

While I was in Kansas City, Missouri this past November, along with VeraSage senior fellow Paul Kennedy and Michelle Golden, teaching two courses for the Missouri Society of CPAs, he gave me a copy of a new book, *Life Without Timesheets: The freedom to charge what you are worth*, by Hugh Williams, a Chartered Accountant from Britain.

On my flight back home I read the entire book (it's a quick read, at 72 pages). I was impressed with Hugh's story, and I e-mailed him when I returned home.

That started a dialogue (and a friendship) that continues to this day. We both felt it would be worthwhile to publish this exchange because Hugh and I disagree on a critical issue. Certainly not on the validity of timesheets (since he got rid of them!), but rather on still communicating hours to customers in order to justify a price.

VeraSage profoundly believes that truth (and science) progresses based on *dissent*, not *consensus*. I don't learn much from people I agree with. It is in that spirit we are posting this exchange. It is a long exchange (over 5,400 words, which is why we have placed it in a pdf file you can download and read at your convenience), but we think it's an important contribution to the Value Pricing debate.

Please feel free to weigh-in with your opinions, and experiences. Hugh and I look forward to continuing this important dialogue.

Ron

November 21, 2006

Hi Hugh,

I just had the pleasure of reading your book, *Life Without Timesheets: The freedom to charge what you are worth*, a copy of which I received from Paul Kennedy and Paul O'Byrne.

<http://www.stedwardspress.co.uk/4.html>

I was wondering if there was any way we could post your book onto the VeraSage.com Web site, under our Trailblazers section, which lists case studies from firms that have made the transition to Value Pricing and no timesheets? We could run an excerpt, or post the entire book.

As you know, because I noticed you signed our Declaration of Independence, VeraSage is a think tank committed to ridding the profession of billable hours and timesheets. Yours is an inspiring story, and I commend you for being a thought leader in our profession.

Sincerely,
Ron Baker, Founder
VeraSage Institute
www.verasage.com

November 22, 2006

Dear Ron

What a kind email.

You ask me a question I cannot refuse! Any sort of publicity would be wonderful and to be linked to you via Verasage would be fantastic.

Thank you so much again for your kind email. It's meant a lot!

Hugh

Hugh Williams
Director
St Edward's Press Ltd
info@stedwardspress.co.uk
www.stedwardspress.co.uk
November 24, 2006

Hi Hugh,

Thanks for the reply.

I'd love to post the whole book on VeraSage. I know it wouldn't produce sales for you, but it would put it in front of a global audience of folks who are committed to these ideas. You'd be preaching to the choir, in effect.

I do have one question regarding your book. As you know, I think Value Pricing (VP) means ridding the billable hour, and any mention of hourly rates, from communication with customers. Yet, in your Help Sheet 9, you have two letters justifying your price by using hours (and even apply a 20% discount, which I advise against). I must be honest, I cringed when I read this. The whole point of no timesheets and VP is to stop focusing on inputs, efforts and activities, and focus instead on results, output and value. If we post the book, I would like to point this out, if that's acceptable to you?

Perhaps you have modified this practice since publication? I'm not trying to be difficult, but we at VeraSage are purists on the importance of Pricing on Purpose.

In any event, none of this diminishes the enthusiasm I have for disseminating your message.

Thanks Hugh. I look forward to hearing from you.
Ron

November 26, 2006

Dear Ron

Thanks so much.

Dealing with your two points:

1. Posting the whole book on the website.

On the one hand this is a very flattering invitation—very flattering—but I can't help thinking "Help; won't that dangerously dilute my whole investment in this book, if it's available free?!". Of course I wouldn't have written it if I didn't feel passionate about the message but giving it (or something very like it) away for free seems to grate. I keep thinking of Paul Dunn's famous maxim "People do not value that which they get for free".

I suggest (would currently prefer) a compromise. Say posting a chapter plus a couple of helpsheets, as an appetiser.

Tell me if I am being greedy. I think you have somehow got to twist my arm over this.

