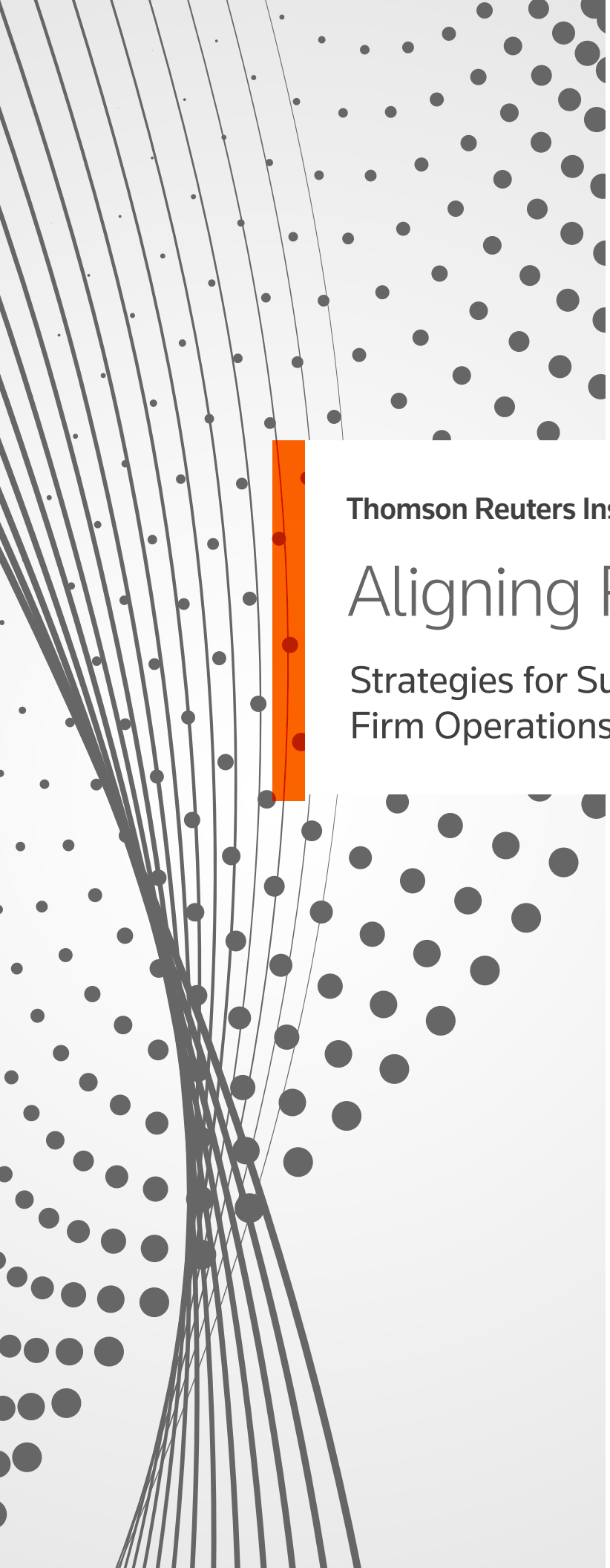


Thomson Reuters Institute

Aligning Pricing with Value

Strategies for Success in Modern Tax Firm Operations in 2024

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Aligning Pricing with Value: Strategies for Success in Modern Tax Firm Operations in 2024

In the world of tax & accounting firm operations, we are witnessing a notable evolution driven by changing client needs. The traditional role of certified public accountants (CPAs), which once almost entirely revolved around tax form filing, is now expanding as clients increasingly seek a broader range of services in addition to conventional accounting and compliance offerings.

In tandem with this shift comes an increased demand for pricing that aligns better with clients' planning and operations. In this report, we explore this shift away from the traditional hourly billing model, a change propelled by client preferences and needs. We also delve into alternative pricing approaches that emphasize transparency, value, and collaboration. These models are not just a response to shifting demands but also a strategic opportunity for firms to adapt and potentially enhance their revenue streams via client attraction and improved margins.

