

# A Capstone Conversation With Ron Baker



Owner/Founder  
VeraSage Institute



CAPSTONE MARKETING

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Hello, this is [Jean Caragher](#), President of [Capstone Marketing](#). I am delighted to be talking today with [Ron Baker](#), owner and founder of the [VeraSage Institute](#), a think tank dedicated to helping professional knowledge firms bury the billable hour and trash timesheets. For the past year and a half, Ron has been a radio talk show host of [The Soul of Enterprise: Business in the Knowledge Economy](#), broadcast live every Friday at 1 p.m. Pacific

Time on the Voice of America business channel and the Voice of America variety channel.

Ron has written seven books including [The Professionals Guide to Value Pricing](#) and [The Firm of The Future](#). He has been named by *Accounting Today* as one of the Top 100 Most Influential People in Accounting 11 times. I could go on. Check out Ron's [LinkedIn](#) profile for more and follow him on Twitter, [@ronaldbaker](#). Ron, welcome to the Capstone Conversation.

**Ron Baker:** Thanks, Jean. I'm thrilled to be here.

**Jean Caragher:** Ron, your mission is to, once and for all, bury the billable hour and timesheet in the professions. How's that going?

**Ron Baker:** I can honestly say that the end of the billable hour is not within reach but it's within sight. We have definitely, in the last 20 years, put the billable hour totally on the defense. To paraphrase Oscar Wilde, the billable hour "has no enemies but is intensely disliked by its friends."

**Jean Caragher:** Do you see more firms embracing this pricing model? And, of the firms that are embracing this pricing model, what do they have in common?

**Ron Baker:** An enlightened leadership more than anything, recognizing that the world has changed. I think the other big thing in the last five years has been the cloud and all the technological innovations that have come down the pike surrounding the cloud, like the apps, for example. What that is enabling accounting firms to do is do more work in less time. If your business model is "I sell time" and you can crank out more work in less time, then you're cutting your revenue and your profitability. That has been a big push behind value pricing in the last three to five years. All the software publishers are totally behind the value pricing movement, whether we're talking about Sage, Xero, CCH, you name it. They've all given their imprimatur to value pricing.



**Jean Caragher:** It is important for firm leadership to see examples of how this is working in other firms so they can visualize how it might work for them.

**Ron Baker:** Yes. Unfortunately, accountants tend to be like penguins on an iceberg that wait for the first one to jump in. Everybody wants data, "Give me data on how other firms have done it." Well, how would we ever get innovation if we waited for data? Good thing people are out there like Google and Apple that take risks before there's any data available to confirm.

**Jean Caragher:** There aren't a lot of first adopters, right?

**Ron Baker:** Not at all. But, that said, we have literally thousands of firms now across all professional sectors, not just CPAs, but law firms, IT, consulting and actuarial firms, and advertising agencies, which, by the way, are more mired in the billable hour than even accounting and law firms. We have thousands of examples now of firms across the world adopting this model of no timesheets and 100% value pricing.

**Jane Caragher:** Do you see trends in different parts of the world?

**Ron Baker:** Yes, definitely. I work mostly in the English-speaking world, Canada, Australia, New Zealand, and the UK, although I have done work in Latin America. In fact, I'm going to Colombia next week to work with the biggest law firm there that wants to adopt this model. It is definitely a worldwide trend. Some countries are maybe farther ahead than others right now, depending on the sector you're looking at. Certainly, America leads in the adoption of this, and I would say Australia is pretty close behind. They're very innovative in Australia and New Zealand.

**Jean Caragher:** How can marketers or business developers play a role in a value pricing initiative for their firms?

**Ron Baker:** I think marketers are a critical part or component of this because when I talk to marketers about pricing, I'm preaching to the choir. They get it. They understand that pricing is one of the four P's of marketing. They absolutely understand the importance of it and that's why I said recently, at a Winning is Everything conference, that I think marketers are saving the profession because they're bringing marketing savvy into the profession. Not only just building brands and reputation, but also making sure that firms maintain their pricing integrity, which is just as important as maintaining your brand integrity.

