



ROD ON PRACTICE MANAGEMENT

Ideas to Accelerate Your Practice's Growth

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How do you recover the cost of your reference library?

Ahhh ... the possibilities that the start of a new year brings. And in our world, that start also likely means the first of several substantial outlays we will make during the year to update our BVFLS reference libraries.

The cost to acquire and maintain our libraries is mostly a fixed cost, and it can easily range from \$15-20,000 per year. (Heck, a single user license to Capital IQ starts at \$13,000.) That's some serious coin. The question is: Do we eat this cost or pass some/all of it along to our clients?

When I started doing valuations in the '90s, print and digital resources were limited so the library cost wasn't a throat-clearer. Also, the research process was simplified because there weren't that many sources. But the process was tedious because what information there was took forever to find and wade through.

Today, the abundance of print and online resources has greatly improved both our report preparation efficiency and effectiveness. Simply put, we have access to better information and are more productive in our engagements. And certainly, clients benefit from that increased access and productivity, but it comes at our ever-growing out-of-pocket library expense.

So how do we recover that library cost? I've observed four practices amongst my colleagues.

1. No recovery.

Appraisers believe that their reference library is part of the cost of doing business and don't make any effort to recover the cost. They might add that the cost of the library is reflected in their hourly rate. This is great if we charge *and* collect our hourly rates, but how many of us have *effective* hourly rates that match our *stated* hourly rates?

2. Dollar recovery.

List every valuation resource in your library, estimate what the per-use cost will be to recover those resources throughout the year, check off which ones got used in a particular engagement, and add that collective cost to the invoice. The problem is that the per-use cost for each resource may be cumbersome and difficult to estimate, i.e., how many times will we use this resource versus that resource in a valuation engagement this year?

3. Percentage recovery.

All library costs are divided by the practice revenue generated. The resulting percentage, say 5 percent, is multiplied by the professional fee for a particular project and added to the invoice as a "technology fee" or something similar. While this method will capture all of your costs, it looks like a tax. And some clients may object to paying for resources that weren't

used in their engagement. That said, this method has its appeal.

4. Unicorn recovery.

Only expensive/special purpose valuation resources that appraisers wouldn't normally subscribe to are added to the invoice. And because they paid for the resource, appraisers often give the material to the client ... after securing a copy for themselves.

For what it's worth, I'm in the unicorn recovery camp ... but with a generous definition of what is expensive/special-purpose. That's because I struggle with subscription services, like IBISWorld for example, which offer an on-demand purchase option. Why should I pay (up front) for an annual subscription when I don't know how many times I will use it during the course of a year? Instead, why not just charge clients for the actual research required and obtained for their projects?

In the interest of full disclosure to clients, I believe whatever cost recovery method we follow should be described in our engagement letter. Here's the language I use:

Burkert Valuation Advisors estimates that the professional fee for this engagement will not exceed \$15,000 plus related expenses. Such expenses will include costs

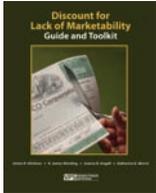
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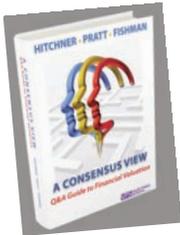


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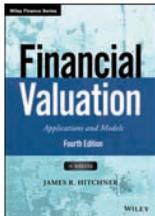


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directly related to this engagement, including all research/reference materials purchased specifically for this assignment.

What about you ... how do you recover the cost of your BV library?



This column is a place to get actionable advice for growing your practice and improving your processes. Do you have an issue you would like to discuss? Email me at rod@rodburkert.com.

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