4 keys to building advisory relationships

WHITE PAPER

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Intro

Does your firm offer advisory services? Perhaps the more important question is, do you have an advisory relationship with your clients?

Too often firms miss the mark when it comes to advisory. Yes, you are likely having advisory conversations with your clients. You are drawing on your years of industry experience to answer those quick questions day in and day out, you are providing advice. It's what you've done for years — you're advising clients and it's a natural part of completing the compliance work. Maybe your firm has even developed a menu of advisory services to market to clients.

The real value, however, lies not within the services themselves but within the advisory relationship. This is the foundation that enables you to build trust and provide advisory services to your clients. It is how you better understand the clients' goals, strategize, and get properly compensated for, the services you provide.

It is no secret that, in recent years, advisory has taken center stage within the profession. Some firms have provided advisory services from the get-go, others have pivoted away from compliance-based services in favor of more value-add advisory services. This increased focus on advisory has been driven, in large part, by a shift in client expectations, the commoditization of tax prep, and advancements in technology like cloud-based solutions. It was then further accelerated by the COVID-19 pandemic.

In fact, research by Thomson Reuters® Institute found that 95% of tax professionals believe their clients want business advisory services, with 68% of respondents strongly believing this is something their clients want.

The problem is that too many firms are focusing on the services independently rather than the relationship. Is this happening within your firm? Are there things your firm could be doing differently?

"When I'm talking about advisory, we aren't talking about that extremely specialized consulting, those complex consultative strategies you think of when you're hearing advisory. … It's what you've learned through years of experience. It's those quick questions you receive day in and day out, the advice, the strategies, the things that you're talking about every single day with your clients, and how you're advising them. That's advisory," said Asaly Merritt, a project manager for Thomson Reuters. "Now, where I think firms are missing the mark, advisory is where firms deliver the most value, and where they spend a significant amount of their time, whether it's answering those questions, the research, the continuing education to remain current in the industry, or the wealth of experience they've spent years developing through other client relationships as well."

Continued Merritt, "So, in conjunction, firms feel like clients don't want to pay a premium price that accounts for all the advisory value, when the firm is only handing over a tax return to the client. … This results in firms just including all that advisory work under the price of a tax return, which is completely undervalued and then given away for free."

The reality is that clients will pay for value. To help firms better align client relationships around advisory services and, ultimately, drive greater outcomes and success, this white paper explores four keys to building advisory relationships. These are: scope agreement, duplication thinking, developing best practices, and monetizing advisory services. Let's take a closer look.

Scope agreement

Being able to align your client relationships around advisory services starts with scope. When firms are able to stay within the scope of services, it enables them to reduce waste and increase revenues. Unfortunately, firms too often struggle with scope agreement and fall victim to what is commonly known as scope creep.

As outlined by the Association of Chartered Certified Accountants (ACCA), the global body for professional accountants, there are several reasons why scope creep arises, including:

- Poor scoping of the original engagement
- Change in the client's business and/or team so extra support is needed
- Gradual growth in transactions, which goes undetected over time
- Poor communication in the team
- Missing documentation outlining the scope of the work
- Lack of regular reviews of job profitability

Said Merritt, "In my time with working with firms, I've yet to find one that did not struggle with scope. Historically, firms have struggled with being in agreement on scope of services in two ways: both between the client and the firm, and internally for the staff doing the work for the client. How do they know what's really included and what's not? Both of these things need to be clearly defined."

To further break it down, the scope agreement with the client can be divided into two parts: scope of services and scope of the overall client relationship. Both are important. Having clarity in relationships enhances the trust between both client and firm as well as internally for staff.

The scope of services basically outlines what is included and what is not. On the other hand, the scope of the client relationship will outline such things as how many meetings the firm has with the client each year, when those meetings take place, and what's the best way to work together (i.e., portal, email, etc.).

Effective scope agreements must clearly explain what is included and what is not included in the scope of services. Those services offered by the firm, but not included within the scope agreement, are considered out of scope. And those out-of-scope services are to be listed as additional fees.

To further illustrate, compare it with an oil change in your car. What's included as part of the oil change service may differ depending on where you go. One shop may consider an oil change to be just the oil and a new filter. An oil change service at another shop down the road, say a dealership, might include an oil and filter change, tire rotation, brake inspection, a multi-point inspection, and fluids inspection and replenishment.

