sage Accountant Solutions

Creating access-level agreements

Contents

3 It's about choices
3 It's about speed
4 Putting it together
5 Fleshing it out
6 Setting the price
7 The Black Card
7 Thoughts on implementation
9 Conclusion

It’s about choices

American philosopher Lawrence P. Berra once said, “You can observe a lot by just watching.” Consider the following scenario, which plays out on playgrounds across the globe: A father calls out to his three-year-old son, who is playing with some new friends on the jungle gym, “We are leaving in two minutes!”

The mom of another child, also three and playing on the jungle gym, says, “Do you want to leave now or in two minutes?”

“Two minutes,” replies the second child.

Question: Which of these two children is more likely to go into a tantrum when it is time to leave the playground? Clearly, the answer is the first, but the more important question is “why?”

As human beings, we seemed to be predisposed to like the idea of having choices. It is quite surprising then that most professional firms do not offer their customers choices on a regular basis. Instead, they are locked into the idea of providing a billing rate and a range of hours as an estimate. This is akin to saying to the three-year-old, “We are leaving in two minutes” and hoping there is no tantrum.

Recent research by behavioral economists in this area of choice theory indicates that having three choices seems to resonate best with most people. As evidence, take a look around at what we see in most marketplaces.

Starbucks offers tall, grande, and venti. Apple offers three models of its watch: Watch Sport, Watch, and Watch Edition. Car washes offer gold, silver, and bronze cleaning packages. Sears pioneered this idea in the catalogue in the late nineteenth century with good, better, and best.

With regard to services, the pioneer in this area is American Express, which over the course of 30 years developed the now familiar “Green, Gold, and Platinum” model with respect to its “cash club” products—the ones that you have to (at least in theory) pay off each month. It has credit products as well, but let’s stick with the cash club. (Yes, it has a Black as well; more on that later.) In each of the three above products the customer gets the same basic level of service—the ability to use the card instead of carrying cash.

American Express then differentiates each level with different features such as access to airline clubrooms, lost luggage insurance protection, and waiving some international transaction fees.

It’s about speed

Next, as an experiment, take a trip to a big box electronic store and seek the printer aisle. Without fail you will see three different models of printer from the same manufacturer that may look the same but have different feature sets. Let’s call them the Model 710, 730, and 750.

On the card that describes the features of each model in bullet point format, the first bullet point on each card will likely be the number of pages the each printer can produce per minute. The cheapest model, the 710, will be capable of say 8 pages per minute, the moderately priced 730 will spit out 12 per minute, and the most expensive 750 will churn out a whopping 16 pages per minute.

Now, imagine yourself on the engineering team at the printer company who is designing this 700 series of printers. Would you a) design the 710 and figure out how to make it printer faster or b) design the 750 and slow it down? Clearly, the latter course of action is preferable, and I hope it is not surprising to find out that this is, in fact, exactly what many of the companies do.

They design the 750 and then write code that gets stamped onto the motherboard instructing the 710 to not print so quickly or even pause longer between pages. Here is a crucial point, from a cost accounting standpoint: Which costs the printer company more?

American philosopher Lawrence P. Berra once said, "You can observe a lot by just watching." Consider the following scenario, which plays out on playgrounds across the globe: A father calls out to his three-year-old son, who is playing with some new friends on the jungle gym, "We are leaving in two minutes!"

The mom of another child, also three and playing on the jungle gym, says, "Do you want to leave now or in two minutes?"

"Two minutes," replies the second child.

Putting it together

Question: Which of these two children is more likely to go into a tantrum when it is time to leave the playground? Clearly, the answer is the first, but the more important question is "why?"

As human beings, we seemed to be predisposed to like the idea of having choices. It is quite surprising then that most professional firms do not offer their customers choices on a regular basis. Instead, they are locked into the idea of providing a billing rate and a range of hours as an estimate. This is akin to saying to the three-year-old, "We are leaving in two minutes" and hoping there is no tantrum.

Recent research by behavioral economists in this area of choice theory indicates that having three choices seems to resonate best with most people. As evidence, take a look around at what we see in most marketplaces.

Starbucks Coffee offers tall, grande, and venti. Apple offers three models of its watch: Watch Sport, Watch, and Watch Edition. Car washes offer gold, silver, and bronze cleaning packages. Sears pioneered this idea in the catalogue in the late nineteenth century with good, better, and best.

With regard to services, the pioneer in this area is American Express, which over the course of 30 years developed the now familiar "Green, Gold, and Platinum" model with respect to its "cash club" products—the ones that you have to (at least in theory) pay off each month. It has credit products as well, but let's stick with the cash club. (Yes, it has a Black as well; more on that later.) In each of the three above products the customer gets the same basic level of service—the ability to use the card instead of carrying cash.

American Express then differentiates each level with different features such as access to airline clubrooms, lost luggage insurance protection, and waiving some international transaction fees.

Next, as an experiment, take a trip to a big box electronic store and seek the printer aisle. Without fail you will see three different models of printer from the same manufacturer that may look the same but have different feature sets. Let's call them the Model 710, 730, and 750.