The traditional role of certified public accountants (CPAs), which once almost entirely revolved around tax form filing, is now expanding as clients increasingly seek a broader range of services in addition to conventional accounting and compliance offerings.

The dynamics of tax-firm pricing are changing, and this report aims to provide insights into that evolving landscape.

Shift in services

Over the last two decades, clients have moved from simply requiring their firms to file their taxes to demanding a broader range of services. In the Thomson Reuters Institute's *2023 State of the Tax Professionals Report*,[1] less than 7% of firm respondents said their clients seek only tax filing services, with the majority of clients expressing a desire for advisory services like business consulting, financial planning, and decision support. Expanding into these business services has been the fastest growing area in accounting for some time now, with a survey[2] conducted by CPA.com noting a median growth rate in advisory services of 16% in 2022 and a projected 15% growth in 2023.

1 *See* the *2023 State of the Tax Professionals Report*, Thomson Reuters Institute, 2023. https://tax.thomsonreuters.com/en/accounting-solutions/c/tax-professionals-report-2023.

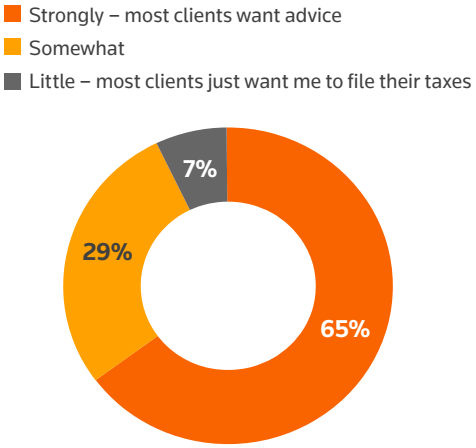
2 *See*, "A Growing Opportunity: CAS Benchmark Survey," CPA.com, 2022. https://www.cpa.com/cas-benchmark-survey.

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In general, it seems that firms are very much aware of this shift and have made significant efforts to adapt their business model to this area of potential revenue growth. In an effort to remain competitive, many firms have added a variety of pricing options to their menu, beyond the traditional billable hour. These added pricing options not only provide their clients with more tailored solutions that fit the advisory work for which their clients are asking, but also have the potential to provide firms with less volatile and less seasonal cashflows.

FIGURE 1:

Do tax & accounting firm clients want business advice?



Source: Thomson Reuters 2023

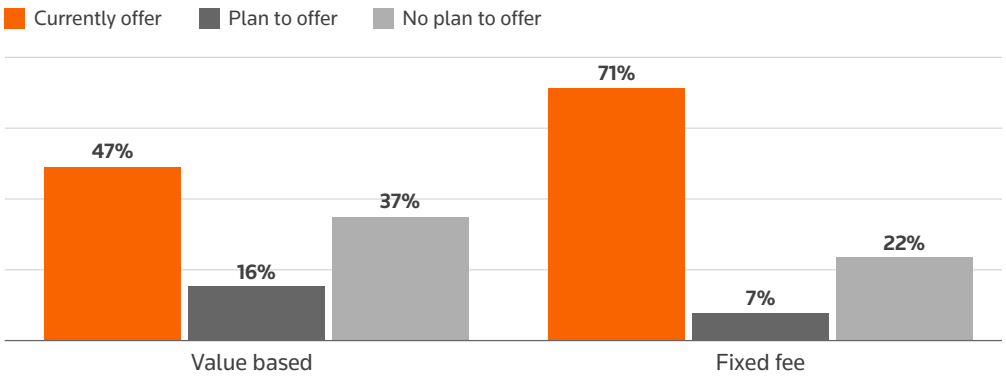
Interestingly, however, a significant portion of firms (of all sizes) have lagged behind and not yet implemented some of the more popular alternative pricing models. 37% of firm respondents to our survey said their firms have no plan to offer value-based[3] pricing while 22% have no plan to offer fixed-fee[4] pricing, two of the most common forms of non-hourly, alternative, pricing.

