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Internal perceptions of pricing methodology in small accounting firms in Australia

Devan Seamans

Abstract

Pricing plays a key role in a firm's marketing strategy, responsible for capturing the value a firm delivers in its product or service. Industry experts and modern marketing literature suggest that cost plus pricing, which most accounting firms adopt in the form of time based billing and hourly rates, may not be the best approach to pricing. Thus the aim of this research is to evaluate the internal perceptions and opinions of the alternative and more modern approach of value based pricing, for small accounting firms in Australia. This research provides an understanding of that industry's perception of current pricing practices, and whether there is a need to change from cost plus pricing to value based pricing. Data was collected from one case firm, utilising semi-structured one-to-one in-depth interviews. Respondents identified several significant issues associated with the current method of pricing which were aligned with issues raised in the literature. Despite the identified weaknesses in the current model of pricing, the general consensus was that there is not a need to change. Respondents felt that value based pricing could play a larger role in pricing services in the near future, however, its use would be limited due to several limitations. The research has strategic implications. First, adopting a more client focused approach to pricing could potentially provide a point of difference in the marketplace, and potentially a competitive advantage. Second, modifying the monitoring and evaluation components of time based billing has the potential to decrease pressure on staff, and lead to a more positive working environment. This case report will provide managers and partners in similar sized accounting firms in Australia with insights into the adoption of pricing methodology aligned with the perceptions of those working within the industry.

Key Words value based pricing, time based billing

The internal perceptions of pricing methodology in small accounting firms in Australia

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Introduction

Pricing is directly linked to market share, profitability and the overall success of the entire firm (Kotler et al. 2009). Pricing plays a critical role as one of the main components of a firm's marketing mix, responsible for communicating key aspects about the firm and its offering to the market (Baker 2001). Thus the design and implementation of a pricing strategy which best addresses the unique requirements of the firm and the preferences of the market, are important. Despite this importance of pricing, many firms do not give it the attention it deserves (Kotler et al. 2009; Baker 2001).

In a fragmented industry of small firms like the accounting industry, price can affect competitive advantage and point of difference in the marketplace (Kotler et al. 2009; Thompson, Strickland & Gamble 2009). Pricing also has the ability to foster long-term client relationships based on loyalty, which in turn leads to greater profits. The standard pricing model adopted by accounting firms is that of cost plus pricing, referred to in the industry as hourly billing or time based billing. Basically, accountants determine price based on the time put into a job multiplied by an hourly charge out rate.

There have been concerns about the use of time based billing because it does not consider current demand, perceived value or competition (Kotler et al. 2009; Baker 2001; Dunn & Baker 2003). In addition, other noted researchers (Dunn & Baker 2003; Nixon 2009; Weiss 2009) have pointed out that time based billing may be perceived as unethical due to its conflict with the best interests of the consumer. In contrast, a value based approach to pricing focuses on value, not time, as the main determinant of price. Industry experts and consultants have heavily promoted the transition to value based pricing. Despite their efforts, time based billing is still practiced by most accounting firms in Australia (Nixon 2010b). No research could be found on what those currently practicing within the industry thought about the need or benefit of changing pricing models.

Thus the aim of this research is to evaluate the internal perceptions and opinions of the current pricing model of time based billing, and of the more modern approach of value based pricing, in small accounting firms in Australia. My contributions centre on my internal focus and the industry involved. The findings should influence whether and how value based pricing could be implemented in those and other firms.

This report has been organised into six sections in addition to this introduction. The orientation provides a background on billing models in accounting firms and an overview of the firm and the objectives of this study. Next, the data collection and analysis method are described, followed by a discussion of the key activities, processes and events. The report then summarises the key learnings and implications of the research.

Orientation

Price is one of four basic elements which combine to form a firm's marketing mix. Collectively the elements are known as the four Ps of marketing - price, product, promotion, and place. The four Ps work in conjunction with each other to shape market demand and facilitate transactions, combining to form a marketing strategy for a firm (Kotler et al. 2009).

