguish themselves based on their knowledge and know-how, but this approach has become increasingly ineffective as clients see such services and expertise among firms as a basic requirement and therefore, interchangeable.

If a firm lives and dies by the billable hour and follows the archaic practice of maximum leverage and use of staff time, employees will have little incentive to invest in non-billable

activities, such as upgrading their management skills or attending client industry events.

How should a firm achieve differentiation whereby clients will perceive them as special? Work conducted by Michael Smets and colleagues in 2008 at the Centre for Management of Professional Services at Oxford University's Saïd Business School shows that firms need to strengthen their services outside their technical offerings.

Non-billable activities, for example, enhancing service innovation through technology, can help the firm's position and reputation, and allow it to use value-pricing methods based on:

- Expertise and experience built through client projects and effective knowledge management
- Relationships whereby a deeper understanding of client needs is gained through client relationship management systems to enhance retention rates
- Building the firm's reputation through exceptional work and thought

leadership (for example, by publishing white papers)

- Providing great services that not only concentrate on technical quality but relationship quality (EQ and not only IQ)

Adopting this new model and implementing value pricing requires a re-thinking on the part of professionals about what they do and what their clients desire. A firm should focus on three broad categories:

Understanding your clients' needs and the benefits they seek

A client requesting help with complex issues, such as insolvency and restructuring, may be more concerned about problem solving and intellectual capability than how much such services will cost. Determine the client's expectations and charge accordingly. For example, by improving your client's business processes you may generate additional income for their company, for which you may be entitled a proportion.





Understanding your firm

No company can be all things to all people, so it is important for you to understand your firm's strong points. For example, some large firms may be able to crank out low-value commodity work in large quantities, while other firms are better equipped to produce high-value work in lower volume.

Knowing the market

The firm should be familiar with its clients' industries to enable it to come up with new services and features they value. For instance, the economic crisis has increased the need for cost efficiency in small- and medium-sized enterprises, so an accounting firm could team up with an IT firm to offer a service package that addresses improvement in productivity for SMEs.

Firms can also consider alternative billing methods, including:

- Fixed price agreements – charging a fixed price for a bundling of services over a time period or project

- Change order – separately charging for services rendered that are not covered in the original fixed price agreement
- Service guarantees – offering money back guarantees based on client satisfaction, but this can be risky as a firm stands to lose a considerable amount if a client expresses dissatisfaction for services rendered
- Risk based – sharing in the savings or revenues generated for clients or the size of a transaction
- Discounted rates for a guaranteed volume of work
- Task based – a set fee for each task
- Discount rate plus kicker – agreed-upon hourly rate plus performance-based pay
- Annual retainers

Customers often don't recognize the value your firm offers and it's up to you to communicate this clearly. And in cases where customers are extremely price-driven, it may be better to just let them go.

Firms should keep in mind that fee cutting without a reciprocal arrangement is never a good idea. Unilaterally reducing fees will give clients the impression that your firm's services are commodities. If you must lower your fees, either reduce the value of work you create for them or ask them for something in return, such as guaranteed future volume of work.

If your firm habitually lowers fees to obtain routine work, keep in mind that you are devaluing the overall experience of working at your firm. Your employees will become frustrated at repetitive assignments that offer little learning experience and this will lower motivation and lead to retention issues. Ultimately, the firm's performance and profitability can be affected as a result.

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