With so many competitors failing to utilize either of these strategies, it leaves an enormous opportunity for other firms that have lagged behind to evolve, and for those that have already made a shift to outcompete their peers.

FIGURE 2:

Do you currently offer, plan to offer, or have no plans to offer?

Percent of respondents



Source: Thomson Reuters 2023

3 Value-based pricing involves assessing the comparative value of services and their influences on the client's business, then integrating this estimated value into the proposed pricing.

4 Fixed-fee pricing involves approximating the time and expenses needed to finish projects or tasks and establishing a single, all-inclusive price for clients before work begins.

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What's even more interesting is that firms seem to be aware that clients are demanding these services at a heightened level. Nearly half of the firms in a recent client panel survey[5] conducted by the Thomson Reuters Institute said that there is an increased preference for alternative pricing models like value-based and fixed-fee pricing, while roughly the same percentage said that there was a decrease in preference for hourly based pricing. Given that 20% to 40% of firms have said they have no plan to offer these alternative models, there may be a disconnect between *awareness* and *action* within tax & accounting firms. Connecting the dots here requires a deeper understanding of the underlying reasons for clients' shifting pricing preferences and a better understanding of why tax and accounting firms that are aware of client's demands have yet to introduce alternative pricing models.

METHODOLOGY

This report is primarily based on survey data pulled from the *2023 State of the Tax Professionals Report* and an *Influencer Coalition Survey* conducted by the Thomson Reuters Institute. The *2023 State of the Tax Professionals Report* surveyed 540 individuals from tax & accounting firms of all sizes from the United States, United Kingdom, Canada, Australia, Argentina, and Brazil and was conducted in the fourth quarter of 2022. The *Influencer Coalition Survey* surveyed 55 tax & accounting stakeholders with direct influence or connection to their firm's billing practices and was conducted in August 2023. Firms of all sizes were represented.

5 *Influencer Coalition Survey*, Thomson Reuters Institute, August 2023.

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Connecting those dots

This shift starts with clients demanding more advisory and broader business services. Accounting, due to its nature, exerts influence over every facet of business operations; and clients are seeking out firms that comprehend their broader objectives and can guide them toward attaining those objectives. When a client enlists an accountant who can address financial inquiries or worries — not solely during tax season — it serves to alleviate clients' anxiety and instill a greater sense of confidence. Whether clients want to purchase a cash-flow forecasting or a virtual CFO service, they increasingly want to invest in a relationship, not a product.

Whether clients want to purchase a cash-flow forecasting or a virtual CFO service, they increasingly want to invest in a relationship, not a product.

This is a key reason why — as shown in a separate survey[6] conducted by CPA.com — a lack of communication and collaboration is at the top of clients' complaint list about their tax & accounting firms. While the majority of these firms have reported that they offer added services, simply checking a box and serving an item on a menu isn't enough to create a satisfied business partner or client. Many firms have struggled to adjust to this more involved business relationship for a variety of reasons, including lack of time and subject matter expertise.

Adding to this roadblock is a misalignment of pricing with service. Currently, most of the work done by firms is still billed on an hourly basis. This method of pricing is not just the most familiar for many firms, but it is also the easiest to justify. Hourly billing is cut and dry, and usually doesn't require the upfront planning that other pricing models require. However, the downsides of this model are that it can discourage collaboration, create uncertain cashflows for both the clients and tax firms, punish efficiencies, and often fail to align price with value. All of these downsides stand in the way of firms successfully advising their clients.

Fortunately, our analysis indicates that alternative pricing models like value-based and fixed-fee pricing can effectively tackle these challenges.

6 *See*, "Where Opportunity Meets Value: Business Model Trends for Accounting Advisory Services," CPA.com, 2020. https://www.cpa.com/whitepapers/where-opportunity-meets-value-business-model-trends-advisory-services.

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Alternative pricing solutions

Value-based pricing

The adoption of value-based pricing models directly addresses the growing demand from clients for greater transparency, collaboration, and assistance with financial planning.