Pricing is arguably the most complicated and complex of the four Ps, responsible for capturing the value a firm delivers in its product or service (Dunn & Baker 2003). A pricing strategy sends a unique message to the marketplace, communicating who you are, what you do, who you serve, and how you perceive yourself (Baker 2001). A study by McKinsey further reinforces the importance of pricing, concluding in their study of 1000 companies that an appropriate, one percent increase in price results in an 11 percent increase in operating profit (noted in Kotler et al. 2009). That McKinsey study revealed that pricing has a larger impact on profitability than either cost reductions or increases in sales volume (Baker 2001). Pricing obviously plays a critical role in a firm’s marketing strategy, and is directly linked to market share, profitability and the overall success of the entire firm (Kotler et al. 2009).

Time based billing: the standard pricing model

Cost plus, or mark-up, pricing is the standard accepted pricing model used in most accounting firms in Australia (Nixon 2010b). To determine the price in cost plus pricing, a sufficient margin or mark-up is added to the variable and fixed costs associated with the production and delivery of the service (Kotler et al. 2009). Applied to accounting firms, price is determined based on the time put into the job, multiplied by the accountant's hourly charge-out rate; thus this practice is known as time based billing or hourly billing. Under this pricing model, accountants are essentially selling their time.

The origins of time based billing can be traced back to Karl Marx's labour theory of value in 1848; the basis of the theory suggests the amount of labour hours used in production is the sole determinant of the price of an item (Dunn & Baker 2003). Specific to the industry, time based billing is linked back to the introduction of timesheets used to track each six minute block of time put into a client's work. While timesheets were originally suggested back in 1940 as a management tool to track the internal cost of the services being provided, by the 70s and 80s their primary purpose had shifted to that of determining price (Dunn & Baker 2003). Each six minute block of time recorded on the timesheet is multiplied by the respective accountant's hourly charge-out rate. In theory, the charge-out rate of staff members reflects the variable and fixed costs to the firm in providing the service. However, in practice, many firms set and increase charge-out rates annually and with no direct correlation to costs (Nixon 2101a). Hourly charge-out rates are determined by taking an accountant's salary, dividing it by hours worked, which for example is normally 1687, then multiplying that number by anywhere from three to six (Nixon 2010a).

An academic perspective on pricing models

Despite being accepted in the accounting industry and practiced for several decades, cost plus pricing faces criticism that it does not take into account current demand, perceived value or competition (Baker 2001; Dunn & Baker 2003; Kotler et al. 2009; Nixon 2009). As such, cost plus pricing is unlikely to lead to the optimum price being set due to its inward-focused approach and disregard for external market feedback (Baker 2006). Indeed, the labour theory of value, the origin of time based billing, was proven to be false soon after it was created, and is ‘completely obsolete in an innovative, dynamic, and intellectual-capital-based marketplace.’ (Dunn & Baker 2003, p. 26). In addition to these shortcomings, cost plus pricing in a professional service such as accounting may be unethical and at odds with what is best for the client and the firm (Nixon 2010b; Weiss 2009). First, the firm is rewarded for being inefficient, as the longer they take the more they are rewarded. Second, time based billing assumes the rate per hour and the time taken to do the job are correct, when both factors are easily debatable.

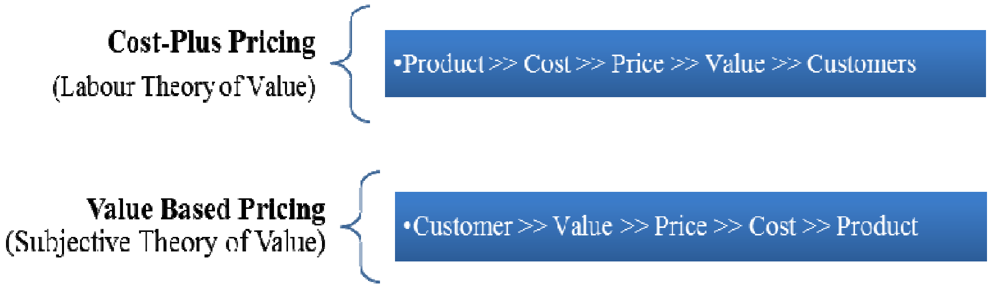
Industry consultants and experts suggest that the industry would be better served by basing its pricing on the value perceived by the consumer. Clearly defined by Kotler & Keller (2006, p.25), ‘value reflects the perceived tangible and intangible benefits and costs to the customer,’ where value is increased through quality and service and decreased by price. Value, like beauty, is in the eye of the beholder and it is the customer who determines the value of anything (Baker 2006). Skousen (2001, p. 182) emphasises this marketing concept of a customer focus:

> A consumer good is not valued because of the labor and other means of production used. Rather, the means of the production are valued because of the prospective value of the consumption goods. The value of all producer and capital goods are ultimately consumer driven.