In either case, you know up front what that particular shop considers to be an oil change. Those services outside of the oil change, like replacing a headlight bulb or new windshield wiper blades, are an additional fee. Advisory is no different.

Clarity also enables firms to kick off an engagement with the right expectations in place, and this includes expectations of the clients. It is, after all, a partnership between the client and the firm. Expectations that are clearly outlined are more likely to be understood and, therefore, followed.

Danielle Esper, advisory solutions consultant at Thomson Reuters, believes that there's a greater chance of successfully meeting end goals when expectations, of both the client and the firm, are established upfront. Therefore, firms should not be afraid to educate the client on what will be expected of them.

Merritt agrees and said, "We're partnering together. The firm can't do it without the client and the client can't do it without the firm, so we both need each other, and we both have responsibilities to get this thing done."

Key impacts of scope agreement

When the scope agreement is clearly defined, it produces two important impacts for the firm to align around advisory — it eliminates waste and increases revenue.

Think of it this way: How often have you, or someone in your firm, done work for a client because they asked a question, but price or cost was never discussed. Therefore, things ended up not being properly billed, or the billing was very delayed, or it was deeply discounted because no one knew if it was even discussed?

When scope is clear, it eliminates uncertainly. It also eliminates frustration for staff who feel they have done good work that ultimately isn't being billed. There's no more writing down or writing off time spent doing work, nor do you have to explain the value of the work.

"So again, we're talking about expectations up front, and that way when the expectation is already clearly explained and understood, there's less conversations about what that value is in the end, because it's already been outlined and defined," said Merritt. "As a result, the second part is that the expectation, and outlining those things in the scope up front, results in increased revenue, just by virtue of being able to bill what you actually worked on."

When the client does ask a question that's out of scope, treat it as an additional sales opportunity. If you are uncertain how best to field their question without sounding too "salesy," consider the following response:

"Good question. There's more to this than just a quick answer. Let me do a little analysis, and we can sit down and go over the options and my recommendations, and then we'll see what it takes to make that happen and what the cost will be, and your benefit. How does that sound?"

By taking this approach, you have addressed their question, took an interest in what they were asking, and set up a plan to have a further discussion.

It may also prove helpful to not think of this as a sales approach, especially if you are like many accountants and feel uncomfortable selling to clients. Instead, think of it as helping the client, not selling. They just happen to be paying you for that help.

"Don't sell yourself short. Don't sell your brain for the tax return, as we've been touching on multiple times" Esper said.

Duplication thinking

It is also important to shift your mindset into thinking in terms of duplication. In other words, how can you assure that work — both compliance and advisory — can be done from a repetitive knowledge perspective?

As the firm moves toward an advisory-centric model, duplication thinking helps create consistency, capacity, and conversation. Let's take a closer look.

Consistency

When a firm clearly defines scope, it helps ensure consistency. This leads to the following:

- Delegation ability
- Staff training
- Client expectations
- Productivity measurement
- Workflow evaluation
- Can function without you

"I want you to imagine what you could achieve if you were able to consistently train your staff in the beginning, to set them up to be productive, set a baseline for productivity, and then measure your staff against it to provide additional support and training to staff members when needed," said Merritt. "What if you could evaluate hiccups in the workflows, and then delegate properly to your staff, to handle hiccups before they become problems? What if you could trust that the same staff that you properly trained were able to speak to any client just as you would, to provide the same level of service, effectively functioning without you?"

Continued Merritt, "And what if you were able to duplicate that scenario for all of your new staff members, or improve or create new processes for existing ones, so that every client has the same experience no matter who they interact with?"

Before moving onto capacity, let's spend just a moment on delegation ability, which was mentioned above. It is essential to understand the difference between delegating and assigning. Assigning work is not delegating.

Assigning work is essentially ad-hoc passing off work. The associate who has been assigned the work may not be used to that ad-hoc work, which will result in them asking questions.

When there's a duplicable process in place, staff members are empowered and can better understand the task at hand and the process involved to get that work done. Staff can efficiently work on their own to get the work done.

Capacity

Duplication thinking also creates capacity, which helps drive efficiency, strengths, and communication.

Efficiency: If a firm is duplicating processes, it should result in greater efficiency. You're not recreating the wheel repeatedly.

Strengths: When you have greater efficiencies, you can focus more on the staff and placing them into functions that play into their skills, strengths, and interests. This makes for more fulfilling work for staff, and a healthier bottom line for the firm. "If you have that duplicatable process, think of how often you can get your staff member into the right place, so that they can shine and you can work more efficiently," Merritt noted.

