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I'd be writing about something way less interesting like the state of affairs with revenue recognition. But the transition to Value Based Engagements isn't quite that...

Jason Lawhorn • Jun. 12, 2020



The profession has been talking about the Value Based Engagement for twenty years now. A small percentage of firms (think 4%-5%) have successfully implemented this pricing structure in their operation. The majority struggle with how to move from hours times rate to a Value Based Engagement or even a subscription-based model to identify, bill for and collect for services in our highly technical field.

The Elusive Value-Based Engagement: Where and How to Find It

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You aren't going to be successful in capturing or even seeing it if you lack a basic understanding of what it is and is not. So, what is Value Based Pricing which is the core of Value Based Engagements?

Value Based Pricing: Is the point where the firm's expectation and the customers perception of value meet. So, based on this definition one would have to acquire the ability to:

1. Identify and create the firm's expectation of value for any given level of service, and
2. Do so in such a way where the customer perceives the value of the services at the highest level possible.

For the expectation of value, this really comes down to the type of firm you want to be. Do you want to be the Wal-Mart or Dollar General of the accounting world, primarily focusing on commodity type services? If so, this will be a determining factor in your customer base. In this example being the low-cost leader of commodity accounting service will lead to a lower expectation and customer perception of value, perhaps trading for volume.

Let's say you didn't want your firm to be a low-cost leader of commodity account services. Pretend you want your firm to be much more. You'll still have some commoditized service, but when you bundle those services with higher value services such as Planning, Advisory, M&A, Marketing, Wealth Management and the like you've suddenly upped the ante. Throwing in some solid processes and integrated software suites, you'll have greater value to bill for and have the formula for some incredible profitability. Not only higher profitability because of the higher value service, but your commoditized services also become more valuable and profitable.

I know what you're thinking... "Well how do you know?" I know because I've done it — any firm out there that wants to truly do Value or Subscription Based

Engagements can do it. You only need the knowledge, process and technology to

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There are “new metrics” to replace the time metric people are just padding anyway to meet the hours goals you set at the beginning of the year giving you much better insight into productivity and most importantly results.

2. **Visibility of Revenue** and across service lines. Without engagements signed ahead of time and the corresponding revenue dollars it's hard to predict with certainty just how much revenue you've got out there to be serviced. In an hours times rate environment you can certainly set revenue goals and push your team to bill those hours, however the method does not provide true visibility into what your actual revenue is based on the engagements you've signed, nor does it allow you to see what you have coming up in your sales pipeline. Yep, that's right... you also have a pipeline now.
3. **Bundling of Service & Subscription Based Billing** is available in a value-based environment. Subscription Based Billing is really a form of incentive pricing, but to get there you first need to establish your value base and then you can incent with bundles of service that are then “subscribed” to on the frequency of choice.

Remember in *The Lion King* when Simba realizes Mufasa lives in him? It's the same with Value Based Engagements. They live in you. Value Based Engagements are not dead and it is your destiny to become the leader you were always meant to be for your firm, your team and your clients. Be the change. Here is a short list of what you should be thinking about to start implementing Value Based Engagements in your firm:

1. **The Process:** What is your process? From the time a lead comes to you until the client signs on the dotted line and you have an engagement which spells out exactly the scope of service and exactly how much it's going to cost your customer, describe in detail what that process looks like.
2. **The People:** Who will be the champion(s) for the firm such that the idea and delivery of Value Based Engagements are a success for the firm and for your

customers? While it's listed as number two, it may be number one.

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My goal here is to get you thinking about the opportunity of Value Based Engagements for your firm. Not to get into the nuts and bolts. The first step is to achieve the mindset and then get more focused and more detailed from there. As such, look for some future articles where I start to dig into the components and their detail as you begin the journey.

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Jason Lawhorn CPA, CGMA, CITP, MAcc is the President and CEO of Cloud Practice Accounting, LLC www.cloudpracticeaccounting.com and is also the President and CEO of Lawhorn CPA Group, LLC which has locations in Tennessee, Georgia, Wyoming and Virginia.

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