That is, the marketing concept is that quality is not necessarily linked to how expensive or difficult a product or service is to make, but rather to the utility, or pleasure and satisfaction, the product or service provides the consumer (Hamel 2000).

In summary, the literature and industry experts suggest the number of hours an accountant takes to complete a job may have no correlation to the value received by the client. Accountants should actually be selling their intellectual property, not their time, and basing the price on the value received by the client. Value based pricing essentially turns the theory of traditional cost-plus pricing inside-out, beginning the pricing equation with the customer, the ultimate determiner of value (Baker 2006), as shown in Figure 2.1. In contrast to time based billing which bills in arrears, value based pricing is implemented through the use of upfront pricing agreements. These agreements are constructed based on the service requirements, and associated worth to the client. While internal pricing guidelines would assist in determining a price, each job would be priced according to the particular client situation and individual worth to the client.

Figure 2.1 **Cost-plus and value based pricing**



Source: adapted from Baker (2006, p. 89).

But if value based pricing is so attractive, why is it rarely used? This research addressed that question.

The case firm background

The perspectives of those working within a small accounting firm will be the focus of this research, called the 'Firm' in this report. This accounting and financial service firm is located in regional Australia, employing about four partners, five accountants and four administration staff. Firm management believes in staying current with industry practices, ensuring the firm is operating efficiently and up to industry standards. As such, the Firm has worked closely with industry consultants and coaching groups over many years. The Firm was introduced to the concept of value based billing in 2005. Over the years, Firm staff and management have been exposed to many sources of information detailing the benefits of value based pricing and downfalls of time based billing with the Firm making several attempts to introduce value based billing with limited success. Most client feedback towards value based pricing has been positive, however, a lack of effort and leadership required to overcome its implementation hurdles has kept value based pricing from taking hold. At present, the Firm has only a small number of clients on upfront price agreements, with limited effort or resources put into encouraging further adoption. That is, most Firm clients are billed in arrears according to the hours taken to complete a job.

Clarification and application of the research question

The purpose of this paper is not retrospective, in that it is not an attempt to uncover the specific reasons why the implementation of value based pricing at the Firm has been unsuccessful. The aim of the paper is to take a step sideways to uncover the thoughts and beliefs of those practicing in the industry on a day to day basis about two questions:

- Is there a perceived need to change the current pricing model of time-based billing?
- Will the firm benefit from adopting a value based pricing model moving forward?

It should be noted that this research paper makes no attempt to be a fully comprehensive analysis of pricing models in accounting firms. Addressing pricing models from an external market perspective, including the preferences of the consumer, would play a significant role in an holistic approach to the subject. A pricing model's ability to be accepted and contribute towards a competitive advantage largely depends on market preferences. These other preferences can be addressed in further research.

Methodology and data collection

A case research methodology was used to gain an understanding of staff perceptions of billing models at the Firm. Case research allows for a thorough understanding of the research topic within the real life context of a typical firm (Saunders, Lewis & Thornhill 2009). Of particular importance to the research topic, Morris and Wood (1991, cited Saunders et al. 2009) note that case research permits a deep understanding of both the context and current processes in place at a case firm. Moreover, case research is appropriate for business topics, in particular, for investigating marketing issues such as strategy development and ethical considerations (Dul &Hak 2008). Focusing on only one case in this research is justified because the researcher had unusual access to internal pricing information for academic research (Yin 2008).

One-to-one in-depth interviews were the source of primary data collected for this project. A total of six interviews were completed, three with partners and three with accountants within the Firm. The partners represent an ownership and management perspective, while the accountants represent the thoughts of the employees who are governed by the decided pricing model adapted. The Firm employs only a few accountants and partners, as noted, so the six interviews provided a picture of the whole Firm. As well, towards the end of the interview process, the researcher felt additional interviews would have provided few new insights.

