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Punch the Clock: Why You Should Stop Billing by the Hour

How Hourly Billing Hurts Clients & What to Do About It.

Garrett Wagner, CPA • Aug. 31, 2020



As we move further into 2020 and further into the new normal, one thing hasn't changed. Each day consists of 24 hours, whether you work eight or eighteen of them.

As accountant, we should be happy about that. After all, some of us love adding up quarter hours more than we love formulas in Excel. Hourly billings, for many, is the lifeblood of making a living. Billing by the hour is the only way we may know how to measure our value—and generate income. It is how we traditionally relate our inherent value and to translate that value into something numerical that compels a client to cut a check in return.

Sounds fair. Sounds like a comfortable methodology.

Dumbing Down Our Equation

Our logic is simple and does not follow the economic principles that drive our clients in their other high-value transactions.

Think about this. They may pay a lawyer by the hour, but they aren't happy about it. Whereas most all other white color and consultative professionals are engaged on value-based wages or contracts. Their own marketing people, salespeople and finance managers are on salary. They hire outside consultants who build mobile applications, based on complex project proposals.

Meanwhile, we keep tying our value to the quarter-hour increments at fixed rates.

We don't think about supply and demand for what we do in a given market. We apply our binary per hour formula. We don't contemplate the special knowledge we own, nor our ever-increasing efficiencies over time—serving these clients, and how the numbers of hours we need to do that decreases each passing quarter.

We just keep billing them by the hour, regardless of the experience we amass at rapidly rising rates of production

Fundamentally Flawed

Ultimately, we are fundamentally flawed. Now is the time to evolve as the world around us grows more accepting of a new normal. Now is the opportunity to let go of the stuck in the past hourly rates. Now is the time for value pricing, to compensate ourselves for the outstanding work we perform.

We increase value through speed, knowledge and advisement. If we keep charging them by the hour, our value will forever be limited, we handicap ourselves and the client. We penalize both sides with fears of lost time or being billed, to simple explore new ideas. Value-based billing frees you and the client to have those conversations without fear of losing margin on your end or getting tagged with consulting fees on theirs.

In contrast, billing solely on time fails to consider supply and demand or the ultimate value of the work being performed. On one task, you took too long last Wednesday, and the bill goes up. But the end-product remains the same. On Friday, you got the job done in half the time it took the previous month.

The fees may be lower one time and not the other, while the end-product remains the same. From the outside looking in, you charge too much one month versus the next. From the inside, you saved them money delivering the same end-product. Your client only sees the negative variances. What if they audit the invoices and want everything adjusted to the lowest costs going forward—and backward?

Start a new way of packaging how you price with your clients today and explain the change to your clients.

Talking the talk

One major fear accountants have when it comes to moving away from billable hours isn't their unflappable belief in billable hours. It is how clients will react. This is why now is the time to make this change. As we move into the new normal, as people like to say, changing how you price is a natural part of that message.

Here are some great ways to incorporate changing your pricing into today's landscape.

Dear Client,

As we all see the economics around us changing, we know it is time to take into account your own economics. So, we are shifting how we price our services. We are moving away from old legacies billing you by the hour. Instead, we are packaging our services at set prices and packages.

This new approach will stabilize the costs you see for projects and tasks that we perform for you. You will have opportunity to see prices these services, and

a good, better, and best package. But the prices are transparent, so you know what you will pay in advance and what you will get.

We will begin sharing this new approach in the coming weeks we believe you will find it simpler, more clear and easier.

Now, you can follow up on a communication like this with menu-style prices for three tiers. Call your clients and explore how much they like the new offerings, compared to paying by the hour a month after the cost is already incurred.

Client's never push back against value pricing. They are getting clarity on price before they purchase vs. the unknowns of billable hours. What is there to argue about?

What's Next

As you move into this new phase with its focus on value, you can shift your focus internally from billable hours to how you deliver value.

At the end of the day, our success isn't measured in quarter hour increments. We get measured by what we deliver, its quality, accuracy and value. No client sees you at a restaurant and says, "You did a great job on my tax return those 6.25 hours, way to go. Nice labor!"

They say, "You crushed our return. Next drink is on me."

The billable hour is a relic. Punch the clock in the nose. Long live value-based pricing!

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