As the global economy continues to struggle to gain momentum, accountancy practices are finding that pressure to lower the fees for their professional services continues to present a significant challenge. That is one of the key messages coming out of the May to June 2012 edition of the IFAC SMP Quick Poll, which attracted 3,678 respondents from around the world. Asked to name the biggest challenge their small and medium-sized practice (SMP) is facing right now, the largest number (27%) – especially those from Europe and Asia – cited pressure to lower fees (Figure 1). This was followed closely by keeping up with new regulations and standards (26%). The results of the poll are shown in Figure 2.

While fee pressure is nothing new – the profession has always faced various degrees of fee pressure, in certain areas more than others – the ongoing economic malaise has likely contributed to increased concerns about fee pressure among many SMPs. Many clients are faced with subdued demand for their products and services, and are looking for ways to reduce costs. It is therefore not surprising to find SMPs facing demands to negotiate fees or cut prices while also maintaining the quality of services that SMPs are known for.

FIGURE 1
Snapshot from IFAC SMP Quick Poll (May to June 2012)
## FIGURE 2

Results of IFAC SMP Quick Poll  
(May to June 2012)

<table>
<thead>
<tr>
<th>What is the biggest challenge your practice is facing?</th>
<th>NORTH AMERICA (%)</th>
<th>CENTRAL SOUTH AMERICA/ CARIBBEAN (%)</th>
<th>EUROPE (%)</th>
<th>AFRICA/ MIDDLE EAST (%)</th>
<th>ASIA (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keeping up with new regulations &amp; standards</td>
<td>44</td>
<td>25</td>
<td>25</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td>Attracting and retaining clients</td>
<td>9</td>
<td>19</td>
<td>20</td>
<td>33</td>
<td>17</td>
</tr>
<tr>
<td>Ability to adapt to changing client needs</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Pressure to lower fees</td>
<td>10</td>
<td>12</td>
<td>30</td>
<td>16</td>
<td>32</td>
</tr>
<tr>
<td>Rising costs</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Succession planning</td>
<td>6</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Work-life balance</td>
<td>14</td>
<td>12</td>
<td>8</td>
<td>5</td>
<td>4</td>
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<tr>
<td>Attracting and retaining staff</td>
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<td>11</td>
<td>3</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Competition</td>
<td>2</td>
<td>5</td>
<td>4</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Keeping up with new technology</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

**BOLDFACE** indicates highest percentage per region.

“TECHNOLOGICAL ADVANCES MEAN SOFTWARE CAN PERFORM SOME TASKS LONG THE PRESERVE OF TRAINED HUMAN JUDGEMENT, AGAIN LEADING SOME CLIENTS TO EXPECT TO SHARE IN CORRESPONDING COST REDUCTIONS.”
This heightened fee pressure threatens to become the new norm, lasting long after the global economy has recovered. First, clients may be determined to keep their bills down and may feel that all professional services, including legal and accounting, may not warrant the fees paid before the economic downturn. Second, globalisation and the benefits of lowered costs from outsourcing to cheaper offshore contractors may prompt clients to demand a share in the cost savings. Third, technological advances mean software can perform some tasks long the preserve of trained human judgement, again leading some clients to expect to share in corresponding cost reductions.

Regardless of whether the downward pressure on fees is a temporary or more permanent phenomenon, the following tips should help SMPs to react to this pressure while preserving the quality of professional services rendered. Indeed, maintaining the quality of services provided in the face of ongoing fee pressure is essential not only to the reputation of the individual SMPs, but in the long run, to the reputation of the entire accountancy profession.