Semi-structured interviews were conducted with partners and accountants, allowing the researcher to probe deeper into participant responses, adding depth to the data obtained (Saunders et al. 2009). The questions used to guide the interviews are included in Appendix A. Interviews were conducted in accordance with the rules provided by Carson, Gilmore, Gronhaug and Perry (2001), as well as the interview competence guidelines and ethical considerations suggested by Saunders et al. (2009). All participants signed their agreement to a research consent form before the interview. The interviews took place over the course of two days, ranging in time from 30 to 60 minutes per interview. Five of the six interviews were conducted face to face, with the remaining interview being conducted through video conferencing.

Despite the researcher's efforts to remain neutral, interviewer bias and response bias may have been present due to the use of probing questions and the semi-structured approach to the interviews. However, the aim of qualitative based interview studies is to explore reality at the point in time in which data is collected, and not necessarily meant to be repeated (Saunders et al. 2009). Hence, while this research project will provide similar firms in the industry with new insights and contribution towards theory, the generalisability of findings are limited. That is, this case research provides analytic generalisation rather than statistical generalisation (Yin 2008).

Aligned with Saunders et al. (2009), the following data analysis section will summarise and categorise the complex nature of data obtained from the semi-structured interviews into a narrative. This narrative was developed through the identification of key themes within the interview summary transcripts, which provided the necessary categories relevant to the data and the research objective. Data chunks relevant to the topic and identified themes were then assigned to the categories, enabling meaningful analysis.

Data analysis

The research exposed significant insight into what those practicing in the industry think about pricing. The key concepts gathered from the interviews can be organised into the perceived strengths of time based billing followed by discussion of the models' lack of transparency, impact on working environment, implementation in practice, potential conflict of interest, with an evaluation of the future of pricing at the Firm.

Strengths of time based billing

The strengths of time based billing identified by the respondents can be summarised in three main concepts. These concepts represent the reasons the Firm utilises time based billing to price their services. First, time based billing is easy and efficient. Time recording software is integrated into the practice management software, meaning every client task or touch point is easily recorded, tracked and linked to the software which produces the bill. As suggested by a firm partner, '*It comes back to being easy, the boss doesn't want to have to try and guess at value and price upfront. It's much easier to record time.*'

The simple recording of time leads directly into the second identified strength that recording the time taken to do a job has a logical relationship with what the final cost to the client should be. In theory, each hour put into a job is matched to an accountant's hourly rate which represents the costs to the firm in delivering that service. As noted by several accountants, a client who submits unorganised data which requires extra time should be charged more than the client who is highly organised.

The third strength of time based billing identified by both accountants and partners is its ability to track both the productivity of staff and the time cost in providing a service. All staff members record their time in six minute increments on a timesheet, which is then reviewed weekly against target productivity percentages. As a management tool, the partners can quickly assess the performance of their staff based on the number of hours they have billed in a week. Management can also easily monitor exactly how many units of time have been put into each job.

Weakness: lack of transparency in time based billing

In turn, a lack of transparency was the first weakness of time based billing. From an internal perspective, this weakness begins with confusion surrounding the creation of charge-out rates for each accountant. None of the accountants interviewed knew how their rate was determined and could only speculate. All three accountants believed there was a rough connection between salary and charge-out rates, suggesting total compensation to be roughly 30% of their charge-out rate (with an uncertain ‘margin’ being the rest of the charge out rate). The three partners interviewed did not mention any calculation based on salary, however, their answers were inconsistent and inconclusive. Two partners emphasised that charge-out rates reflected seniority and day to day ability. The other partner suggested charge-out rates take into consideration industry comparisons, published information from industry bodies, their own assessment of what the market will bear, as well as an assessment of overheads, profit margin, and the individual experience and work a particular accountant is performing. From the responses of the partners, one must conclude there is no science or set formula in determining charge-out rates. It is apparent that charge out rates take into account far more than just the salary and profit margin associated with delivering a service. These conclusions are supported by each respondent’s stated charge out rate, with two at $175, three at $250, and one at $335. Taking into consideration a best estimate of each individual respondent’s salary and qualifications, there does not seem to be a correlation between salary or qualification and charge out rate. However, a loose connection can be discerned between experience and charge out rates.

