

Secrets of Outsourcing



(Sept. 1, 2007)

When one of Mike Block's largest 1040 clients walked through his door on April 8 expecting to have his personal and corporate returns completed for tax season, the CPA didn't exactly sleep.

He stayed at the office until 2 a.m. scanning in documents, some in the wrong direction, then messaged his crew in India to do what they could to piece them together and to send him PDFs of the tax return.

By 10:30 that morning, the job was complete.

"That's when I realized there was just no substituting the fact that it could be done overnight when I was already dead and could barely scan, [let alone] calculate anything," Block says. "A chartered accountant prepared my most complex tax return 70 percent faster than expected, with 80 percent fewer errors, while I slept. Having [up] to 10 assistants help my clients and I, any day or night, on short notice, is priceless."

That was six years ago.

Today, Fort Lauderdale, Fla.-based BlockTax employs seven people in house and eight overseas, including in India, Pakistan and China.

The QuickBooks ProAdvisor owns one of a growing number of small firms taking advantage of outsourcing to help lower costs and improve efficiency.

"The dirty little secret is the big auditing firms are doing this on a gigantic level. It's the little guy who has not yet stepped into it," Block says. "Outsourcing lets accountants make friends precisely where our country needs them, while helping to end world hunger and promote world peace."

There's a stigma to outsourcing that relates to paying such low wages that it's "horrible," Block explains, but he reasons that many foreigners are studying U.S. accounting because they prefer to work in that environment, rather than out in the fields.

Recommended Resources

Sending work to other companies in the states or overseas could be risky, especially if the company is not well-known.

How can firms sort through the hundreds of thousands of outsourcers out there to find the good guys and mitigate the risk factor?

Following are some companies that CPAs and others in the accounting industry recommend:

CPASiteSolutions (www.cpasitesolutions.com). This Winooski, Vt.-based company offers a custom-designed Web site with monthly site updates including new employees and other announcements, client newsletters and tax calendars. It also provides client portals where they can share tax files and other documents with their accountants. An Internet marketing package provides tools to help firms get listed on Google searches and generate referrals. Costs range from \$49.50 to \$99.50 per month.

LeverPoint (www.leverpointinc.com). LeverPoint leverages an onshore/offshore model, with offices in Reston, Va., as well as in India,

"I wished someone a happy birthday who had been working for me for two years. She said, 'The best birthday present you could give me is more work.' They're doing this because it's the best job you could get. This kind of thing would make every U.S. foreign aid program absolutely unnecessary," Block says. "In terms of civility, eagerness and overall respect, you can't begin to compare what you get out of the people compared to what you get locally."

Cheaper Labor

That conjures up the image of America's workforce losing jobs to their cheaper counterparts in other countries (\$3 to \$10 per hour compared to \$35 to \$75 in Block's case), a topic of heated political debates in recent years. But Block says every dollar he saves through offshoring allows him to hire more help in Florida. Plus, he passes a chunk of his savings on to his clients. They all know what he's doing and he hasn't lost a single client because of it, especially when he's cutting their fees in half and still saving money himself.

One example is a client Block converted from Sage Software's Timberline product to QuickBooks Enterprise Solutions, a package that could scale to 20 users but requires companies to be in single-user mode for certain functions.

This client had entered 3,000 inventory items, and misfiled 2,500—every one a single-user error. "Changes would have had the system down for days," Block estimates. Instead, workers in India nearly 10 hours ahead of the East Coast, made the changes each night while his workers were home so that it didn't stop their productivity by requiring them to exit the system. Block paid them \$10 per hour for 10 hours per day for three to four days and charged the client at his cost.

When he first experimented with outsourcing, he sent tax returns to three outsourcing firms to see how well they would do on the same return. It turned out one of them sent the work to another on his list, which helped him make the decision. Over time, he's learned to outsource a wide variety of tasks, from time tracking management (his billable time has increased 50 percent as a result) to letter writing to search engine marketing for as low as \$1 per hour. Comparatively, some U.S. consultants who help firms use the best key words or phrases to work their way to the top of Google searches make \$60,000 to \$200,000 per year and search marketing directors at large companies can earn \$100,000 to \$350,000, according to an online salary list.

Argentina and Belarus in northern Europe. It offers quality assurance work, application security and core product development.

Real Time Data Services (www.myrealdata.com). IT support is available to troubleshoot server and desktop problems around the clock. Virtual servers with unlimited applications cost \$99 per user. QuickBooks hosting lets accountants and clients use the application concurrently for \$29 per user name per month, and tax software hosting exists for ProSeries, Lacerte, CCH and ATX. Real Time Global Services, the BPO side of the company's operation, charges an hourly rate that varies per project for basic QuickBooks bookkeeping such as entering bills, doing bank reconciliations and payroll. Its sales and marketing personnel are located in Newport Beach and its back office in New Delhi.

Xpitax (www.xpitax.com). All of Xpitax's client information for its outsourced tax preparation work is stored in Boston and employees in India have restricted Internet and email access. Xpitax assigns clients to a team consisting of a supervised chartered accountant and three staff members.