2. The danger of even mentioning an hourly charge out rate.

I know what you mean; and of course the end result, the sum billed, has no connection at all with the hours worked. However, not only does this method show to clients how you have calculated the fee (that you have not plucked a figure out of the air but been both methodical and fair to them) but it has won me some very profitable jobs (with very happy clients at the end of the process to boot) and so I know that this works.

Of course this example is not for run-of-the-mill-work—it is only for one-off jobs—and so I think it's fair to the client, when considering a quote for a job that has a very uncertain length of production time, if they can see not only the way you have worked the fee out but how long you think this will take. I'd never do this for run-of-the-mill work, as I'm sure you understand.

What I now ensure that I do, having mentioned a sum payable that I imagine is going to make them blanch, is say to them that, for £x,000, they are going to get this and this and this, plus a guarantee of a full refund and they are the only judge in this matter, etc etc, and, on the whole they say "Gimmee". So they buy on the basis of perceived value—the hourly rate has nothing to do with their decision to buy. But I just think I've been crystal clear to them over how the sum has been arrived at. I doubt I will agree to drop this part of the process but I will obviously consider it.

I agree with your point about the 20% reduction. I used it at the start when "inventing this wheel," to ensure that the client could see that I was bending over backwards to be fair to them. But my last quote, last week, was for £15,015, which I only rounded down to £15,000. So you can see that I have already stopped doing this.

I KNOW that you and I will not fall out over this, but I suggest that, if you want to challenge this point, tell the readers that I'm very happy for you to do so and that I respond in the way just presented.

Taking both the above points together, aren't they somehow related! In No 1 you want me to give stuff away that I think I should be charging for, in No 2, you say I should not be giving stuff away! I agree with No 2 and therefore am not (currently) happy with your No 1. I therefore think I am being consistent but do come back at me over No 1, if you want.

Thanks again and I hope this is helpful. Best wishes
Hugh

November 27, 2006

Hi Hugh,

I really love this exchange, since it's in the spirit of bettering our profession. So I hope you won't mind when we disagree.

I totally understand your reluctance to post the entire book. After all, I don't give away my books on our Web site, nor do any of our other Fellows. We do give everything else away! The only reason I was presumptuous enough to even ask was I wasn't certain how you plan to market the book in the USA, thinking it would give you exposure you might not otherwise get. I have no problem with posting just a chapter, or whatever you think makes sense.

Now to the more contentious issue. I don't understand how you can say in one sentence: "...the sum billed has no connection at all with the hours worked," and then write the next sentence: "However, not only does this method show to clients how you have calculated the fee (that you have not plucked a figure out of the air but been both methodical and fair to them)..."

If hours are not relevant to value, how do you reconcile these two thoughts?

I think the reason you are falling back to hours is because you are unsure of how to communicate and articulate the value of the work. This is understandable. After all, we have incredible data bases on the cost (and hours) of everything. What we don't have is a data base on the value we create for our customers.

I have no doubt that quoting hours in this fashion might work with clients, but that's not the point. No doubt you've won some profitable jobs, but it's sub-optimal pricing because it's not taking into account value. You don't know how much you've left on the table, do you? That doesn't show up on our financial statements so we tend to ignore it.

I've never suggested you pluck a "figure out of the air," but rather that your price needs to be aligned to your value. That is not achieved by a rate x hours formula. You simply must improve on *communicating* your value, as well as *comprehend* value to the customer, *creating* value, *convincing* the customer of that value, and *capturing* value with pricing strategies (these, you may recall, are the 5 Cs of value).

Then I really don't understand this paragraph: "Of course this example is not for run-of-the-mill-work - it is only for one-off jobs—and so I think it's fair to the client, when considering a quote for a job that has a very uncertain length of production time, if they can see not only the way you have worked the fee out but how long you think this will take. I'd never do this for run-of-the-mill work, as I'm sure you understand."

No, Hugh, I don't understand. It's exactly these "one-off jobs" that create the most value!

In fact, I rather have you compute rate x hours on the compliance tax stuff, and just do Value Pricing on these types of one-off jobs, since they are higher up on the Value Curve. The "length of production time" argument doesn't wash. It's the value that matters. You have Change Orders to deal with issues not part of the original scope.