Despite the charge-out rate being one of two variables used to determine the price of a service (along with time), every respondent indicated very few, if any of their clients knew what their charge-out rate was. When asked if they would be comfortable sharing their charge-out rate with their clients, most responses were aligned with one respondent who stated, '*It's the old avoid the answer at every cost*.' All respondents indicated they would be very hesitant sharing their charge out rate, generally preferring to explain the detail and the value of the job to justify a price rather than disclose the associated charge-out rates. As noted by one respondent,

> The client would be surprised to find out there is no formula behind the determination of charge-out rates. Most clients would assume I spend more time on them than I actually do. If clients found out how much I charged each hour they wouldn't be all that happy about it.

When respondents were asked if they thought their clients understood how the Firm priced their work, all respondents believed that their clients knew it was generally based on time. This was restated by one respondent saying, '*They understand that time is money, and that's how we calculate our fees*.' A partner further elaborated on the subject in this way:

> I would assume, in conversation with clients, that they are aware we have a computer based recording system. Hence, I would think they know it is broken down into units of time. On the bills, they would be aware that phone calls and all that are charged for because I put it on the bills – their bills are pretty detailed.

In summary, the respondents believed that clients generally understand pricing is based on time. Despite this understanding, the respondents were all uncomfortable sharing their charge out rates with their clients. Further ambiguity arises from how charge out rates are determined. It is clear that there is not a set formula, and no consistent correlation between charge out rates and the costs incurred to the firm in providing the service. Rather, industry comparisons, experience, and a partner's assessment of what the market will bear are greater determinants of charge out rates. One accountant's reference to a client's understanding of how the Firm prices their services sums up the picture: '*There are no exact consistencies for them to figure out how they get billed*.'

Weakness: negative impact on working environment

It became apparent that time based billing, in particular charge-out rates and the continual tracking of time on timesheets, is a source of job dissatisfaction. Almost all the respondents indicated that they had at one time, or still are, uncomfortable with their allocated charge out rate. There also seemed to be a correlation between the respondent's level of seniority and how comfortable they are with their charge out rate. The more senior a respondent is, the more comfortable they are with their charge-out rates; however, they could remember times in the past when they felt uncomfortable. One partner suggested that those less experienced in the industry may be uncomfortable with their rates because they do not realise all of the costs associated with running a firm:

> It's a challenge in our industry, particularly when you're probably still learning and understanding the whole picture. I'm comfortable with it now, but I can distinctly remember I was feeling quite uncomfortable with it – because you don't understand the full picture.

The majority of respondents also suggested that their charge out rate, and the requirement to continually track time, was a source of pressure. Not only is time used for the creation of the bill, it is also the only consistently tracked and monitored assessment of employee performance. As stated by one respondent,

> It puts a bit of pressure on, you have to provide as much in a short amount of time for these clients as you can. When someone is getting charged $17.50 every 6 minutes – you're going to be watching the time tick away.

Another respondent elaborated,

> Your whole life is about 6 minute increments. It makes no difference to the client, but internally it's like the world falls down. It's awful. I hate it. It's the one thing I hate about my job – I love the work and the people, it's just a stupid system.

Weakness: conflict of interest and ethical considerations

Respondents were asked to comment on the fact that time based billing creates a situation where the best interest of the firm is at odds with the best interest of the client. For example, the longer the firm takes to complete a job, the more the firm is rewarded for that job. As recognised by one partner, '*It can encourage inefficiencies, as you don't truly get rewarded for efficiencies.*' Interestingly, almost all of the respondents had either not ever considered this conflict of interest, or did not believe it had any impact on the operations of the firm. However, as noted by both partners and accountants, the time recorded on a timesheet does not always reflect the actual time put into a job. As clarified by a partner,

> An accountant may think 'I can't charge 4 hours for that, I'll put 2 1/2 in and cop the heat for productivity being low.' On the other hand, some accountants might charge five hours because they make their own perception that it's worth more than $400. They'd pick a price, and make the bill and record the hours accordingly. If they need to find an hour to reach their target, they may mark additional time on something which they managed to get through in less time than expected to fill their timesheet up a bit.

