ignition

Pricing professional services checklist

PLUS BONUS cross-selling checklist

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Pricing for profit

Setting the right prices for your services is crucial not only for profitability, but also for positioning your firm effectively in the market. Consider updating your prices at least annually, to ensure the prices you're charging continue to cover cost fluctuations and achieve your profit goals.

When reviewing your pricing, you may assess market dynamics and competitive positioning along with your value proposition and client feedback. These are all important factors in pricing, but it's financial data that's crucially important – and this is where Ignition can help.

By leveraging the data in Ignition and other financial information you can ensure your pricing is appropriate, and if not, know what needs to change. This step-by-step checklist walks you through the process of how to do that.

Step 1. Prepare your service list

Click on the points below as you check off each task.

Export your service list from Ignition.

Ensure all the services you provide to your clients are included.

Ensure you have current pricing details along with the service.

Step 2. Determine the cost of delivery for each service

Identify your costs:

Fixed direct costs, including disbursements for the service.

Variable direct costs are usually the labour costs (the actual cost of your labour, not your charge out rates).

Overhead costs.

Fixed direct costs

Stay fixed regardless of the number of customers or number of services, such as:

- Customer software subscriptions
- Customer disbursements

Variable direct costs

Change depending on the output. They can change per customer, per service, per event, and so on. For example:

- Labor costs

Overhead costs

All the other fixed and variable costs:

- Admin staff costs
- Business software subscriptions
- Office equipment and supplies
- - Telephone and internet
- Rent and utilities
- Training and education
- Association fees

Determine the overhead allocation base and rate – usually based on labour in professional services:

To do this you divide total overheads by total hours spent on a service to determine an extra "hourly rate" to be applied to the service.

Attribute the costs to your services:

Fixed direct costs specific to that service, if any.

Average the time spent on the service, or estimate it to determine your variable labour costs.

Overheads based on your "extra hourly rate" calculated at Step 5, multiplied by the average the time spent on the service.

Perform a full cost calculation by adding together fixed, variable and overhead costs for the service.

Example service cost calculation

Total overheads for the business over 12 months: $100,000

Total hours spent on providing services over 12 months: 1,200 hours

Total direct cost for Service 1: $300

Total hours spent producing Service 1:   10 hours

Productive staff average hourly cost for Service 1: $90 per hour (total labour costs)

Cost calculation

Fixed costs: $300

Variable costs (10 x $90): $900

Overhead allocation (10 x $80): $800

Cost to produce Service 1:   **$2,000**

Step 3. Pricing and profit goals

Determine your profit margin goals (for example, 20% net profit).

Calculate the necessary pricing for service to achieve the desired profit margin.

Example pricing for profit calculation

Based on the example above and a 20% profit goal the price would be calculated as follows:

Cost to produce Service 1:	*$2,000*
20% profit (2,000/80 x 20):	*$500*
Price of Service 1:	***$2,500***

Step 4. Develop a pricing matrix

Categorise services by client type or project size.

Adjust pricing based on inputs and labour required for different client categories.

Create tiered pricing models for services based on categorisation.

Example pricing matrix	Small business	Medium business	Large business
Service 1	$250.00	$350.00	$450.00
Service 2	$1,000.00	$2,500.00	$3,500.00
Service 3	$2,500.00	$3,500.00	>$4,500.00

Step 5. Set new pricing in Ignition

Update and import service lists and pricing in Ignition.

Use new pricing in all new engagements.

Step 6. Annual pricing reviews

To stay profitable, revisit your pricing at least annually or more often if there's changes to market conditions or internal costs.

BONUS CONTENT: Cross-selling services for maximum impact

Now that you have a service list and pricing matrix, you can expand this into a client service matrix to identify "quick wins" for your business to grow revenue and increase profits.

Step 1. Build a client service matrix

From Ignition export your service revenue by client to build out a client service matrix.

Use the export feature to identify all the services each client currently uses.

