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## **General Advice on Outsourcing**

### **1. Understand the Business Model**

A common misconception with the outsourced concept is that it simply revolves around having a client's basic bookkeeping work done in a lower cost part of the world and that everything else around the client engagement remains the same. This is simply not the case and also partly explains why a number of people who have set about outsourcing have been disappointed with the experience. In essence outsourcing is simply about optimising the application of human resources in managing your clients' businesses. In this regard it absolutely is not just about stripping out cost and transferring it to a cheaper location abroad. In fact, if you look at our sample model you will see that the number of Manager and Senior days spent in handling clients actually rises in an outsourced model, reflecting the shift to higher value add advice for the client.

### **2. Advantages of this Approach**

There are two frequently overlooked advantages to this change in the mix of days worked on a client:

- Firstly more senior staff are able to focus higher up the intellectual scale to advise rather than simply process. Their work is more advisory/consultative than in the traditional model where it is more about carrying out the accounting processes themselves. This higher level of work is generally more interesting and rewarding and helps to engender a motivated workforce.
- Secondly, from a client perspective, because the engagement with the practice is at a more senior level, it contributes to deeper, more valuable engagement with the practice, which should ultimately mean less resistance to increased fees.

### **3. Be Clear About the Processes Involved**

Outsourcing is not a complicated exercise; but it definitely does require a very clear understanding and execution of the processes involved in completing the clients' work. Given that this approach involves using outsourced resources geographically remote from the practice, there has to be a very clear delineation of responsibilities in the workflow, otherwise overlapping on various aspects of work will eat away at the margins as well as causing delays. Having a system to control and manage this is critical. The following are some key pointers:

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**Visor Limited**, Sand House, Bath Place, Blackrock, Co. Dublin, Ireland  
T: +353 (1) 7074400 **Email:** [sales@accountsIQ.com](mailto:sales@accountsIQ.com) **Web:** [www.accountsIQ.com](http://www.accountsIQ.com)  
**Company Registration No. :** 366570

**Directors:** Tony Connolly, Darren Donohoe, Gavin McGahey, Eddie Murphy, Gerard McKeown, Brian D. Murphy.

1. It is vital to decide exactly what work is going to be outsourced and what is to be retained within the practice. A detailed workflow chart must be produced and clearly understood by all stakeholders, both in the practice and in the outsourcer. Once this has been agreed, you need to decide on the accounting system to use, involving file transfers back & forth, VPN access to your own systems or on-line web-based systems.
2. Transferring the documents to the outsourcer and how to access them between the outsourcer, your staff and the client is a critical issue to streamlining the process. The workflow can come to an abrupt halt if business documents are lost or delayed in the post. A system that allows the scanning and storing of business documents (e.g. invoices, purchase orders, sales contracts etc.) linked to the accounts or transactions to which they relate simplifies this issue considerably.
3. Streamlining the process between the outsourcer and your own staff is also vital to avoid overlaps and duplication - and ultimately eroded margins. Tracking the time spent on each client and being able to audit trail all postings and adjustments made can greatly assist in monitoring productivity. This also facilitates tracing the source of postings and more importantly, adjustments/corrections.
4. Finally, things will inevitably not always work to plan and problems will arise, particularly at the outset. It is therefore vital to have a very transparent escalation process and review where problems arise so they can be avoided in the future. This requires clear guidelines for the outsourcer and a system with the ability to make amendments and corrections easily, but with the controls to ensure all changes are audit trailed and integrity of the accounts is not compromised.

#### **4. Know Your Outsourcing Partner**

Look for an outsourcer that you have been able to check out or has been personally recommended to you. There are a vast number of organisations offering these services in places like India, Pakistan, China and the Pacific Rim and as in all walks of life some are good and some are bad. Success is significantly more likely if you work with an outsource partner with a track record, whose competence or suitability can be verified. It is however important to realise that there will be teething problems and not to jump to conclusions too quickly - hopefully it will be a long term relationship!. If you cannot get any personal recommendations, ask for some reference sites you can talk to. You can trial it on a gradual basis to minimise the learning curve involved. They may have processes and systems that they already use but remember you may become too tied into them if you do not drive this element or at least have systems and processes you can easily move elsewhere.



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Finally, it is worth asking if they have a local representative or office; this is a clear indication of their commitment and focus to the process.

### **accountsIQ – making outsourcing work for your practice**

AccountsIQ has developed a detailed cost-benefit model for outsourcing based on extensive research into the traditional outsourced accounting model in the UK and Ireland and the outsourced accounting services available in India and the Pacific Rim. In terms of the traditional approach, the findings back up the recent AVN survey which showed clearly that accountants are not as profitable as they should be or indeed used to be.

The attached spreadsheet is a simple extract from our detailed model and is completed for a small practice with 100 clients of varying size. You have limited scope to update this scaled down version of the model by altering the following:

1. Estimate your annual revenue from outsourced services based on a breakdown of your client base into small, medium and large client numbers and the average monthly fees charged to each of these categories. You can alter this until it roughly equates to your annual fees for outsourced accounting services. This relates only to monthly accounting services - you should ignore small bookkeeping clients for whom you do quarterly or annual accounts.
2. Estimate your direct costs by changing the salary applicable to each level of professional staff involved in your outsourced department (ie: Partner, Manager, Bookkeeper etc.). The model works out a daily cost based on 15.75% social insurance and pension cost and average annual chargeable days between 130 for partners and 185 for bookkeepers.

From this data the spreadsheet calculates the effort in man days required to complete the necessary work based a breakdown of tasks for the average small, medium and large client. The more detailed model allows you to alter those tasks and effort to reflect your own practice. The direct costs involved if the more mundane tasks were outsourced to a cheaper economy are then calculated, based on average rates available for this type of work. It also assumes you are using an online accounting system like accountsIQ to facilitate this approach and simplify the process of controlling the outsourced work and delivering the results to your clients. This would equally apply if you were getting your client to post their own prime books, leaving you to do the higher level tasks. It also assumes time saved through productivity is actually spent by more senior staff in providing more high level advice on the accounts so the overall man-days are the same.

Overheads are estimated as a percentage of direct salary costs, we have used an average of 60% but you can alter this if necessary.

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On this basis it estimates the improvement in profitability by changing the traditional approach and either outsourcing the low level tasks or leaving them to the client. The attached sheet also graphically displaying the differences in application of revenue showing how much more of the revenue goes to the bottom line!

This spreadsheet has been simplified to illustrate the general points around outsourcing. However we have a much more detailed model which allows you do a more detailed estimation of the work tasks and time inputs and other related parameters to more accurately reflect your own practice's situation. Please contact accountsIQ at [sales@accountsIQ.com](mailto:sales@accountsIQ.com) or by phoning +00353-1-7074400 if you would like to receive a free copy of the full version.

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