**Jean Caragher:** You knew I was going to ask you about that because I did hear about your comment regarding marketers saving the profession. You've talked about marketing savvy and branding and how our accounting marketing profession has come a long way over these last three or four decades. We've still got a long way to go. What



are the qualities of the marketers or business developers that you see having an impact on pricing and strategy in their firms? There are a lot of marketers out there who are not involved in that aspect of their firms at all, so what are the successful ones doing?

**Ron Baker:** That's a great point because a lot of firms will not turn over the pricing power to anybody but the partners. Quite frankly, two-thirds, maybe more, maybe three-quarters of people in firms that are doing pricing right now are absolutely terrible at it and that responsibility needs to be stripped from them. If I was a lousy auditor, a firm wouldn't put me on the audit. They'd move me to tax or consulting, some place where I have strengths. Yet, we let partners price who are terrible at it. It's comical because everybody knows they're terrible at it, which is why we're a big advocate of establishing the Value Council and appointing a Chief Value Officer (CVO).

I thought the natural people for part of those roles, whether CVO or part of the Value Council, would be the marketers but that has not necessarily been the case in a lot of professional firms. It's still partners, or people from the team, and for some reason that I'm not clear on, they don't like to give that much authority to the marketers.

**Jean Caragher:** That could be another entire conversation. We have come a long way but, in many instances, the marketers are not being utilized to their full potential for whatever reason.

**Ron Baker:** I hate to say it but they are second class citizens. Part of it is that in any professional firm you are a second class citizen if you are not a partner. I also think, to give the partners or the profession a break, we are still babies when it comes to marketing. It was illegal 40 years ago. You couldn't even market. We're still in the infancy stage of marketing, and I think it's going to take on significantly more importance as this profession continues to mature.

**Jean Caragher:** Tell me more about that.

**Ron Baker:** You know the famous Bates decision in 1977 where the Supreme Court ruled that professional firms can market? It was part of not only the Supreme Court, but it was also part of the whole deregulation movement, the FTC, deregulation of the airlines, trucking, finance and railroads. That's when we started to move into marketing as a profession. It was legal for the first time. I think it took several years after that to get marketers working in firms.

Of course, now there's the Association for Accounting Marketing and other groups out there. If you look at what Peter Drucker says about marketing, and I love this, he says, "Because its purpose is to create a customer, the business enterprise has two, and only two, basic functions, marketing and innovation. Marketing and innovation produce results. All the rest are costs."



The only two functions that matter are marketing and innovation, that's it. Everything else that we do, accounting, bookkeeping, etc. it's all for naught because it's only marketing and innovation that actually create results. I don't think most CPAs believe this, but it is emphatically true. These technological changes happen more and more as marketers become more sophisticated and, someday soon, firms and CPAs will see the light and recognize that marketing is critical and adds tremendous value.

**Jean Caragher:** There are certainly firms that have already gotten that message and are doing a fabulous job with their marketing and innovation, but, unfortunately, that's still the minority. Do you feel that CPA firms can use value pricing as a differentiator, something to set them apart?

**Ron Baker:** Yes. If I had it my way this would be normal practice. Everybody would be doing it. You would have to go back and differentiate based on things that mattered, like specialization, or verticals, or expertise, etc. But yes, right now, I think the window is wide open for massive differentiation through better pricing and just giving the customer certainty. This idea of the billable hour and billing people in arrears is crazy because we, as consumers, just as human beings, want to know the price of something before we buy it.

None of us would fly an airline that tried to charge us \$4 a minute. We'd laugh them out of business. And worse, subject to the same laws of economics, consumer and buying psychology, as every other business, the billable hour violates every one of those laws. That's why it needs to go.

**Jean Caragher:** Agreed, because it would all be in the description of the experience that a client would be having with a firm and the value pricing model can be part of that. When it's described in terms of what the client is going to experience, that absolutely would be a differentiator.

