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Higher Billing Rates Are Becoming Standard—At Last!

Once, a headline like the one on this story would have been unthinkable—and even more unimaginable would have been CPA firms raising their rates every year for several years running. But respondents to our recent *CPA Firm Strategic Outlook Survey* told us they have raised rates from 1% to more than 5% for the 2006-2007 fiscal year. More than half (53.9%) of firms have raised rates from 1% to 5% and 38.3% have raised rates more than 5%.

Moreover, the trend continues.

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Retirement Is the Top PFP Concern

Personal financial planners, take note: Retirement is the number one PFP concern your clients are asking about, according to an informal survey at the AICPA 2007 PFP conference. Surprising finding: Those aged 25 to 34 are very much concerned about this issue, as are clients in all age groups.

Higher Billing Rates

CONTINUED FROM PAGE 1

For the next fiscal year, CPA firms expect to make similar increases: 55.5% of responding firms say the increase will be 1% to 5% and 37.5% will raise rates by more than 5%.

These increases are long overdue. Many firms have been hesitant to raise their rates much, if at all—even though many firms are seeing the fifth or sixth year of steady growth.

Why are firms finally seeking higher rates? Could it be that they are recognizing the value of their services? Could it be that firms are now competing on more than “just” price for most services? Or—and AOMAR believes this may be the most important of all possible reasons—is it that billing rates are now becoming just one part of the strategic planning that is helping firms plan and manage their growth, including how they will finance future initiatives, pay current staff, and provide for upgrades and new services to clients?

Current trends. Billing rate increases for 2006 to 2007 show that firms of all sizes are raising rates (see Table 1). Even the smallest firms are doing so: Among those in the one-to-five-person range, billing rates were increased for the current fiscal year by 1% to 5% at 28.6% of firms in that group, and half of the smallest firms raised billing rates by more than 5%. Similar changes were reported by the firms with fees of \$2 million or less: 53.2% raised rates 1% to 5%, and 29.8% increased them more than 5%.

Among larger firms, there was a greater likelihood that rate increases would exceed 5%. For example, among firms with 76 to 100 persons, 62.5% said that billing rates went up more than 5%, while 37.5% of the

firms raised rates between 1% and 5%. The largest firms—those with more than \$20 million in fees—reported similar changes, with 75% of those firms raising rates in excess of 5%, and 25% raising rates between 1% and 5%.

The year ahead. Projected billing rate increases for 2007 to 2008 indicate the current trends will continue (see Table 2). Rate increases will continue, although some firms will slow their increases and focus more on a growth rate of 1% to 5% instead of seeking increases above 5%. Smaller firms were more likely to ease off on increases than larger ones, according to the survey findings.

Among the one-to-five-persons firms,

42.9% will seek a 1%-to-5% hike and the same percentage will ask for increases in excess of 5%. Among firms with \$2 million or less in fees, slightly more will seek the 1%-to-5%-range raises (59.6%), while fewer will look for more than 5% increases (25.5%).

Among larger firms, those with 76 to 100 people are on track for the same increases for the next fiscal year as those in the current one, as will firms with fees greater than \$20 million.

Current billing methods. Among all respondents, hourly billing is still king: 67.7% of all billing is done in this manner (see Table 3). However, more than a quarter of billing—26.8%—is done by engagement

Table 1. Billing Rate Increases for Current Fiscal Year: 2006-2007

By gross fees									
	Overall	\$2M or less	\$2M to \$4M	\$4 to \$6M	\$6M to \$8M	\$8M to \$12M	\$12M to \$20M	>\$20M	
Increased by 1% to 5%	53.9%	53.2%	54.5%	66.7%	71.4%	50.0%	44.4%	25.0%	
Increased by >5%	38.3	29.8	39.4	33.3	28.6	50.0	55.6	75.0	
Stayed the same	7.8	17.0	6.1	—	—	—	—	—	
By number of personnel									
	1 to 5	6 to 10	11 to 15	16 to 20	21 to 35	36 to 50	51 to 75	76 to 100	>100
Increased by 1% to 5%	28.6%	52.9%	71.4%	64.7%	59.1%	69.2%	44.4%	37.5%	50.0%
Increased by >5%	50.0	23.5	21.4	29.4	36.4	30.8	55.6	62.5	50.0
Stayed the same	21.4	23.5	7.1	5.9	4.5	—	—	—	—