As for your third paragraph (under your point #2), you simply must maintain your pricing integrity. If you're offering the guarantee, and a fixed price, you should already be able to command a premium. The customer doesn't care about your hours, so why bring it up?

That can also come back to bite you later, as when you might want to use the TIP Clause to capture extraordinary value. We have seen this countless times; the accountant will mention a TIP, and the customer will say, "Yeah, but how many hours will it take." I call this ballistic podiatry.

Hugh, you've gotten rid of the timesheets to sever the relationship between price and value. But that's actually the easy part of this transition. It's the Value Pricing that is hard! You'll never get it right, but you can get better and better, because it is a skill. But if you keep returning to hours, you'll never develop a core competency in pricing, and you'll leave an incredible amount of money on the table.

And I'm glad to hear you stopped the discounting. There's no reason for this, except perhaps for faster payment, or a loyalty program.

No way will we fall out over this debate. It's just that we have so many firms out there doing this, we have learned a lot about what works and what doesn't. We at VeraSage have a fairly strict methodology of teaching Value Pricing, but of course we are always open to empirical evidence, and changing our approaches. But what we do know is that it's possible to price without any reference whatsoever to hours. It's one of our core beliefs, as stated in our Declaration of Independence.

Yes, it may appear I contradicted myself with suggesting you give your book away and then saying you shouldn't do that in your firm. However, VeraSage is more like Linux than Microsoft. We are a think tank, in the pure sense of that term, meaning we seek out ideas from where ever we can and put them to the test. We willingly share our intellectual capital with our colleagues, because we do not have a zero-sum view of the world. I have found the more we give away, the more in demand we are.

I write this in the spirit of thinking you are VeraSage Fellow material. I would like to have you join us at some point. We'll need to work on your pricing for that to happen. In order to do that, I must understand (and then change) the way you think. That may sound like a cult, and it may be. After all, cult(ure) are quite intertwined.

I look forward to your reply.

Thanks Hugh,
Ron

November 28, 2006

Dear Ron

First of all that's great that we agree about posting a taster.

Secondly, I do agree. Exchanges like this are such fun—as well as being really important. I think this is an example of a truly honest debate where, rather than forcing one's opponent to accept your point of view, one tests the opposition to see which of the two of us has the truth in this matter. And we are both bound to be happy with the outcome because we will both have the truth at the end of it. I like to think that we are putting truth before personal pride.

I'm short of time right now and so can't give you a full reply, and in any event I want to think on what you have said rather than fire back from the hip. So I'm not sure what I think.

I suspect that my next reply will be something along the lines of "The world is not ready yet to abandon time-based costing" (professionals are immured in it and clients also think it's the only way professionals do business). So because I use this means (the one with which you have problems) of finding a value that the client can understand, in an effort to be helpful to the client, I suspect that I will also add (or re-stress) that I have to confess to being an unashamed hypocrite in this matter. The fee I calculate

is the value that I think the job is worth to the client. I then work back from that via days involved and an entirely invented charge out rate, to get to the time that I think I will take. I can accept that this is less than honest, particularly because not only is the number of hours bound to be wrong, but I will never (never, never, never) be keeping track of them. None the less, and as I said in my last point and as you have picked up, I believe that this method gives the client a yardstick by which they can see that I am applying a formula that is fair to them.

I will write again, but must draw to a close for the nonce.

I suspect this exchange might be worth posting on your website and letting others get involved?

Thanks so much as always.

Yours ever

Hugh

November 29, 2006

Hi Hugh,

I couldn't agree more with you regarding debating to find the truth. The clash of ideas is the only way to get better ones. And I pray everyday I can put my pride aside and dispassionately seek the truth, which is the mission at VeraSage.

At the risk of responding to you before you've had time to think about it, let me reply to what you have said. I don't mind hypocrisy, it's not the worst sin (I bet Hitler wasn't a hypocrite). It means we have standards. I agree the [professional] world is not ready to abandon time-based costing, as it's in every professional's DNA—literally. It will take Darwinian Evolution to breed it out of us.