**Ron Baker:** It would. In fact, I'll give you some inside info on this. When I first started doing this in my firm, when I practiced in 1989 after I left Peat Marwick and started my own practice and was responsible for the first time in my life for actually billing customers, I realized very quickly that the billable hour was a lousy customer experience because customers would come in or they'd call quite angrily and say, "Why didn't you tell me it was going to cost this much?" My only response to that was, "I spent the time." Well, that's a stupid answer and it's an irrelevant answer to the customer.

It's like when a friend or a loved one has a baby, you want to see the baby, you don't want to hear about the labor pains. Yet, our profession not only focuses on the labor pains, we measure them in six-minute contractions and then bill arrears for them. The customer cares about the baby. I said, "We've got to figure out a better way to do this." I have lots of business clients, why don't other businesses have this problem? Well, they



all price up front, so if the customer doesn't like the price, you learn about it before you do the work, not after.

**Jean Caragher:** Right, instead of having to go through the hassle of getting the money from them or determining how much you're going to write off.

**Ron Baker:** That was how I came to value pricing. I came to this whole thing not from the marketing side of it or even the economic side of it. I came to it from the customer experience side trying to improve customer service and customer experience and it worked dramatically. That's when I started to get into the economics and the marketing behind it.

**Jean Caragher:** This customer experience trend is interesting, because I have a couple of colleagues whose roles have changed within their firms, and now they're Client Experience Officers, or similar. This is going to be very interesting to see how those roles evolve and what it means to the firms, as well as to the clients.

**Ron Baker:** That's exactly the point I was trying to make about how we are becoming more sophisticated. We are seeing the light, and marketers are having dramatic impact, for example, creating new roles such as the second CEO or CXO, as they say, and the Customer Experience Officer. More firms are adopting the CVO role, as well, the Customer Value Officer. I think trends like that are phenomenal. You're probably familiar with the [Experience Economy](#) by Joseph Pine and James Gilmore. It's a fantastic book. We actually interviewed Joe Pine on our radio show. In the book, there is an explanation of progression of economic value where you go from goods to services to experiences, but then the top of the value chain in their world is transformations, where the customer is the product.

You're actually transforming the customer. You're not selling them an experience. You are moving them from A to B, from where they are to where they want to be. Since that book came out in 1997, I thought CPAs are poised at the top of this curve. We make transformations. We change people's lives. We help them retire sooner. We help them get their kids into college. We plan their estates. We plan their legacy, after they're dead and gone. How important are legacies to Bill Gates or Warren Buffet? You're not just providing services at that point. You're touching people's souls. That's not a commodity. That's incredibly valuable, and we do that.

The problem with the billable hour is that a professional is somebody who's paid to take responsibility for producing an outcome, and not delivering a series of tasks. The billable hour turns everything into a series of tasks and I think it does so at the expense of focusing on a bad outcome.

**Jane Caragher:** That makes complete sense. From another angle, it's giving some talented marketers another career path.



**Ron Baker:** Yes, you have a point.

**Jane Caragher:** The two I'm thinking of, [Leisa Gill](#) and [Mitch Reno](#). As a matter of fact, I believe they're doing a session at [AAM](#) about their new roles. They're long-time marketers in their firms so they know their firms, their people and their clients. They are poised to add value, pardon the pun, to their firms because of what they're bringing to the table with client experience and looking at their firms and the client base in a different way. Very exciting.

**Ron Baker:** That's phenomenal. I read that BMW has an experience officer as well, that tracks the entire customer experience from pre-ownership, to ownership to post-ownership, to what makes somebody trade in their car and buy another BMW, or buy another brand. There is somebody thinking about that. That's an incredibly deep level. You don't see that much in any professional firm.

**Jean Caragher:** That could be another call, as well. The research that's not happening within the profession that would help CPA firm leaders and partners make better decisions.

**Ron Baker:** Absolutely.

**Jean Caragher:** We've talked a lot about value pricing, the billable hour and trashing the time sheet. Is that the most pressing issue in the accounting profession, or is there something else that you feel is more pressing?