“MAINTAINING THE QUALITY OF SERVICES PROVIDED IN THE FACE OF ONGOING FEE PRESSURE IS ESSENTIAL NOT ONLY TO THE REPUTATION OF INDIVIDUAL SMPs, BUT IN THE LONG RUN, TO THE REPUTATION OF THE ENTIRE ACCOUNTANCY PROFESSION.”
1 Adopt New Approaches to Pricing

IFAC PRACTICE MANAGEMENT TIPS
★ For some service offerings like business advisory, the hourly billing model may place a strain on the practice.
Value pricing, which sets prices primarily but not exclusively on the value, perceived or estimated, to the customer rather than on the cost of the service or historical prices, may be part of the solution to alleviating fee pressure.
Special prices could be offered as an incentive for clients to order a wider range of advisory services. Packaging services, sometimes more desirable services together with essential but less desirable ones, can also be a useful way of getting clients to focus on the concept of comprehensive service provision rather than on hourly charge-out rates.
Persistent and widespread underpricing, however, will impair the perceived value of the service over time, so such practices should be avoided.

ICPAS INDUSTRY DEVELOPMENT INITIATIVES
★ ICPAS has initiated a pilot productivity programme and is encouraging SMPs to tap on SPRING Singapore’s Innovation and Capability Voucher (ICV) scheme where an approved consultant will:
  a) Diagnose and measure the firm’s productivity systematically through an Integrated Management of
Productivity Activities (IMPACT) framework.
  b) Recommend productivity improvements based on the IMPACT analysis.
Through the productivity improvement projects, for example, study of work processes, SMPs can identify the relevant billing model that suits their practice and not just follow market standards or base it on clients’ ability to pay to set prices.
Besides the detailed assessment carried out under the IMPACT framework, SPRING Singapore also offers a complimentary basic diagnostic productivity assessment, known as the Productivity Management Programme (PMP), through the Enterprise Development Centres.
Under ICPAS’ productivity initiatives, more than 15 CPA firms have already signed up for the pilot productivity programme and PMP.

2 Stress to Clients the Value of Services Offered

IFAC PRACTICE MANAGEMENT TIPS
★ SMPs should regularly and often communicate the value of their services to their clients so that they appreciate the benefits of the services they receive.
Articulating this value to clients may help mitigate the fee pressure.
The ability to communicate value is an important part of value pricing.

ICPAS INDUSTRY DEVELOPMENT INITIATIVES
★ A good CRM tool can help the SMPs record, keep track of and initiate regular communication with customers.
Through Infocomm Development Authority of Singapore’s (IDA) Call-for-Collaboration (CFC) for Software-as-a-Service (SaaS), the introduction of the Practice Management Solution will include a CRM module where CPA firms can practise good customer service so that their clients know they are getting value for their money and that they have engaged a good firm.

3 Focus Efforts on Most Valuable Clients

IFAC PRACTICE MANAGEMENT TIPS
★ SMPs should evaluate which clients are the most valuable by ranking them and then focusing their efforts on serving these clients.
For non-audit services like business advisory, tax and accounting, practices may wish to implement different service levels (basic, premium etc) to suit different categories of clients and price the services accordingly. This technique, referred to as yield management, is widely used in the airline industry to price seats.
Ensuring a proper amount of capacity is allocated to various client segments, while offering a differentiating value proposition within each segment, is an essential element of implementing value pricing strategies. In some cases, it may pay to move away from less profitable clients.

ICPAS INDUSTRY DEVELOPMENT INITIATIVES
★ Adopting a Practice Management Solution will enable SMPs to better assess the job profitability and conversion rate of each staff as a measure of work efficiency.
If the job is not making profit, an effective Practice Management Solution can flag it out to the firm. The firm can then approach the client for a fee adjustment before the job is completed.
For example, the Practice Management Solution, as offered by the proposals in IDA’s CFC and the IMPACT analysis on productivity, can help CPA firms identify high value-added jobs/clients, and better implement yield management.
4 Leverage Technology to Improve Processes and Lower Costs

IFAC PRACTICE MANAGEMENT TIPS

- SMPs can implement process improvements to maintain profitability in the face of stagnant or declining fees by maximising the use of technology.

  For example, cloud computing solutions offer the possibility of delivering the same services like payroll and bookkeeping for less cost. Simple choices like using email instead of regular postal services, and Skype instead of telephone or in-person meetings can also help lower costs.

