

## Getting the Price Right!

As a prospective client, I come to see you for a quote on an audit (or whatever). You quote me a fee of £4,000. For those of you in partnerships, now imagine that unbeknown to you I also ask for a quote from your partners. What would they quote me?

Over years of asking this question the answers range all the way up to plus or minus 50%. Just imagine, you quoted £4,000 and your partners might quote anything from £2,000 to £6,000!

If you think that this is a bit extreme, the average answer SWATuk has received over many years of asking was plus or minus 25%, so the range has shrunk to anywhere between £3,000 and £5,000. The top range is still 66% higher than the bottom quote. What effect will this have on recovery rates? Let's now look at the three quotes: £3,000; £4,000 and £5,000. What costs will be charged on these jobs? Will they be the same? The answer is **"almost certainly not"**.

The scenario above is of course totally artificial, and you could rarely test it in real life. That said, I do know an office in one firm who tell me that their biggest competitor is their other office about ten miles away, so you can test it sometimes! However, many years ago I came across two audit files on an efficiency review, with different audit partners. The jobs were incredibly similar in size, complexity and type of industry. There was really nothing to differentiate them in terms of audit requirements, and being the same firm you would naturally expect the same or similar audit fee wouldn't you? The fee for the first one was £4,000 and had costs of £6,500 (a recovery rate of just 61.5%). The audit fee for the second one was £7,000. And the costs? Well, they should have been about £6,500 as well. But with a fee of £7,000 they had more to play with, so the costs came in at just over £8,000, giving them an 87.5% recovery rate. Better, but still not good.

So there's the first point: just because you have a good fee, you don't have to plan to spend it all!

It's all very well us saying not to quote too low, but how do you know what will turn out to be too low in the first place?

### Here are some hints:

If you are in a partnership, talk to your partners before quoting a fee: you rarely have to quote there and then and a second opinion can often be helpful.

- 🔍 Look closely at the quality of the records. This is a major factor in pricing. Don't underestimate how much time is wasted from poor records, incorrect or late information.
- 🔍 Make sure that you are quoting like for like. If you are up against others, separate out the prices for the different aspects of the work. So, looking at an audit, if you are including statutory accounts, filing the annual return with Companies House, doing the directors' tax returns and P11Ds, these should all be priced separately. Time and again we have seen firms lose clients on fees, not because the other firm was cheaper, but because they appeared to be cheaper. The client was comparing apples with pears.
- 🔍 Whatever the work, if the client is pressuring you for lower fees, make the quote conditional upon him doing certain things. If you are preparing a set of accounts you would clearly reduce the fee if he has a book-keeper who uses Sage properly, reconciles the bank and deals properly with the VAT. All you have to do is the prepayments and accruals and the depreciation. However, if the book-keeper has made mistakes when you get the job, the original quote can't stand.
- 🔍 If you have to quote blind, then make it a one-year quote. Explain to the client that you are happy to quote a fixed fee, but it is only valid for this year. When you finish you will let him know what it actually cost. It wouldn't affect this year's fee, but you can then discuss the following year's fee. If you can, you will cut it, but equally, if you took a loss this year you will need to renegotiate next

year's fee. If your quote is too much, then you can agree to part company amicably. Whatever the result, the point you get across is that you won't work for a loss.

Remember the rough 1/3rd; 1/3rd; 1/3rd rule of thumb. 1/3rd of the fee covers staff, another covers the overheads and the last 1/3rd should be profit. This is the basis of charge out rates being three times salaries. In practice the ration can be more like 40%; 30%; 30% although it depends greatly on the structure of the firm. But if the fee is too low and you have a disastrous recovery rate of say 70%, which 30% disappears? In effect you are taking all the commercial risk for no reward. I accept that this is a bit simplistic, but one of the key reasons for poor profitability is poor recovery rates, which often comes from inefficiencies coupled with poor pricing.

**SWATuk has helped many firms to improve their efficiencies, resulting in a reduction in costs and significant improvements to profitability. For more details of how SWATuk can do the same for you, call **0800 2800 433**, or visit us online at [www.swat.co.uk](http://www.swat.co.uk).**

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