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## Creating a virtual office : ten case studies for CPA firms

Anita Dennis

American Institute of Certified Public Accountants. Management of an Accounting Practice Committee

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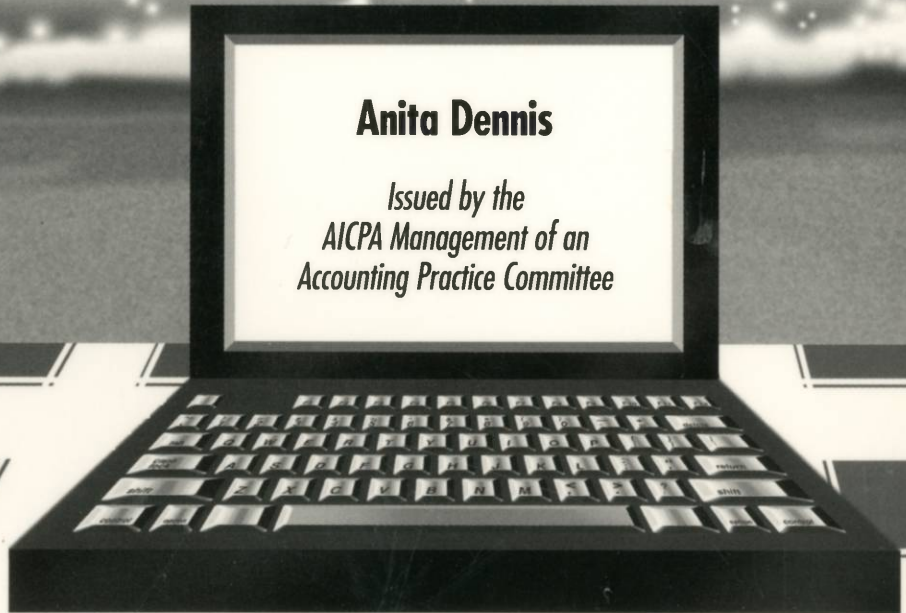
AICPA

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

# CREATING A VIRTUAL OFFICE: TEN CASE STUDIES FOR CPA FIRMS

**Anita Dennis**

*Issued by the  
AICPA Management of an  
Accounting Practice Committee*



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# **Introduction**



**W**hat is the core of a professional services firm? Is it a suite of tasteful, wood-paneled offices; elegant furnishings; and a staff busily working in those offices from nine to five—and well beyond—every weekday? Or is a firm defined by the professionals who make up the practice and the services it produces? Clearly, a practice could not exist without skilled firm members and quality services, but could it function if there were no central office location of any kind? Is it necessary for a CPA firm to maintain a traditional office space where the staff work during conventional business hours? Can a firm produce quality work and maintain profitability if the only regular connection among firm members and with clients is over the telephone lines?

Practitioners across the country have begun to ask these questions. Larger CPA firms have started implementing *hoteling*, a practice in which a number of employees have no permanent offices but instead use space and equipment that are reserved for the as-needed use of itinerant staff. Firms and companies of all sizes have begun to experiment with alternative work schedules and work-at-home programs. Moreover, practitioners in a number of small and midsized firms have begun to question whether they need an office at all.

A few firms have gone beyond questioning and taken the leap into an arrangement called the *virtual office*. The most basic description of a virtual office is that it is a nontraditional setting in which work is performed. In several of the cases examined in this book, all professionals and even support staff work from their homes and communicate via telephone, fax, or email. A couple of these case studies examine firms that have only one or a few members working from a remote location.

What differentiates these practitioners from people who simply have had to give up their offices and work at home? First, they chose this option either because they thought it

would enhance their professional or personal lives or because they believed that the virtual office was the wave of the future—and they wanted to seize a new opportunity in its early stages. Second, their practices are thriving. None of these practitioners closed down their offices because of financial pressures, although those who have explored the option of the virtual office report lower operating costs, as well as greater productivity, enhancements in client service and, sometimes, new practice development opportunities.