On the card that describes the features of each model in bullet point format, the first bullet point on each card will likely be the number of pages the each printer can produce per minute. The cheapest model, the 710, will be capable of say 8 pages per minute, the moderately priced 730 will spit out 12 per minute, and the most expensive 750 will churn out a whopping 16 pages per minute.

Now, imagine yourself on the engineering team at the printer company who is designing this 700 series of printers. Would you a) design the 710 and figure out how to make it printer faster or b) design the 750 and slow it down? Clearly, the latter course of action is preferable, and I hope it is not surprising to find out that this is, in fact, exactly what many of the companies do.

They design the 750 and then write code that gets stamped onto the motherboard instructing the 710 to not print so quickly or even pause longer between pages. Here is a crucial point, from a cost accounting standpoint: Which costs the printer company more?

If you answered the 710, you would be correct! After all, the company had to write more code to slow the operation of the cheaper printer down. This illustrates an important point—price is not determined by cost. Price is driven by the perceived value of the customer.

Similarly, to most customers of professional organizations, the "feature" that drives the most value from their perspective is how quickly the professional will return their call. In other words, not the service itself, but rather the level of access they have.

To recap, the two lessons thus far are a) human beings like choices (preferably at least three) and b) the key driver for most customers in working with a professional is the professional's response time. This means is that professionals should be designing agreements that offer their customers choices and highlight the response time as the first element in each of the offerings.

So, let's begin by creating a grid with the three options down the left and the first feature of the access level (response time) across the top. We will use the American Express "Green, Gold, Platinum" metaphor and response times of 6, 3, and 1 hours, respectively. Please note, your mileage may vary (as they say in the car commercials). It could be that your customers expect quicker response times and that your offering would be for 1-hour, 30-minute, and 15-minute responses. This is just an example to assist your thinking. So far we have:

Access level	Response time (in business hours)
Platinum	1
Gold	3
Green	6

Fleshing it out

Notice the first level presented will be the most expensive. Again, more on why this is later.

To clarify, what you are offering is your guarantee that you will respond to a customer with the selected level's response time. You are not saying you will be able to answer their question or solve their problem within this time, just that you will be able to respond to them and begin the process of diagnosing the situation for them. Now, it may be that you can answer the question or solve the problem, but it is important that you explain that this will not always be the case. Many organizations that have implemented access-level agreement refer to these as diagnostics, and just like with a doctor; a diagnosis is not the same as a cure.

As an example, imagine going to a doctor with a sore throat. Let's assume you are paying a price for the office visit of $100. Of the many possible diagnoses, let's look at three.

1. You have a sore throat because you have been cheering all weekend at your daughter's softball tournament. In this case, the doctor might suggest going home and gargling with warm salt water, and there is no additional price to be paid.
2. You have a throat infection. The doctor will suggest a course of antibiotics at a price of an additional $100.
3. You have what looks like throat cancer, and the doctor suggests an immediate biopsy and who knows what additional treatment at some unknown price.

Clearly this is a very wide range of possibilities, but the point is that in the first case, no additional price needed to be paid while in the third case the doctor did not say that she could cure throat cancer for $100. It was only for the diagnosis.

The same is true for customers on an access-level agreement with you. There may be times when you can immediately answer their question or solve their problem, but in other cases, more diagnosis or treatment will be necessary. This would be priced separately and is not covered by the access-level agreement. Unlike a doctor, however, your access plan includes an unlimited number of diagnoses for people who are on your plan, but again, it is not for unlimited cures.

Setting the price

With the defined response times comes and implied nonresponse time. If a customer who is on a gold plan contacts you and you are available, it is important that you not contact them back immediately, certainly not within the first hour. You should wait at least one hour and one minute. To do so would be to degrade your price integrity. Think about this—if FedEx has two packages going to the same address, one priority overnight, the other standard overnight, how often does the driver deliver both parcels in the early morning? The answer is hardly ever, if never. Why?

Well, in most cases the driver does not even know he has two packages to the same address because the system won't tell him. Again, why? Doesn't it cost more for FedEx to send the truck back to the same address? Yes, it sure does, and the company is good with that. A cost accountant or six-sigma black belt would tell you to deliver both packages in the morning. Fortunately, cost accountants and six-sigma black belts do not run FedEx. Customers would quickly learn that if they wanted to send a heavy parcel for early morning delivery, they should simply send it standard overnight and send a cheaper, perhaps even an empty, envelop using priority, and they will get both parcels delivered in the morning.

Similarly, hotels do not negotiate with latecomers and accept anything less than their current rate. There is even a term for it; it is called "the fade." Don't train your customers to expect immediate access unless they pay for it.

The next step is to create more features to go across the top. Some of the more common features include: frequency of face-to-face meetings, tax and estate planning, and agreeing to meet with other professionals such as financial planners, lawyers, even doctors to discuss matter relevant to the customer, representation before the IRS, and so on.

Now let's add some of these across the top and drop in some ideas about what is or is not included at each level.