(Source of all tables: IOMA)

Table 2. Projected Billing Rate Increases for Next Fiscal Year: 2007-2008

By gross fees									
	Overall	\$2M or less	\$2M to \$4M	\$4 to \$6M	\$6M to \$8M	\$8M to \$12M	\$12M to \$20M	>\$20M	
Increase by 1% to 5%	55.5%	59.6%	48.5%	66.7%	71.4%	62.5%	33.3%	25.0%	
Increase by >5%	37.5	25.5	48.5	25.0	28.6	37.5	66.7	75.0	
Stay the same	7.0	14.9	3.0	8.3	—	—	—	—	
By number of personnel									
	1 to 5	6 to 10	11 to 15	16 to 20	21 to 35	36 to 50	51 to 75	76 to 100	>100
Increase by 1% to 5%	42.9%	58.8%	92.9%	52.9%	36.4%	84.6%	55.6%	37.5%	50.0%
Increase by >5%	42.9	17.6	7.1	35.3	59.1	15.4	44.4	62.5	50.0
Stay the same	14.3	23.5	0.0	11.8	4.5	—	—	—	—

or project now, while 14% of work is value billed. These are tremendous strides for the profession, which has found it very hard to determine how to set rates in a non-billed-hour method. Firms are clearly getting braver about doing so, and the trends are similar among firms of all sizes.

Billing methods for next year. Next year, slightly less work will be billed hourly: 65.6%, according to respondents (see Table 4). The percentage of value billing will rise to 16.2% of the work, and billing by engagement or project will also increase slightly to 27%. Given the growing comfort level that firms have with alternative

billing arrangements, coupled with the profitability available from those arrangements and the growing strain that hourly billing brings to staffing-challenged CPA firms, expect to see this slow revolution in billing continue.

For more information. More highlights from the *CPA Firm Strategic Outlook Survey* will be published in future issues of AOMAR. Information about the survey appeared in March AOMAR (see "CPA Firm Strategic Outlook Survey Vital Statistics," page 6). Complete survey results will be available for purchase in a forthcoming book from IOMA. □

Table 3. Billing Methods, Current Fiscal Year

By gross fees	Overall	\$2M or less	>\$2M to \$4M	>\$4 to \$6M	>\$6M to \$8M	>\$8M to \$12M	>\$12M to \$20M	>\$20M	
% Hourly billing	67.7%	65.4%	72.1%	71.3%	70.0%	64.7%	66.3%	58.3%	
% Value billing	14.0	16.9	12.5	11.0	13.8	13.2	12.0	11.7	
% Billing by engagement/ project	26.8	29.7	22.6	23.5	48.5	22.8	30.0	26.7	
By number of personnel	1 to 5	6 to 10	11 to 15	16 to 20	21 to 35	36 to 50	51 to 75	76 to 100	>100
% Hourly billing	65.3%	66.4%	68.2%	73.3%	65.7%	75.8%	62.9%	66.1%	61.4%
% Value billing	14.4	21.3	10.7	14.0	12.8	12.1	12.0	12.8	13.4
% Billing by engagement/ project	24.6	36.0	27.2	19.4	29.2	22.8	19.3	27.5	29.0

Table 4. Projected Billing Methods, Next Fiscal Year

By gross fees	Overall	\$2M or less	>\$2M to \$4M	>\$4 to \$6M	>\$6M to \$8M	>\$8M to \$12M	>\$12M to \$20M	>\$20M	
% Hourly billing	65.6%	63.8%	70.2%	67.5%	68.0%	60.8%	66.3%	55.0%	
% Value billing	16.2	20.0	13.6	13.5	13.8	15.2	12.0	15.0	
% Billing by engagement/ project	27.0	29.3	22.5	25.5	40.8	24.7	30.0	26.7	
By number of personnel	1 to 5	6 to 10	11 to 15	16 to 20	21 to 35	36 to 50	51 to 75	76 to 100	>100
% Hourly billing	68.2%	62.8%	65.4%	70.2%	63.9%	72.9%	60.3%	62.6%	60.4%
% Value billing	18.3	25.4	11.5	15.1	15.0	15.0	13.1	15.0	14.4
% Billing by engagement/ project	23.5	36.4	28.5	19.6	31.8	22.0	21.4	29.2	29.0