A two-month training program, developed by a U.S.-based CPA firm, begins with classroom instruction on U.S. tax law and various tax software applications. Following that is extensive practical training through preparing sample returns of varying difficulty. Basic individual tax returns cost \$50, including any number of states; complex, multistate corporate filings can cost up to \$350. Last tax season, the average for any type of return

"I can grab any keyword and make it mine for one buck an hour and I can get the two top listings," Block says, noting that his company appears in most of the entries of the first page on a Google search for "Solve QuickBooks Problems." was \$93.

The same chartered accountant who helped him with his large 1040 client six years ago also helped continue the nationwide reputation Block built within the QuickBooks community with more than 7,000 newsgroup posts. At first, Bock reviewed the messages the accountant wrote. But quickly, the articles were posted without Block seeing them.

"His \$3 posts each save me 30 minutes," Block says.

Ensuring Security

Of course, none of these advantages matter if the company doing the work is stealing or compromising confidential information from its customers—a weighty argument against outsourcing overseas.

Almost all firms Block deals with work on "dumb" terminals without disk drives, so they cannot save information or download anything from his computers. In case of any doubt, most would set up Webcams to prove themselves trustworthy, he says. However, Block stresses the need for researching their policies before committing to anything.

One company he uses, Xpitax, outlines its security measures as a competitive differentiator. According to its Web site, clients' financial and tax files never leave the United States, where data center access requires biometric verification and the facilities are monitored by security guards around the clock. The company also restricts Internet and email access and printing capabilities at its India facility, requires every employee to sign non-disclosure agreements and enforces strict controls over what India-stationed employees can bring into and out of the processing center.

"India-based providers do a better job because all of their brand equity relates to security," argues Paul Roehrig, senior analyst of IT sourcing and vendor management at Forrester research.

But even if a company is not shipping work to "Outsource-istan," it should never feel comfortable when it comes to security, Roehrig says.

Most security breaches are not technology-related, they're people-related, and Roehrig says firms must ensure the processes exist to keep the environment as secure as possible, from background checks during the hiring process to continuous monitoring and restricted access, even

Outsourcing Advice

Many factors must be considered when determining what type of work to outsource and to whom. Following are some things to keep in mind:

Determine what and what not to outsource. Think about which tasks make sense to hand out to other companies, says Sally Geyer, director of marketing programs for corporate software and services, Thomson Tax and Accounting. "Be smart about where you can bring the most value and don't outsource that."

Ask yourself why you want to outsource. "It's a lot of pain and anguish just to get cost savings," says Paul Roehrig, senior analyst of IT sourcing and vendor management at Forrester research. "You want to set up a relationship with people who contribute something else to your business."

internally.

Another thing to remember is that outsourcing is not synonymous with offshoring. Companies can dole out tasks that are not part of their key business to other firms in the states.

Insourcing Opportunities

Some CPAs turn things around by serving as "insourcers," to whom others are outsourcing work.

George Gray of Randolph, Vt.-based Compucount, a full-service accounting firm that provides bookkeeping, payroll and tax preparation, started insourcing tax return work to a bookkeeper in Albuquerque, New Mexico two years ago when she approached him at a Public Association of Small Business Accountants meeting.

Because they both use Universal Business Computing Co.'s payroll and accounting software, they can share information more easily. He downloads files from a portal on her Web site, makes year-end adjustments and then imports the data into UltraTax by clicking on a "UBCC Import" button in less than 30 seconds.

This relationship has generated additional revenue for Compucount and takes less time than when dealing with annual clients whose information Gray hasn't monitored monthly as he does with his write-up clients.

"If she has questions, she asks us and we tell her things to ask about, like fixed asset purchases," he says. "We're as comfortable with her year-end package as we are with our own monthly write-up clients."

Ria Botzler found Gray because her bookkeeping clients at Checks and Doublechecks needed the tax work and she didn't want to learn taxes, but wanted to take care of her clients' needs without sending them off to start a relationship with someone who potentially could steal those clients from her.

"You say 'outsource' and everyone gasps. And we say, 'No, it's like insourcing.' Really what it is is resourcing," Botzler explains. "Outsourcing is a phenomenal way to support your company and not have the tremendous liability and overhead as you would if you took it into your core business. We need a new way to get into people's minds that this is a resource. We're helping other companies with the connections and specialties that we have."

Get it right in the states first. "If it's broke, you can't throw it over the fence and hope it gets fixed because it costs less," says Paul Farrell, president of Wizard Productivity Systems, adding that he waited 18 months before seeking overseas quality assurance help.

Be picky. Choose partners who share your philosophies. Talk about how they would handle certain situations before agreeing to do business with them.

When "insourcing" tax work, make sure you're getting quality clients and discriminate against the people you feel aren't going to report regularly with complete information, even if they are paying you monthly fees, says Compucount's George Gray.

