



CHECKLIST

Fee Management Tips

Properly pricing your services should be a high priority. Follow these best practices for setting and managing fees.

✓ **Know the costs of providing services.** Determine direct costs, allocated overhead and targeted firm profits for each client. Divide the fees collected (or collectible) by the time charges to get your realization rate. Determine the overall firm realization rate for all clients by dividing total fees collected by total chargeable time. Review unprofitable clients and consider culling them from your practice (see "Letting Go: Evaluating and Firing Clients," Jan. 08, page 54).

✓ **Determine the right fee for the value provided.** Except for specialized work, most service fees can be reasonably estimated. Compare estimates to the value and benefits provided. Specific tax returns priced at \$800, when other area accountants charge \$500, may not be priced appropriately, likewise for audits priced at \$50,000 when other firms charge \$30,000. If the time charges are significantly higher than the "right fee," then maybe you should examine your internal processes or efficiencies.

✓ **Decide on the billing method.** Tax returns without complications can be priced based upon a fixed fee schedule; or a first-time audit can be based upon time charges (perhaps

with a cap). However, assisting a client in selling their business can be based upon a minimum retainer with a bonus for the value added to the transaction.

✓ **Know the value of the service you are performing.** Some services carry greater value than others. Firms should understand from the client's perspective the value of the service.

✓ **Assess your client's ability to pay fees.** Match service levels to client needs. Don't misdirect extra service efforts toward clients who cannot afford them. Target clients that will benefit from service extras, convey the benefits and show how they can afford to engage you for those services.

✓ **Bill timely.** Bill as soon as work is completed. The client is less likely to appreciate the value of a service billed a long time after the work is performed. If possible, ask for a deposit or a retainer in advance. The service is usually more valuable to the client *before* you are engaged than after it is completed.

✓ **Don't work for clients that don't pay.** Establish an early understanding that bills must be paid currently. Start a program to help clients catch up on overdue amounts while paying current bills as rendered.

✓ **Use changes in a client's payment pattern to monitor satisfaction.** Some clients may express service dissatisfac-

tion by slowing up or holding back payment. Heed payment pattern changes as potential signals. Contact the client to find out what is wrong.

✓ **Carefully and professionally explain reasons for fee increases.** Many fee increases are necessary to pass on increased costs. A 5% or 8% increase offsets higher costs. A 20% increase reflects added charges for increased services or extra work for the client. Be proactive, not passive or reactive.

✓ **Evaluate the threats.** Fee increases present a threat of losing the client, so be prepared. However, not raising fees also presents a threat to your long-term success and business viability. Fewer clients paying higher fees will receive better service than a larger number of time-consuming clients who pay marginal fees. (See *Bill What You're Worth*, by David W. Cottle, published by the AICPA.)

✓ **Become your own client.** Devote time monthly to focus on billing activities: the realization percentages; reviews of the services performed and their value to the client; potential for additional services; and ways to eliminate high-cost, low-realization services.

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