When I practiced, I threw all mention of hours down the Orwellian Memory Hole, and only discussed price and value with customers. Now, I wasn't the greatest pricer back then (in fact, I was a wimp!), so I may have looked at hours internally, but I knew the customers didn't care about them, and I didn't want to focus them on hours at all. I knew we had to change the dialogue to value.

There are enlightened professionals out there who have done the same. We at VeraSage see it all over the globe [see two recent examples below]. Now, they still may look at hours, but the question is, *when* do they look at hours? They do it *before* they do the work, much like you do. That gives you a *cost* of the job, but not its value, nor its price. Since customers don't really about your cost, it follows they really don't care about your hours. They do care about value as compared to price, and that's what we

should spend our time communicating to them. It's also where we need to spend more time tracking and documenting.

In the spirit of pushing pride aside, I would suggest spending some time with O'Byrne & Kennedy (www.obk.co.uk), a firm that 100% Value Prices, with no mention of hours anywhere. They are among the best pricers I know, and they will openly admit they have a long way to go. This is more empirical evidence that these ideas work.

That said, I will admit that your way is working for you; that's obvious since you write with such enthusiasm. My argument against your way, Hugh, is very specific: it's sub-optimal, and it leaves money on the table, by overcharging for some things and undercharging for others. In addition, you keep yourself, and your customers, somewhat mired in the mentality that accountants sell time.

One more thought on the "world is not ready" for these ideas comment. Most firms aren't ready to abandon timesheets, but you did it! Successful businesses more and more have abandoned cost-plus pricing; indeed the Fortune 500 now have made pricing a separate function, performed by professional pricers. You are a pioneer leading the way out of [Plato's] cave to show others the light. The fact that they might not be ready for it only makes it that much more challenging, important, and dare I say it, fun. If this was easy, none of us would be doing it, let alone writing books about it, or traveling the world to spread our point of view.

I'm glad you mentioned posting this exchange, because I was going to ask for your permission to do so. It's great that you are willing to air this debate. I think we'll both learn a lot from the dialogue. If you have my *Professional's Guide to Value Pricing* book, from the third edition to the fifth editions, I have a chapter devoted to the debate I had (and I am still having) with Ric Payne over the value of keeping timesheets, and in the sixth edition, I have a broader debate with other consultants to the profession regarding Value Pricing and timesheets. These challenges put our ideas to the ultimate test of verification, and I've learned from every one of them. We've also emerged out of the cave, with the knowledge these ideas do indeed work. But they are not easy to implement.

Thanks Hugh, I look forward to your reply.
Ron

December 2, 2006

Dear Ron

First of all I want to stress what a true PAL you are!

You will recognise the symptoms that I am about to describe, all too clearly, especially if dear friends like Ric are not convinced (yet) by your arguments. My position, right now, is that, with my book officially launched yesterday and over 50 copies for review having been sent out, plus carefully crafted press releases (crafted by experts), the reaction has been almost nil EXCEPT (except, except, except...)

from you. Deafening silence reigns, which I suspect reflects derision on the part of our established stuck-in-the-past profession. So your response is a real fillip to me and I do want to thank you for it.

I am in a strange position. I'm in public view, shouting out like an Old Testament prophet "You're going the wrong way!" and no-one is taking a blind bit of notice—well, very few.

I will [draw inspiration] because you, dear Ron, are now standing in my shoes cheering me on! Indeed I look on you as being more of a trainer than a sparring partner in this debate.

So, back to that debate...

Having looked back at my earlier "quick" reply, and matched it to your latest reply, I think I have already said pretty much what I now wish I had said. I have obviously reviewed both of your emails and I think the part I would like to concentrate on now is where you say "We should spend our time communicating (value) to them". You are right (as I say in my book; clients don't give a hoot how long we take) and I can see that my openly exposed methodology hinders that process—even though I thought (and still think) that what I have been doing has (some) merit.