Time based billing in practice

Another insight was discovered throughout almost all of the interviews. While every respondent interviewed referred to the Firm's pricing model as time based billing, in reality, it became apparent that the Firm actually priced based on value as well. Time is tracked and forms the basis of a bill, however, the bill is then reviewed by a partner and often adjusted to reflect either the previous year's bill or the value of the work completed. As suggested by a respondent, '*Regardless of how you came up with that number, what the job is, what the rate is, you still think what is that job worth overall*.' This is common to the industry, with 'write-offs' occurring when the bill is reduced below the price equated by time, and 'write-ons' occurring when the bill is increased above that suggested by time based billing. An example of this is stated by one respondent saying,

> Sometimes there may be $3,000 on the clock but we charged them $7,000 last year, so we may charge them $6,000. Its value in their eyes because they saved money and we've made some easy dough.

Another respondents shared a similar example, stating:

> If a client turns over one million, and another eight million, it might be the same amount of work for the two clients, but I bet you their bills are different – because they can be. You get two similar jobs, similar results, similar inputs, similar provided data, and you'll get two totally different prices. Maybe two different people work on it, or it's under a different partner, and historically they have always charged that client that certain amount. There would be some big variances.

Essentially, it became very apparent with all interviewees, that what a client has been billed in the past has a significant impact to what they will be billed in the future. As suggested by a partner, '*If they are used to paying plenty; they pretty much get to pay plenty*.' This concept is further reiterated by one respondent who said,

> We've always looked at last year's bill, and never billed less than the year before. So if we can do it in less time, we can do a write-on. So effectively, we are recording the time, but I don't believe were basing our bills on time that much – were basing it more on what's occurred.

Due to variances in experience, knowledge and ability, the time taken to complete a job will vary from accountant to accountant. This raises the question suggested by a partner, 'It may take one person in the firm 8 hours, another 4, and another 2 – who's right?' As suggested by two respondents, incorporating a value based component into the billing process enables the firm to account for the inexperience of an accountant (write off), or reflect internal efficiencies and client knowledge (write on).

The future of pricing at the firm

While every respondent did raise concerns or weaknesses with time based billing, there were mixed beliefs concerning whether there was a need to change the pricing model. Four respondents suggested that little change was needed. While they recognised weaknesses with time based billing, they felt the advantages of tracking time and the ability to adjust the final price according to value has worked well. The remaining two respondents who perceived a need for change placed large emphasis on reducing the pressures and stress created by high charge out rates and continually tracking time. As suggested by one of those respondents, '*We definitely need to change it. No basis behind anything. Just conjured figures – when in doubt put it up a bit more*.'

When asked *directly* about value based pricing, all but one respondent felt that the Firm would benefit from adopting it. Respondents recognised that essentially the current system was already incorporating value, and that more emphasis on pricing by value would be a natural progression which would benefit the firm. Several respondents suggested that further adoption of value based pricing would have the ability to build stronger relationships with clients and facilitate better communication. Most respondents felt that value based pricing had the ability to better reflect the value of work they provide to clients, and that their clients would appreciate receiving a price upfront compared to after work had been completed. From a firm's perspective, however, the respondents felt as though value based pricing has greater risk to the firm, and is not necessarily a fair evaluation of the effort gone into a job. As suggested by one respondent, '*Time based billing is fairest to the firm, especially considering 90% of what we do [compliance]. We're able to recognise what the cost of the job has been.*'

Respondents did identify several challenges and risks to the firm that could limit the application of value based pricing. Attempting to provide upfront prices based on value was an issue of concern shared by several respondents for several reasons. Respondents pointed out that understanding the complete scope of a job, and what is entailed in a job, is sometimes really hard to know before commencing the work. In addition, the value or perceived benefits of a job for a client may depend on the end outcome. Lastly, many respondents raised concerns that the majority of the services they provide to clients are compliance based to satisfy government reporting requirements. As such, they believe their clients do not associate much value or benefit to their own business or well-being, in the services being provided. To compound this issue, accounting work by nature is often misunderstood, and clients do not fully understand the work and knowledge which goes into the completion of a job. These factors create a situation where it is very difficult to attach a price to work based solely on value. One respondent summarised some of these challenges saying,

> As a firm we find it difficult to put a value on what we do – and that's why we shy away from value based pricing. There is a lack of understanding by our client about the amount of time and work and knowledge it takes to produce what we give them. Because it's an annual thing [compliance work], and they have to do it, they don't see much value in it.