Communicate. Set expectations from the beginning, hold regular conference calls and visit partners at least twice a year.

"You need to be on your toes, know what you want and tell them so they can execute for you," Farrell says about working with offshore companies. "Walk-by managers can't work in this model because you're not walking by anyone."

Make sure the firm communicates where your work in process is so you can don't feel like everything is going into a "black hole," Geyer says.

Research. "Look at whether the company is trained in U.S. accounting standards," says Cathy Tornbohm, research vice president at Gartner. Ensure the proper security measures will be in place so your data is not compromised.

"The real risks are mostly around

Some companies outsource their entire staffs.

Paul Farrell, president of Wizard Productivity Systems, is the sole employee of the company, a Microsoft Certified Gold Partner that develops tools to help businesses implement Dynamics GP and SL (formerly Great Plains and Solomon). But he's far from taking on all the work himself as he has 30 contract employees, including a director of marketing, vice president of development, consultants and quality assurance staff. Eighteen are onshore, 12 offshore. Most work 20 to 25 hours per week and they all have Wizard email addresses so customers aren't confused about who they are communicating with, but Farrell is always forthcoming about his business model.

client confidentiality," Tornbohm says. "There's not anywhere that's completely secure. Whether you're in New York or the Philippines, there's as big a risk. You have to have the right checks and processes in place regardless of where's it's being done—even internally."

"You have to be upfront that you're the only employee, but we can pass savings on to you because it's more economical. It allows us to leverage experienced people with specialized skills on an as-needed basis without the financial burden of employees," Farrell says. "Some of our programmers have 30-plus years' experience. This model allows us to keep our costs low and charge less for my software."

GP and SL Dynamics consultants spend part of their time working for Wizard and the rest on the street keeping up to date on modules and features, which ultimately benefits Farrell's customers, which is why he often pays for their training and attendance at events like Microsoft's Worldwide Partner Conference.

He holds conference calls with the entire development team every Wednesday, pays all of them every two weeks instead of waiting for invoices and lets them work whatever hours they want. He does require them to work in four- to eight-hour blocks of time to increase productivity so they don't get distracted.

One member of his management team, Wendy King, serves as Wizard's vice president of marketing. But she also serves in the same role for another Dynamics partner and as a marketing director for a handful of others as president and owner of Evergreen, Colo.-based bForward.

She had worked for two Microsoft resellers when she realized that what she was doing for one could be applied to many. She used to charge hourly, but now charges monthly because she is able to apply what she learned to several clients.

"I don't share information, but they have my mindshare," King explains. "Everybody likes to think their business is unique. In some senses they are all the same. And in some ways they are very unique because of the personalities that make up the business."

"I work with each of them in the style they like to work and get things done. I pull in all the resources I need to get those tasks accomplished," King says, adding that she serves as an outsourced marketing director who comes with an entire marketing department that changes based on the client's needs.

Working Well Together

Understanding those needs and feeling comfortable working with the other company is what makes outsourcing relationships successful.

"Any provider with any credibility can do the work. The successful deal comes down to the people in the room, being able to work through the problems that are bound to happen," Forrester's Roehrig says. "It comes down to how you manage the deal and can you work well together. The best outsourcing deals have the best people running the deals. They know what to ask for and how to manage it."

Asking the right questions also can help weed out individuals who might not have the same ethical standards or ways of handling sensitive situations.

Botzler admits she did a fair amount of initial groundwork before selecting Gray to do tax work for some of her clients. While having the same software was important to her, she also cared about having the same philosophies.

While some topics in the accounting world are concrete, others are subject to opinion and can be "all over the board," such as what the right amount should be for considering something an asset instead of an expense.

"These are the kinds of things you have to talk through to make sure you're on the same page with the advice you give out to your clients. Different advice builds distrust because clients think, 'These guys don't know what they're talking about,'" Botzler says. "I default to George because they trust him."

Gray likes the fact that Botzler asked him how he would respond in particular cases before agreeing to work with him because he knows she has to rely on him to lead her clients down what they both agree to be the proper path.

"Ethics is very important. I'm a middle-of-the-road aggressive type of person. My clients know that and appreciate that. I'm willing to go as far as I can, but I won't step over the line," Gray says. "If you were ever audited, I'd have to be able to defend everything I do. If I can't, I won't take on that client and Ria feels the same way and is comfortable with how far I'll go with her clients. You can't do it with everybody."

Alexandra DeFelice is Associate Editor of Accounting Technology and can be reached at alexandra.defelice@sourcemediacom.com.



By Alexandra DeFelice

© WebCPA 2007. All rights reserved. Republication or redistribution of WebCPA content, including by caching, framing or similar means, is expressly prohibited without the prior written consent of WebCPA.

Reprints of articles appearing in WebCPA, lend credibility to your corporate message and provide an independent endorsement of the news and information you want to share with your clients, prospects and employees. To order article reprints or for more information, contact [Godfrey R.](#)

Livermore at (212) 803-8351.

www.WebCPA.com

www.sourcemia.com