Level	RT	Face-to-face meetings	IRS representation	Main professional coordinator
Platinum	1 hour, direct	3	Power of attorney and response	Yes
Gold	3 hours	2	Power of attorney and call to you	Yes
Green	6 hours	1	None	No

As a reminder, this is an example; your access-level agreement will likely contain a dozen or more features across the top. The number of items you can bundle in is limited only to your creativity. Talking to your

The Black Card

customers about what their needs and wants are is a great place to start. Take a group of customers to breakfast or lunch to brainstorm ideas. Be sure to include different type of customers both from a demographic and psychographic standpoint. Include some of your best customers as well as some of your customers who don't think you are so great.

Including the not-so-great customers has a two-fold purpose. First, when they talk to some of your better customers they may get a better understanding of what you are able to do for them as well. I have witnessed a D customer become a B customer by just talking to an A customer. Second, it allows you to observe what not to build into your agreement. You do not want to create an agreement that will attract more D-type customers.

Pricing is worthy of its own white paper and is already the subject of some terrific books by Ron Baker of the VeraSage Institute. In lieu of attempting to say too much about this subject, let us just offer some heuristics about setting the price.

First, your lowest level, green in our example, should set the barrier to working with you on an annual basis. It should be the answer to this question: What is the least amount a customer should be paying to remain a customer of your organization? In other words, "We don't do business with people who want to spend below $X each year.

Second, a good rule of thumb is that your second (gold) tier should be at least double your lowest level (green), and the highest level (platinum) should be at least double the gold. This concept is also helpful in deciding what is included in each level as well.

Third, you need to define what is included if the customer does not choose to be on a plan. While this might

Thoughts on implementation

sound odd, it is critical that you define it. In addition to setting expectations of those folks (notice they are not customers anymore) who do not choose a level, by defining a no plan level you are also driving the value of your level up to those who are on a plan.

Level	Price	RT	Face-to-face meetings	IRS representation	Main professional coordinator
Platinum	$2,500	1 hour, direct	3	Power of attorney and response	Yes
Gold	$1,000	3 hours	2	Power of attorney and call to you	Yes
Green	$500	6 hours	1	None	No
No plan	$0				

For example, setting the price for a face-to-face meeting at $500 is unlikely to result in customers' asking for a meeting and paying $500 for the meeting. Rather, it signals to the person taking the green plan that they are getting more value than just one face-to-face meeting at a better price.

As has been the case throughout this white paper, please understand that this is an example. Your plans are likely to include more and different features from what is being suggested here. In addition, your prices are likely to vary significantly from the examples.

American Express has one cash club product for which the general public, even most of its current customers, cannot apply: the Centurion Card or Black Card. At a price of $7,500 plus an annual fee of $2,500, Black Cards are offered by invitation only to the most select customers of American Express, the details of which are not disclosed, but what is known is that the average net worth of Black Card holders is $16.3 million, and they have an average annual income of $1.3 million. This card offers complete concierge services.

In your firm, it may make sense to select one or two customers whom you invite into your Black Card membership. Like American Express, it should not be available to the general public. These arrangements would be completely customized to the needs, wants, and even dreams of the selected customer. Again, as an example:

Level	Price	RT	Face-to-face meetings	IRS representation	Main professional coordinator
Black	$25,000	Personal cell phone	Unlimited	Power of attorney, response and full representation	Yes

Some small professionals have developed Black Card-only practices in which every customer has a customized plan developed for it. While these can be very lucrative and rewarding for both the professional and the customer, these relationships can be mentally, physically, and emotionally draining. For this reason, we recommend that this strategy be use with great caution.

After you have designed your access-level agreements with the three levels, plus the “no plan” level, it is time to roll this out to your customers. It is best to give your customers about 90 days to decide about which plan they would like to select. If you would like to begin the agreements on July 1 of a given year, you should begin educating your customers about the agreements on April 1. You may wish to offer a promotional price for the early adopters with 90 days of bonus coverage—15 months for the price of 12.

It is critical that when the July 1 date arrives, you hold firm with anyone who selected no plan and no longer provide them with access to you unless they select a plan or pay the appropriate price for a meeting; as stated earlier, doing so will degrade your price integrity.

Conclusion

Creating access-level agreements for customers can be rewarding to both the professional firm and the customers they serve. That said, they are challenging and, quite frankly, not for everyone, but if you feel you and your firm have what it takes to think and work differently, it makes sense to give them a try.

About Ed Kless (@edkless)

Ed Kless joined Sage in July of 2003 and is currently the senior director of partner development and strategy. He develops and delivers curriculum for Sage partners on the art and practice of small business consulting including the Sage Consulting Academy and Value Pricing Symposium. He is the host of the Sage Thought Leadership Podcast which can be found at: http://na.sage.com/itunes

Ed is the author of The Soul of Enterprise: Dialogues on Business in the Knowledge Economy, a compendium of a few of the episodes of his VoiceAmerica talk-show, The Soul of Enterprise: Business in the Knowledge Economy with Ron Baker, founder of the VeraSage Institute where Ed is also a senior fellow.

*American Express, Starbucks, Sears, Apple, and all other third parties referenced are not affiliated or associated with Sage, and are referred to only for demonstrative purposes.

271 17th St NW,
Atlanta, GA 30363

866-996-7243

www.sage.com