FIGURE 3:

Top benefits of adopting value pricing from the firm's perspective

Percent of respondents that selected



Source: CPA.com 2022

Value-based pricing requires tax firms to invest more time upfront during the project planning phase. Firms must meticulously scope and price the work they are about to undertake, ensuring alignment with their clients' expectations. During this process, transparency and collaboration play pivotal roles in allowing the firm to determine the value of the services to be delivered. This collaborative approach not only deepens the business relationship between the two but also minimizes surprises when it comes to billing.[7] Both clients and firms appreciate the predictability of costs, which can help foster trust between the two organizations.

Another notable benefit of value-based pricing is its ability to showcase a firm's expertise in a particular subject area. By clearly linking the price to the value provided, firms demonstrate their in-depth knowledge and understanding of their clients' needs. Because firms are able to demand a higher price for their expertise, value pricing allows firms to achieve attractive profit margins that are commensurate with the knowledge and expertise they bring to the table. This requires additional *salespersonship* as the firm must ensure that the client fully understands the value that they are being provided with in order to secure a premium price.

Beyond added premiums, these pricing models contribute to the establishment of long-term relationships. Clients value the accountability and shared knowledge that comes with value-based pricing, as it aligns the firm's success with the client's objectives. In essence, it's a win-win approach that benefits both clients and firms.

7 Data in figure 3 comes from "A Growing Opportunity: CAS Benchmark Survey," CPA.com, 2022. https://www.cpa.com/cas-benchmark-survey.

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Fixed-fee pricing

Fixed-fee pricing, much like value-based pricing, effectively addresses the need for transparency and financial planning within tax & accounting firms. It entails clearly defining the project scope before commencing work, and while this initial investment in scoping may seem demanding, it sets the stage for a more predictable and collaborative client engagement.

One significant advantage of fixed-fee billing is that it simplifies financial planning for clients. With fees paid upfront, clients gain peace of mind, knowing the costs associated with their tax, accounting, and advisory services from the outset. This transparency removes the uncertainty often associated with hourly billing, in which clients may be hesitant to reach out with queries and additional information for fear of incurring additional charges. Instead, this pricing model fosters an environment of open communication. Clients are more at ease discussing their financial concerns and seeking advice, leading to and increased client satisfaction. Indeed, many clients appreciate this approach as it transforms their firm into a trusted partner throughout the year, not just during tax season.

Further, fixed-fee billing schedules often occur on a monthly basis (typically ahead of the month of work), introducing additional touchpoints with the client beyond the traditional quarterly or annual projects. These frequent interactions enable firms to provide real-time information and advice to clients. This proactive approach allows firms to align their services with clients' evolving needs, enhancing their role as advisors, and strengthening the client/firm relationship. Incorporating fixed-fee billing into a firm's pricing strategy not only aligns with client preferences but also offers substantial benefits in terms of client satisfaction, communication, and ongoing advisory support.

Challenges of alternative pricing

The shift from traditional hourly billing to alternative pricing models — like value-based or fixed-fee pricing — necessitates a significant adjustment in how firms scope and manage their projects. Unlike hourly billing, in which the pricing is determined as work progresses, alternative models often require more upfront strategic planning. Firms must scope and define the project's parameters, clearly outlining what will be included and what may incur additional charges.

Adding complexity to this challenge are the different resources available to firms of different sizes. While larger firms may have the infrastructure in place to add project management roles or responsibilities to their teams, smaller firms may lack the financial and time requirements needed to effectively integrate this additional level of planning. Research suggests that investing in these capabilities is worthwhile in the long run, but each firm faces their own unique struggles.

Regardless of firm size, a shift toward more proactive project management ensures that clients are fully aligned with the scope of work, minimizing misunderstandings and

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enhancing collaboration. Effective resource management and continuous communication with clients are essential to maintain profitability while providing value.