Key learnings

The interviews provide the following key learnings about the thoughts and beliefs of those practicing pricing in the industry. The key learnings have been organised and presented into strategic implications which can be translated into future action, applicable to management at both the case firm and similar accounting practices.

Adoption of a client focus

The Firm has adopted the principles of *both* time based billing and value pricing which are most beneficial to the firm, and provide the least amount of risk. The tracking of time is used, but only realised on the final bill if it is aligned with what the partner thinks the price should be. If a partner feels a job is worth more than what is reflected in time, they will increase the price until they perceive it is aligned with the value received by the client. Under this process, the client takes on all of the risk. Clients are essentially put into a situation where they do not fully understand what is involved in the services being provided or what value or benefits these services will provide them. Clients are then at the mercy of the accountant as to what they are charged. At no point is the client in the position to make an informed decision, with the ability to assess the value proposition, weighing the perceived benefits against costs (Belch & Belch 2009).

Customers purchase value, perceived benefits and outcomes, not a bundle of allocated costs (Baker 2006). Thus adopting a more client focused approach to pricing where the firm accepts some risk in the transaction of services rendered, has the potential to significantly enhance the client experience and address a common source of client resentment (Nixon 2010b). Providing the price of services upfront has the ability to better communicate value to the client, as well as proactively manage the gap between a client's expectations and their perceptions of the final product (Slack, Chambers & Johnston 2009). An open and transparent approach to pricing would further encourage trust between clients and accountants, enhancing client relationships and loyalty. Most importantly, in an industry with little differentiation, a point of difference and potential competitive advantage could be derived through a more client focused approach to pricing.

Monitor and encourage more than billing time

The Firm has adopted a differentiation approach to competition in the market, commanding a price premium for what it considers to be a high quality approach to delivering accounting services. As suggested by Slack et al. (2009), this strategic mandate should be directly linked to workers' performance objectives. However, in practice, the tracking of time through the calculations of productivity and billable hours is the only source of performance evaluation. The pedantic tracking of time down to each six minute interval, and the rewarding of those who are able to bill the most hours does little to promote or encourage good customer service. The emphasis on tracking time endorses quantity over quality, repetition over creativity, and actually discourages innovation and efficiencies. Timesheets may fail to measure any qualities that are actually important from the customer's point of view (Baker 2006).

Not only does the obsession with time contradict a differentiation approach to providing high quality services, but it may detract from workplace satisfaction due to added pressures and a questionable pricing model. In other words, from a human resource perspective, the questionable integrity of time based billing may result in unmotivated employees, increased turnover, and increased job dissatisfaction because it is not aligned with the values of the employees (Hughes, Ginnett, & Curphy 2009; Noe, Hollenbeck, Gerhart & Wright 2008; Slack et al. 2009;). The current model could also be creating a source of resistance to change amongst those in the industry. The pressure to conform to time and productivity targets conflicts with the decreased levels of output first associated with the anatomy of the learning experience and adoption of organisational change (Hughes et al. 2009).

Conclusion

Despite the importance of pricing, and the need for change emphasised by industry experts, those within the industry did not identify a strong need to change the current pricing model. However, the views and preferences of the consumer will play a major role in steering the direction of how services are priced in the future (although their views were known and considered by the interviewees). Further research from the consumer perspective is required to adequately address this issue. While change management and leadership have not been a focus of this project, they would also impact on the successful further adoption of value based pricing.

In summary, the respondents identified several significant issues associated with time based billing that were generally aligned with the beliefs of industry experts and literature. However, despite the issues discussed there was generally not a strong perceived need to change the current model of pricing among those interviewed. Much of the dissatisfaction with the current model of pricing was derived from its use as a management tool, rather than its role in determining the price of services. Almost all of the respondents felt the further adoption of value based pricing was a good thing and the direction the firm and industry is headed into the future. However, respondents did highlight several major hesitations with value based billing, which in their opinion significantly limited its use. An analysis of their data suggests a proactive firm would benefit from the adoption of a client focused approach to pricing, as well as addressing employee tracking and evaluation to incorporate more than just time and productivity targets. In conclusion, a firm could possibly gain a source of differentiation and competitive advantage if a more proactive, client focused approach is taken to pricing.