To resolve this matter, I would like to bring in a third party to this debate. This third party will help me decide if I have to drop this safety net. That third party is (are) the clients that I have successfully used this quoting method with. I propose writing to them (I might even call them up) to ask whether putting the hours down as I did was of any relevance to them. (I think I might write so that you can see exactly what they say)

I think there are only about six clients involved so far, but that number of replies should give me a clue.

Once I have some replies then we can get our heads together over them. In some ways I want them to agree that hours matter, simply so I don't have to rewrite part of the book! In other ways I hope you are right because that opens up a new meadow for me to graze in and try to get better at this art.

Is this OK with you?

Yours ever
Hugh

December 3, 2006

Hi Hugh,

Thank you for your kind words.

I thoroughly understand your frustration regarding the lack-luster response to your book. It says far more about the state of our profession than anything else. I think you and I are struggling with the age-old question: "If a book is published and no one reads it, does it matter?"

The answer, I've learned, is unequivocal: Yes, it does matter. Margaret Mead wrote: "Never doubt that a small group of thoughtful, committed citizens can change the world. Indeed, it's the only thing that ever has."

Less than 100 people were responsible for signing the [original] Declaration of Independence, and even less who wrote the Federalist Papers, among other pamphlets, arguing for (and against) it. Indeed, the pen is mightier than the sword.

[Sorry to bring up the DoI, I know from discussions with Paul O'Byrne it's a touchy subject to bring up with the British. He says you let us win that one, and he's probably right. But you can rest assured that us Yanks are paying the ultimate price: We learned that taxation *with* representation is far more expensive than taxation *without* representation].

I, too, frequently lose sight of the fact that VeraSage is making a difference in the professions. I get so caught up in the day-to-day battles and debates with our calcified colleagues that it becomes difficult to see just how far we are moving the ball downfield. But we are moving it, and there are more and more firms everyday that see the logic in our ideas. We are also starting a "Young Professional" movement, whereby we can get to our colleagues just starting their careers and demonstrate to them there is a better way to run a firm. In effect, tell them to start mutinies in their firms. We have to attack the beast on all fronts.

I'm encouraged and heartened that I've been able to attract fifteen of the smartest, most forward-thinking fellows into VeraSage who are totally committed to these ideas. And I do believe we will change the world; otherwise, why are we doing this? I suppose what I'm trying to say is your book will make a difference, and you can never know in what way. The sales numbers don't measure the impact on people's lives, so they are not the correct barometer of success.

On to the debate. Your last question, "Is this OK with you?" To be honest, no. Here's why: Seller's get to determine how they price, not customers. In the history of pricing changes, which I've studied in great depth, I can find only a few examples where the buyer got to determine a pricing change. When the airlines, hotels, retail stores, etc., began to change to Yield Management, they didn't poll their customers.

The customer is the ultimate arbiter of value, but that doesn't mean they get to determine how you price. Yes, they have to understand your value proposition, and your pricing/value tradeoffs, and they even have to believe they are fair and have some logic. But a businesses' pricing strategies are far too important to be left to customers who don't really have a deep interest in how you price. They buy relatively few times, while you sell thousands of times. It behooves you to capitalize on the right strategy that captures value.

Ask yourself how Porsche justifies its value? Certainly not by posting on the sticker price how much time it took to manufacture its cars. Think how the airlines justify having so many different prices on the same flight! Certainly not by how long the plane will stay in the air. In this case, they force the customer to make various price/value trade-offs (non-stop flight, airport of your choice, date and time of

travel, standby or guaranteed seat, ability to change itinerary without penalty, and other ways to subtract value in exchange for a lower fare).

You say (and write) yourself: "You are right (as I say in my book; clients don't give a hoot how long we take) and I can see that my openly exposed methodology hinders that process—even though I thought (and still think) that what I have been doing has (some) merit."

If clients don't give a hoot, why poll them to ask them if they do? Again, I don't doubt that what you are doing has "some merit." I am arguing it is sub-optimal. We have so many firms that are pricing without mentioning hours to their customers, I can say this with certainty. When they ask (and some might): "But how many hours will that take?" You get to reply: "I have no idea, we don't keep timesheets. We guarantee our work to your complete delight, and our prices reflect the value of the results we achieve for you. You will always be able to say 'no' to our price before any work begins. You will never be surprised by an invoice from our firm."