Transitioning from hourly billing to alternative pricing models also introduces a degree of complexity in setting prices. In value-based pricing, for instance, determining the price for services requires a more nuanced approach because firms must engage in effective communication to adequately describe the value their services bring to clients. Unlike hourly billing, in which time is a straightforward metric, value is inherently more ambiguous. It requires tax professionals to articulate the tangible and intangible benefits that their services provide, and this value can only be determined by firms having a deep understanding of their client's business. However, if that strategic partnership has not been cultivated it can provide a barrier to clients accepting a higher price and could damage or potentially end a client relationship.

It's also important to acknowledge that transitioning to alternative billing structures may encounter internal resistance within firms themselves. Employees and partners accustomed to the familiarity of hourly billing may resist changes that require them to adapt to new pricing models. As seen in figure 3, the majority of firm respondents believe that adding an alternative pricing model like value-based pricing will not improve profitability. Ultimately, this stands as the most formidable barrier to firms transitioning towards alternative models. Effective change management strategies, including additional training and education, can help alleviate this resistance and ensure a smoother transition.

In any case, firms should prepare for an adjustment period. Finding the ideal price point for services based on those services' perceived value is a process that takes time and experience. Tax professionals will need to refine their pricing strategies through trial and error, closely monitoring client feedback and market dynamics. While the initial implementation may require effort, the long-term benefits of aligning pricing with value can significantly enhance both client satisfaction and the firm's profitability.

Rewards

Client attraction & retention

While transitioning from traditional hourly billing to alternative pricing models presents several challenges, firms should not overlook the substantial rewards awaiting them on the other side. As we've discussed, the shift towards alternative pricing models requires strategic adjustments in project management, pricing strategies, and internal adaptation; however, these changes are not just about overcoming hurdles — they open doors to enticing prospects for many firms.

By offering pricing models that align more closely with clients' needs, firms can enhance their competitiveness while also attracting new clients. In a recent client panel survey[8] conducted by Thomson Reuters, respondents from tax & accounting firms said that

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client-specific value-based pricing was the most effective approach to attract new clients. This approach was closely followed by offering *attractive fixed-fee packages*, while offering *competitive hourly rates* trailed far behind with only a fraction of respondents choosing this category compared to the aforementioned approaches. These findings demonstrate that clients are placing a premium on pricing structures that align with the perceived value they receive from their firms.

FIGURE 4:

Client attraction

Rank	Which of the following do you believe would most effectively attract new clients to your firm?	How important are the following factors to clients when assessing pricing options from firms like yours?
1	Client specific value based pricing	Firm reputation
2	Attractive fixed fee packages	Alignment of pricing with value
3	Subscription based pricing	Transparent pricing structure
4	Competitive hourly rates	Price competitiveness

Source: Thomson Reuters 2023

Further, when respondents were asked about which factors were most important to clients when assessing pricing options, they named *alignment of pricing with value* and *transparent pricing structures* as the second- and third-most cited responses, respectively. Only *firm reputation* was selected more as a response. This underscores the importance of not only offering alternative pricing models but doing so in a way that also ensures transparency and value alignment in your pricing strategy.

Expanding the range of pricing offerings also contributes to client retention. Fixed-fee and value pricing, in particular, play a crucial role in enhancing client retention by enabling firms to cross-sell other services and provide more predictable pricing structures.

FIGURE 5:

Client retention

Rank	Which of the following pricing approaches has been the most successful in client retention?
1	Offering personalized bundles based on changing needs
2	Providing flexible payment options
3	Adjusting price to meet client expectations

Source: Thomson Reuters 2023

8 *Influencer Coalition Survey*, Thomson Reuters Institute, August 2023.

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Our survey identified several successful pricing approaches for client retention with offering personalized service bundles based on changing client needs as the top strategy chosen by firms. By tailoring services to individual client requirements, firms can demonstrate their commitment to meeting evolving needs, fostering loyalty in the process. Firms also have a significant opportunity to attract new clients and retain existing ones by adopting alternative pricing models that align with client needs. The emphasis on value-based and fixed-fee pricing, as well as on personalized service bundles and flexibility, demonstrates the importance of adapting to evolving client preferences to ensure long-term success in the industry.