Communication: Duplication thinking can help drive communication of job status and clarity of workload.

"What does this capacity get us, really? ...The capacity will get us the ability to push work down. It's the ability to focus on developing our products, growth of your staff, with learning something new, to focus for sales and marketing, and the ability to provide conversation space, customers," Merritt said.

Conversation

Conversation is critical in duplication thinking. Today's clients are looking for proactive, not reactive, advice. However, accounting professionals can only be proactive if they're listening and that requires conversation. When you are building that relationship with the client and having those conversations, you are going to hear things that will allow you to provide that advisory service to them.

Said Merritt, "Without the space and structure for having conversations with clients, we can't learn the things that we need to learn. We can't dive into forward-looking opportunity. We can't see the opportunity for other services, or, which I think is probably worse, we see the opportunity, but we can't deliver to it [which ties back to capacity]. Something I hear a lot of firms that I talk to regularly say, 'I do see that my clients need additional services, but I don't have the bandwidth to do it. I barely have time to explain what I'm doing for them right now, and how it's helping them, so I just can't add anything to it. I can't take on something else.'"

Added Esper, "Generally, firms are so deep and so focused on those deadlines, and pumping out a tax return, because the deadline has maybe not been extended, or any deliverables that the client might need. So, focusing only on what's needed, what deadline is coming up. Now, when you are able to be more proactive, you're able to get more control over your client relationship, better, and approach their goals strategically."

Developing best practices

Effectively building advisory relationships also requires that firms have best practices in place. What does this mean? Best practices are your firm's way of doing things. In other words, the process in which you get your product (i.e., completed tax return) and services to clients.

There are three key benefits to having best practices: client education and behavior, service-level resources, and internal education.

Client education and behavior: Having an advisory-centric mindset helps educate the client on what they need to be doing going forward, which often requires a changed behavior.

"You have to teach what the right things are to help bring the understanding to the current choices versus the ones that you want them to make, and then provide the tools to facilitate changing behavior," Merritt said.

Service-level resources: When duplicable processes and best practices are in place, associates answer the same things the same way. These questions and answers can be made readily available, say, for instance, posted to the client portal.

Internal education: Staff training is one of the benefits of a best practice. "When you have those meetings at the end of the year, what questions were you getting that weren't already covered in an outlined best practice that you already have? That will help you to determine what other best practices that you need to create," Merritt said.

Best practices are built on your experiences. Firms looking to develop best practices can start by creating a best practice outline and asking themselves such questions as: What do clients ask? How do you answer something before a client even asks it?

Again, it boils down to being efficient. If you have a best practice outline, because you know the questions that clients are asking, then you can build best practices to address those things.

Said Merritt, "If we teach best practices, the implication really is that people are not already doing the right things. This means you have to change and, oftentimes, we find that it's as hard for them as it is for you. For example, if your client is terrible at recording their business expenses, mixing their personal funds with their business funds, and they aren't even paying themselves back, you already know what the impact of that is, so you'll want to get them to correct this behavior as soon as possible. Well, here's where you use those best practices as a teachable tool, explaining the 'why' and what I like to refer to as the WIIFM, 'What's in it for me,' also known as the impact of doing nothing."

Continued Merritt, "And then, you can use a tool [like an expense reimbursement worksheet] to help support and facilitate a change in behavior. [Thomson Reuters has an] expense reimbursement worksheet, and this helps clients track their expenses. I mean, it's simply what it says, but it does facilitate that change in behavior, and we find that lots of firms use this with their clients when they use Practice Forward, to help their clients make that change, and help them make that change in behavior."

Monetizing advisory services

Then comes monetizing advisory services. This is key to truly aligning to the advisory model. As a tax and accounting professional, your knowledge and expertise are valuable, and you need to be appropriately paid for the value you provide. Do not sell yourself short.

Consider this: a survey by CPA.com, Hinge Research Institute, and Bill.com found that, "Buyers are willing to pay more to address their most significant accounting challenges. This includes planning for growth and expansion (19%), cash flow and minimizing overhead costs (18%), staying in compliance, and the lack of time they need to focus on accounting and financial matters (both 17%)."

So just how much more are clients willing to pay for strategic advisory services?