This is an enormous value proposition, and since it's far ahead of where your competitors are, it differentiates your firm from everyone else. Why would you need to disclose hours?

I want to reiterate an important point: If you continue to use hours as a justification for your value, then when you find yourself at the top of the value curve doing something extraordinarily valuable for your customer, you will have a hard time capturing that value with innovative pricing strategies if the customer can continue to pull you back into "How many hours will that take?" This alone is reason enough to stop blabbering about hours.

We at VeraSage often thought about sharing our ideas with the customers of professionals, on the assumption they could be the catalyst for change. But after researching who changes pricing strategies, and learning it's almost always the seller, I gave up on this idea. The customers simply aren't going to be as motivated to worry about how their price is determined any more than you care how Starbucks [known as Fourbucks over here] determines their prices. This is why we work with sellers, not buyers. They need to take control of their pricing strategies. My work across all professional knowledge firms confirms this fact.

I would suggest this alternative. Next time you have to quote a price in an FPA, simply state the price. If the customer asks about hours, use the response above. I've included two emails I've received during the time we've had this exchange, in order to provide more empirical evidence that you don't have to mention hours to justify a price. And these are from fairly recent converts to FPAs, fixed prices, and no timesheets.

I look forward to your response, Hugh.

Your PAL,
Ron

Afterward

During and after this exchange, I received the following two emails, which provide more empirical evidence that pricing to customers can be justified on value, rather than hours. These emails were received from two attendees of the Sole Proprietorship Retreat Dan Morris, Daryl Golemb and I conducted in 2005 (Scott Meyer) and 2006 (Drew Aguilar), for the California CPA Education Foundation.

November 28, 2006

It's been a year (and a month) since our initial sole practitioners' retreat. I hope this email finds you all well before the holidays.

It's been a great, tumultuous, crazy, big year for me. With the acquisition of another practice I find that the concepts we studied together are more and more relevant. As I continue to develop my skill offering with fixed price agreements and managing a larger book of business, I find myself going back to my books and notes more frequently.

I could definitely use some more support, and will be looking to the VeraSage website for more help.

Recent Fixed Price agreements:

Client with an FLP, and Managing Corporate Partner was paying about \$500 per return accepted a fixed price agreement of \$4,000.

Roofing contractor with a Sch C was paying about \$750 for his 1040, converted to an S-Corp and will be paying \$8,000—\$12,000 (still working on FPA)

New client who was doing return on TurboTax agreed to FPA of \$700 for 1040 and some tax planning.

Referral agreed to \$5,000 FPA for 1-1040 and 5-1041's, then referred a friend who I'm developing an FPA for.

I need more staff.

Anyway, thanks again for the help. Have a great holiday season!

Scott T. Meyer, CPA
Marina Accountancy Corporation
5855 Naples Plaza, Ste. 306

Long Beach, CA 90803

2816 E. Coast Highway, Ste. A
Corona Del Mar, CA 92625

scott@marinaadvisor.com
www.marinaadvisor.com

November 30, 2006

I've been slicing and dicing—55% of our clients equal 20% of our business. It's not quite the 80/20 Pareto thing, but I still think it's brutal.

This is small time, but given my experience, it's an improvement.

Given—I would quote a clean and easy Schedule C/1040 at around 300-400 bucks; this was in Napa [California] and here in Nevada as well.

Today, a new client came in. After we talked, we are going to update his books for him on a quarterly basis for \$250 and we're doing his return for \$600—for me that's a big transition, and I did it without flinching. My first price quote on the return was \$750; I did let him "grind" me down to \$600—which was still higher than a quote he got from another CPA.

In my prior life this would have been a \$300 return and around \$400 at most in bookkeeping—but now we agreed to \$1600 per year.

My first goal is to get my average customer to \$1,000 per year from the current of \$500 (1,000 customers).

Drew Aguilar