**Ron Baker:** I get challenged on that a lot by people, especially by other consultants that would tell me it's not the most pressing issue. However, it is. I used to not think that it was until I made the link that this isn't just a change in pricing, this is a business model change. A business model is how your firm creates value for your customers and how you capture that value. Creating value and capturing value, and the captures where the pricing comes in is critically important. If you move to a value pricing model and, more importantly, if you get rid of the timesheet, the way you work...it's not just the way you price, it's the way you work. It's the way you communicate. It's the way you market. It touches everything about your firm. It all changes.

I think it makes you more focused on the outcome to the customer rather than a series of tasks as now with the billable hour. We're focusing on adding more value to the customer relationship that's going to create happier customers, that's going to make for happier teams, and it's going to make for more profitability not only for the customer but for the firm, as well. I do think that it's certainly one of the most pressing issues.

People say the cloud, technology, succession, maybe the talent issue and getting more people into the profession are important. I'm not saying that those things aren't



important. They certainly are but I think, at the surface, the one thing that you could impact the quickest in your firm, to make a dramatic impact, would be to change your business model and get rid of the timesheet. I have to say, it's the timesheet that's the cancer. It's not the billable hour. The billable hour is the symptom. The time sheet is what keeps accountants mired in the mentality that they sell time.

I joined the profession in 1984. I was taught I sold time and I kept a timesheet. It's now a generation or so later and we're still teaching these young kids the exact same thing. When are we going to stop and recognize this world has changed? Young kids recognize it. They know they're knowledge workers. They see Uber, they see WhatsApp being sold for billions of dollars with five employees, and they know that value can be created, and it's not measured by time. Time is the wrong measuring stick to measure a CPAs value. It's like plunging a ruler into an oven to determine its temperature. It's just a nonsensical measuring device for anything.

**Jean Caragher:** Let me ask you one question before we end. It is related to something that you were just saying. I've been hearing a lot about new firms and startups, and they're not necessarily larger firms but firms that are intentionally remaining smaller. Are you hearing that? And, if so, do you find these newer firms, run by younger professionals, embracing value billing more?

**Ron Baker:** Yes, certainly. If you look at [Jason Blumer](#), [Jody Padar](#) and her followers and people that try and emulate her, they've either taken over their father's firm, or started their own after coming out of a bigger firm. They've completely changed the business model, not only of embracing the cloud with alacrity but also embracing the concept of no timesheets. Nobody likes timesheets. It's the biggest joke. If you talk to anybody who has left public accounting and gone into industry, and you call them up and ask them how they like their job, the first thing out of their mouth is, "I love it. I don't have to do a time sheet."

The rest of the business world doesn't do timesheets because in the rest of the business world that's not their business model. They don't think mentally that they're selling time. I think that's why we need to do it, not just to make firms better but to make posterity better. I don't think anybody joins this profession to bill the most hours or have their value and their self-worth measured in six-minute units. I really do believe the only place time spent should matter is in prison.

**Jean Caragher:** It has been a pleasure talking to you and I'm happy to hear that burying the billable hour and trashing the timesheet is within sight.

**Ron Baker:** It is within sight. There is light at the end of our tunnel vision.

**Jean Caragher:** That's awesome. We've been talking today with Ron Baker, VeraSage founder and radio talk show host. Ron, thanks for your time today.





**Ron Baker:** Thank you, Jean.

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**Jean Caragher**

**Capstone Marketing**

[jcaragher@capstonemarketing.com](mailto:jcaragher@capstonemarketing.com)

<http://www.capstonemarketing.com>

<http://capstonemarketing.com/category/blog/>

Connect with Jean:

<https://www.linkedin.com/in/jeancaragher>

[@JeanCaragher](#)

<https://www.facebook.com/capstonemarketing/>

35246 US HGY 19 N  
#225  
Palm Harbor, FL 34684  
727.210.7306



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