  Practices may be in a position to pass on a portion of the cost savings associated with IT efficiencies; this will likely be well received by clients.

ICPAS INDUSTRY DEVELOPMENT INITIATIVES

- ICPAS supported and facilitated at least two consortia in the recent IDA CFC for SaaS, where generous funding was extended to SMPs to adopt cloud computing solutions in the areas of practice management, client accounting, audit, tax and more.

  To date, more than 40 firms have signed the letter of intent to participate in the CFC. These firms will be able to tap on the generous government funding over a period of 24 months for their adoption of Practice Management Solutions.

  Announcement of the CFC is expected in November.

  In May 2012, ICPAS organised an IT showcase where firms learnt about how standard audit and accounting software can greatly reduce the amount of manual work in audit processes, and close a job more effectively.

  ICPAS encourages our SMPs to participate in these initiatives which can help lower the high capital and maintenance costs of technology adoption.

5 Re-examine the Practice’s Service Offerings

IFAC PRACTICE MANAGEMENT TIPS

- SMPs should consider whether they can add value (and hence fees) with additional services for little extra cost or provide the same for less cost.

  Specialising in niche markets or services might be worth pursuing to set the practice apart in the marketplace.

  For others, providing a broad range of advisory services and offering value pricing (described earlier) may prove profitable.

ICPAS INDUSTRY DEVELOPMENT INITIATIVES

- In a fiercely competitive market, it is difficult for our SMPs to grow the businesses mainly through audit and assurance. Instead, they need business diversification. Firms should expand by offering services that provide higher value-add to their clients and businesses and gain better margins.

  One good example is providing business advisory services. Through SPRING Singapore’s Financial Management Capability Programme (FMCP), SMEs can tap on the ICV to engage consultants for financial management advisory services. As most SMPs are trusted business advisers to their SME clients, they can help provide such financial management advisory services.

  ICPAS facilitated the first call by SPRING Singapore for service providers under the FMCP. Ten out of the 19 approved service providers under the programme are ICPAS members. ICPAS will continue to facilitate as well as encourage the participation of our SMPs as service providers in subsequent calls by SPRING Singapore.
Tackle Overheads

IFAC PRACTICE MANAGEMENT TIPS

* SMPs should seek to minimise waste and make the most efficient use of resources, both human and environmental, including workspace, energy, and consumables.

For example, practices should consider optimising the utilisation of expensive office space and energy by encouraging staff to perform much of their work at the clients’ premises or at home, and to pre-book a desk space when in the office.

Similarly, practices should seek the most efficient use of staff through improved distribution of workloads, ensuring adequate planning and supervision of engagements, and delegating work to the appropriate levels.

Flexible working hours may enable the practice to avoid staff redundancies, which can erode morale and may make it difficult to recruit new staff as and when conditions improve.

Shifting more routine work to more junior staff can help cut costs. But if this is done without adequate guidance, it can also diminish the quality of the end result, which in turn, may impair the practice’s brand. Therefore, staff assignments need to be carefully managed.

ICPAS INDUSTRY DEVELOPMENT INITIATIVES

* The adoption of technology such as the use of cloud computing software applications, including the Practice Management Solution, and the possible re-design of workflow processes through participation in the productivity programmes can help our SMPs address this overall issue in tackling overheads by making possible more efficient and flexible deployment and use of resources.

Hence, ICPAS encourages our SMPs to participate in the initiatives on technology adoption and productivity enhancements.

Find Cheaper Sources of Supply

IFAC PRACTICE MANAGEMENT TIPS

* Suppliers offering anything from Internet services to computer hardware may offer attractive benefits to new clients. Firms should constantly review their list of suppliers, and take advantage of value-added deals.

ICPAS INDUSTRY DEVELOPMENT INITIATIVES

* As earlier mentioned, ICPAS encourages our SMPs to participate in the initiatives on technology adoption which can help lower the high capital and maintenance costs.

This article is based on “How to Cope with Pressure to Lower Fees” published by the International Federation of Accountants (IFAC) in August 2012. It is used with permission from IFAC.