Bottom line

Some of the greatest challenges faced by tax & accounting firms include how firms can hold onto their elevated realization rates, and how they can maintain predictable cash flows. When firms bill by the hour, they have to track timesheets and create detailed invoices that can often give clients some key data points to contest. In addition to these points of contention — tracking, invoicing, negotiating, and receiving payment all combine to lengthen a firm's accounts-receivable life cycle which can hurt realization and dampen a firm's ability to plan ahead financially.

> ***Offering alternative pricing models presents a clear opportunity for firms to enhance their competitive edge, profitability, and client relationships.***

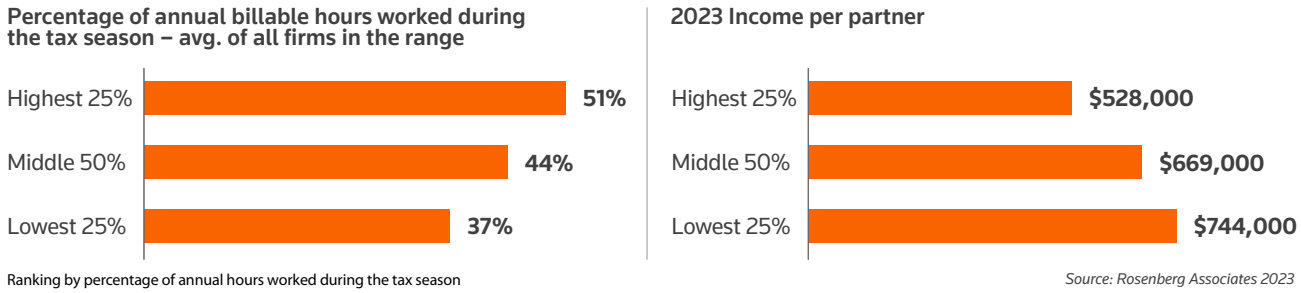
Offering alternative pricing models presents a clear opportunity for firms to enhance their competitive edge, profitability, and client relationships. By establishing fees upfront before any work begins, these models can reduce levels of client pushback significantly. Value-based pricing, for example, mitigates the risk of late or defaulted payments, as it shifts the focus from hours-worked to the value delivered. Similarly, fixed-fee-based pricing involves a scheduled payment plan that eliminates the invoicing process and significantly reduces the accounts-receivable period.

Another key benefit is that under alternative pricing arrangements, firms can establish consistent revenue streams that not only provide a clearer picture of their financial status but can potentially lead to greater profits. Fixed-fee pricing and subscription-based models, which have a set payment schedule, are set up in such a way that distributes work across the fiscal year as opposed to quarterly and end-of-year crunch times. The chart below, which uses data from the *2023 Rosenberg Survey*[9] that annually tracks data from CPA firms, shows that the firms with the lowest concentration of work done during tax season (lowest 25%) are generally the firms with the highest level of income per partner.

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FIGURE 6:

Distribution of work & income per partner



Ranking by percentage of annual hours worked during the tax season

Source: Rosenberg Associates 2023

With this in mind, firms can both position themselves in an advisory role to their clients while still addressing clients' immediate needs throughout the year. Although the data shows that there are concerns regarding the profitability of alternative models, if these models are implemented effectively a firm's profitability can not only increase but also be sustained in contractionary phases of the business cycle as clients lean on their dependable advisors even more.

Looking ahead

The changing nature of how tax & accounting firms bill and price their services is inextricably tied to the evolving landscape of client expectations and the increasing demand for comprehensive advisory services. Indeed, the traditional hourly billing model is giving way to alternative pricing approaches that emphasize transparency, collaboration, and value alignment. However, this shift is not merely a response to changing demands but also a strategic opportunity for firms to thrive in the coming years.

Those firms that successfully navigate this transformation will not only meet client expectations but also secure a competitive advantage in the market.

9 *See* "2023 Roseberg Survey," Rosenberg Associates, 2023. https://rosenbergassoc.com/rosenberg-survey/.

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