According to the survey, "The buyer participants not currently purchasing advisory services indicated they would expect to pay 50% more for an accounting package that includes both strategic advisory and consulting services, and are willing to pay more each month for packaged services. The most significant monthly increase in dollars was seen for packages that combined strategic advisory services with tax preparation and payroll, with buyers paying $888 a month for tax prep and payroll only, but $1,319.66 a month when strategic advisory services were added, (48.6% increase)."

That is significant. Furthermore, firms that bid adieu to hourly billing in favor of value pricing have found the benefits of value pricing to include the following, according to the survey:

- Transparency (64%)
- Demonstrating the value of firm expertise (60%)

- Lack of billing surprises (59%)

"Your knowledge, your guidance, these are valuable, and they need to be charged for. Customers will pay for value. But a lot of firms struggle with where to even begin with this," said Merritt. "Well, there are only three main components to monetizing advisory services, and they're relatively simple concepts that you just need to consider."

What are those components? These are: outcome, facilitation, and product or service definition.

Outcome: The advisory service you are providing must have a specific end goal. You must be able to point to a desired end result or impact from the service.

Facilitation: This is where your firm's best practices will likely come into play. You are either educating or facilitating something during the process. Take, for example, entity formation. You may not be doing all of it, but you could be facilitating it.

Product or service definition: Now we've just circled back to scope of agreement.

It is critical, however, to lead with your value and not the price. It's likely you've heard the phrase, "Show me, don't tell me." Pricing your services is no exception.

"You want to then visually show your service. People can ignore words from an auditory perspective, but it's much harder to ignore things in writing. A couple of key things here: we orient comparisons to the first thing that we hear, so that means that we need to always show the value before you show the price. Even if the numbers are the exact same, saying the cost first changes the perspective about what the cost is and the value that they're getting. You want to be able to show that value first, then talk about the price, because once I buy into the value, then doesn't really matter what the cost is," Merritt advised.

That leads us to defining how much firms should charge for their advisory services.

"This is the key to truly aligning to the advisory model. Your knowledge, your guidance, these are valuable, and they need to be charged for. Customers will pay for value. I'll repeat that. Customers will pay for value. But a lot of firms struggle with where to even begin with this. Well, there are only three main components to monetizing advisory services, and they're relatively simple concepts that just need to consider," Merritt said.

Continued Merritt, "One is a goal or outcome. There needs to be a forward-looking end game for your advisory service. You must be able to point to some kind of end result or impact from the service happening. [Second is] facilitation. This is where your best practices come into play quite often. You are either educating or facilitating something during the process. ...Thirdly, service or production definition, or product definition. We're back to scope here. See how we circled back there?"

For some firms, value may not always be monetary. Perhaps more important than making more money is improving processes for a client, or providing them peace of mind, or ensuring compliance within their entity designation. In any case, the value is still important.

As stated in the survey by CPA.com, Hinge Research Institute, and Bill.com, "Value pricing is not only a way to improve a firm's bottom line — it can be a crucial tool in enhancing customer service and improving client satisfaction. How? It helps to understand where clients say their firms are coming up short."

According to the survey, the top three things buyers would change about their firms are:

- More communication touchpoints (28%)
- More familiarity with their business/industry (27%)
- Better customer service (19%)

The data also suggested that value pricing can directly address these issues. As mentioned earlier, when asked to identify the top benefits of adopting value pricing, accountant participants pointed to: "transparency between the buyer and seller," "demonstrating the value of firm expertise," and "lack of billing surprises."

Added Merritt, "Also, if the value is measurable in terms of dollars, you might consider presenting value or impact over multiple years, not just one. If the new strategy will be in place for an extended period of time, again multiple years, then what's the value felt over that length of time? In this example, one year, or your first year, versus the proposed strategy over five years. Delivering this impact in a visual format helps the client to see that value and to be able to recognize it before they hear what the price will be. Again, that means that they have already bought into your message about how they can benefit from it, and so they're more likely to say it's worth it."

Conclusion

Don't miss the mark when it comes to advisory services. In today's challenging and competitive environment, it is especially important that firms be able to strengthen trust and demonstrate value. The problem is that too many firms are focusing on the services independently rather than the relationship. That's why it is essential to build an advisory relationship.

Again, building an advisory relationship involves scope agreement, duplication thinking, developing best practices, and then monetizing those advisory services. Your firm is already providing the service; why not further define it to ensure you can be compensated for what you're already providing?

Fortunately, your firm doesn't have to embark on this journey alone. Turn to a solutions provider like Thomson Reuters who can help you navigate the path to success.

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