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Appendix A – Semi-structured interview guide

Research Project Interview Questions

Participant:

Date:

Time:

Introduction

The aim of this interview is to obtain your thoughts and opinions regarding time based billing and value based billing. There are no right or wrong answers; I am simply looking to interpret your perspective on the subject matter. As noted in the research consent form, all information is kept strictly confidential; your answers will be kept anonymous and will only be viewed by myself and the examiners.

We will be begin by discussing time based billing, eventually moving into value based billing, and concluding with a comparison of the two models. Depending on the extent of your answers, this interview should not exceed 30 minutes. Do you mind if I record our conversation?

Let's begin:

Time based billing is a form of cost plus pricing. Price is determined by multiplying the time taken to complete a job by an hourly charge out rate. In theory, the hourly charge-out rate represents the fixed and variable costs the firm incurs in delivering the service to the consumer, plus a margin to account for profit.

Charge-Out Rates

1. Do you feel as though your hourly rate reflects your intellectual property and the work you complete for clients? Please justify.

2. What is your current charge out rate?

3. What percentage of your clients do you think know what your charge out rate is?

4. Do you understand how your charge out rate is determined? If so, please explain how you believe your charge-out rate was determined.

5. What percentage of your clients do you think understand how charge out rates are determined?

6. Do you have any input into setting your charge-out rate?

7. Do you feel comfortable with your allocated charge-out rate? If there ever been a time where you have not been comfortable with your charge out rate please elaborate.

8. To the best of your knowledge, would you consider your charge out rate to be low, on par, or above that of an accountant at another firm with similar experience and education?

Time Based Billing

1. What are your thoughts and opinions on time based billing? What do you perceive to be the positives and negatives associated with this pricing model?

2. Are you comfortable with pricing your work under a time based billing model? Please justify your answer, and if possible provide specific examples to support your answer.

3. Have you ever considered time based billing to be in conflict of interest with the client? For example, the longer McCann Clarke & Co takes to complete a job, the more they are rewarded for that job. Why or why not.

4. Do you believe time based billing fosters long-term client relationships? Please explain?

5. Do you believe your clients like the current billing model of time based billing? Do clients communicate any dissatisfaction with the price, or the model used to determine the end price?

6. Do you believe your clients understand how McCann Clarke & Co prices its services? That is, do you think your clients understand how time based billing works?

Value Based Pricing

Value based pricing is implemented through the use of upfront pricing agreements. These agreements are constructed based on the service requirements of the client, and their associated worth to the client. Internal pricing guidelines would assist in determining a price, however in theory each job would be priced according to the particular client situation and individual worth to the client. *For the purposes of this research, I am concerned more so with your thoughts regarding the theory behind value based pricing versus specific details in respect to its implementation.*

1. What are your thoughts and opinions on value based pricing? What do you perceive to be the positives and negatives associated with this pricing model?

2. Do you believe that clients would prefer to be charged based on value versus time?

3. Do you believe value based pricing has the ability to better reflect the value of work completed?

Both pricing models

1. Which statement would you agree with more? Please explain why
- I am in the business of selling my intellectual property and know-how to benefit clients.
- I am in the business of selling my time to benefits clients.

2. Do you believe clients would prefer knowing the price before work is commenced, compared to after it is completed?

3. Which pricing model do you perceive to be fairer to the client? Value based, or time based?

4. Have you ever been in the situation where you have felt obligated to reduce the client's bill because you feel the price determined by your time put into the job does not reflect the value of the service provided to the client?

5. Which pricing model do you perceive to be fairer to the firm, and a better reflection of the work you complete for your clients? Value based pricing or time based?

6. Do you perceive there to be a need to change the current pricing model of time based billing? Why or why not?

7. Do you think McCann Clarke & Co would benefit from the adoption of value based billing? Why or why not?