Example client service matrix				
	Service 1	Service 2	Service 3	Service 4
Client A	✓		✓	✓
Client B	✓	✓		
Client C	✓	✓	✓	

Step 2. Market to existing clients

Using the insights gained from your pricing exercise identify the services that drive the most profits.
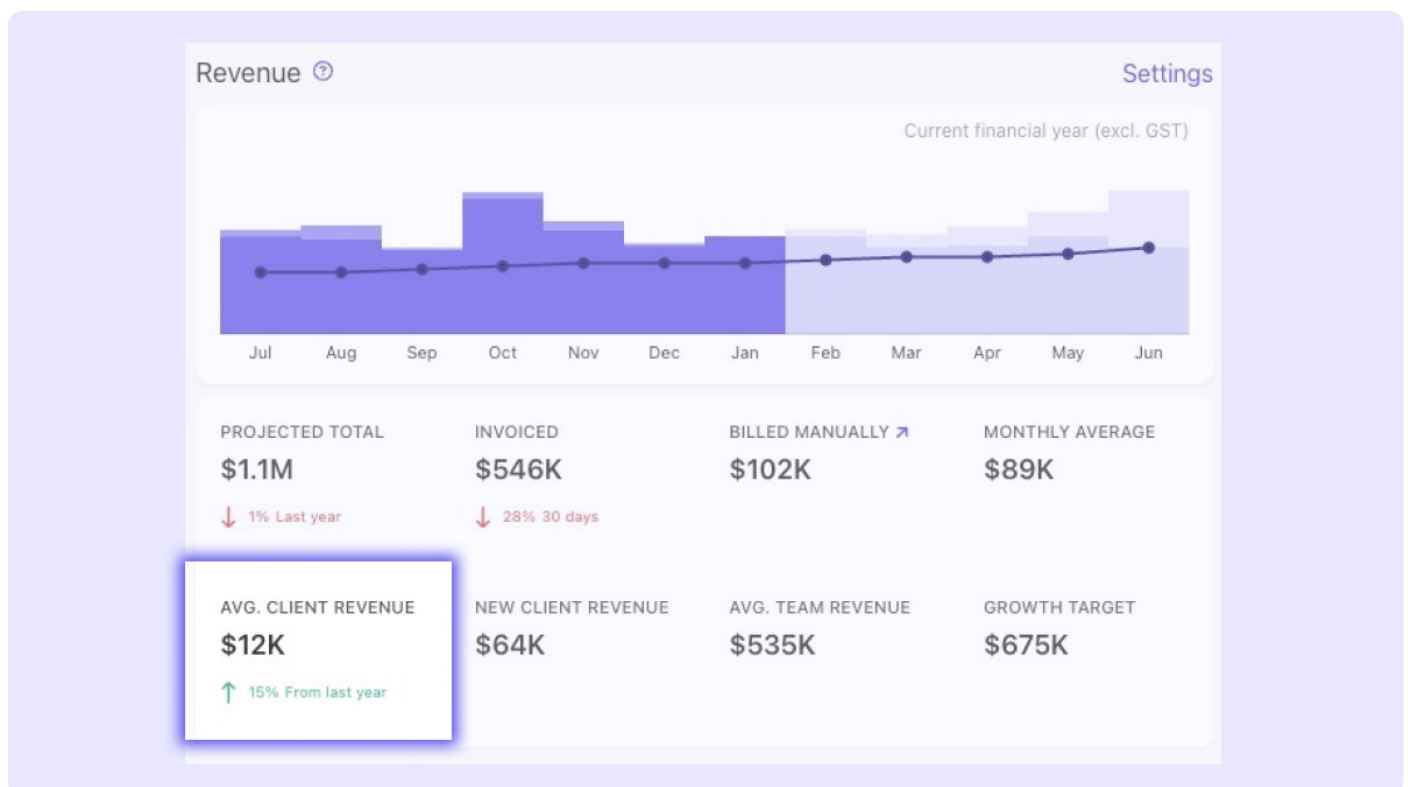
Using the client service matrix identify the clients that don't currently receive this service, but could benefit from it.

Develop and execute marketing campaigns to promote this service to your target clients.

Ensure you have capacity and avoid over-committing.

Step 3. Monitor, rinse and repeat

Using Ignition, track and measure success by keeping track of any movement in the "average client revenue" on the Revenue tab.

Keep moving through the client service matrix to ensure you're getting the best results from your existing base.

Spark greater efficiency and profitability

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