The term *virtual office* does not always mean working from home, either. Mary Tillman, a non-CPA who is not profiled here, has fully outfitted a motor home as a mobile office and drives it directly to clients' locations within a fifty-mile radius of her home in Alabama to handle all of their bookkeeping, payroll, and tax needs. She also regularly visits a resort island in the Gulf of Mexico to offer walk-in service to the island's business population. Although she originally planned to offer her mobile services to clients in remote, rural locations, the volume of demand in her suburban area has been so great she has not needed to seek business farther afield. Her success illustrates a fact to which the CPAs in this book will attest: Convenience, personal attention, and quality service are far more important to clients than the trappings of a central office. Of course, practitioners have always spent a great deal of time in their clients' offices in order to gain a better understanding of their clients' activities.

## **A Window Into the Future**

This book is organized into ten case studies that give a first-hand look at a new approach to operating a firm. It is divided into sections that reflect different ways of implementing the virtual office concept. Part I, "Traditional Firms in Unconventional Settings," focuses on five small firms with traditional practices in which all of the work is performed outside a traditional office. For all of these CPAs, that means operating from a home office. For some, it also involves managing full- or part-time staff who work in remote locations. A number of these practices have chosen

to retain front offices—rented spaces where firm members can meet clients, receive mail, or rely on a temporary administrative staff. Others house their practices exclusively in a home office and, in many cases, in a portable computer. Readers will learn why firms made these choices and how they have worked for different practices.

Part II, “Using the Virtual Office to Create a Niche Practice,” highlights three firms that have used the virtual office concept to create specialties. Although it is clearly possible to build a traditional CPA firm in a virtual office, specialized services seem to be ideally suited to this concept. One practice serves a narrow niche by harnessing the knowledge of pension benefits experts who formerly worked for a Big Six accounting firm. In another case, a Hawaii firm has developed a software consulting business by recruiting staff who live and work on the mainland to serve clients across the country. And one sole practitioner has used his computer knowledge to help other businesses make more effective use of the Internet.

Part III, “Road Warriors: Insights From Remote Employees,” looks at the virtual office from a remote worker’s point of view, offering valuable insights drawn from the experience of staff functioning outside an office. One CPA in North Carolina is a partner in a Texas firm. She describes the details of her semimonthly commute and, in particular, the frustrations of relying on computer support staff members who are hundreds of miles away. An Arizona computer expert whose firm’s headquarters is in Kansas talks in detail about how this long-distance relationship works so well for him and his firm.

Part IV, “Practical Insights,” describes some of the pitfalls facing virtual office denizens and offers advice on how to overcome these obstacles. One large practice even describes the ups and downs of its experiment with virtual operations. Another chapter sums up what readers need to know to make the most of this choice. There is also a checklist for practitioners to use in deciding whether this option is viable for their firms and to remind them of all the details that must be addressed if they are to be successful.



## A Thorough Introduction

Isolation can be a problem in the virtual office, but practitioners contemplating this change can use this book to reassure themselves that they certainly are not alone. One practitioner who was planning to change to a virtual setting read about CPA Janet Caswell's virtual office in the December 1995 *Journal of Accountancy*. (For a reprint of the article, see appendix A, "Going Virtual: How We Did It.") "We started the countdown to the virtual office in June of 1995," says Cecil Patterson, another CPA. "I thought I might be crazy to try it because I had not heard of many people doing it. Then that article came out, and I thought, 'Somebody else is crazy like me.'" The virtual office pioneers profiled in this book have proven that, far from crazy, this new style of operation is an idea whose time has come.

This book serves as a detailed introduction to the world of the virtual office. Each case study includes vital statistics of the firm, although the information included will vary and some firms declined to share financial information. If applicable, costs before and after the implementation of the virtual office are compared. Each case study discusses why the firm chose this option, how it configures and administers its virtual office, and what technology it relies on to keep members in touch with each other and the rest of the world. Readers can compare their situations to those herein to gain a better understanding of how virtual offices work.

This book is designed to give readers enough information to answer the following vital questions:

- Can the virtual office work for my firm?
- Is the virtual office setup something I need to consider?
- If not, how can I compete against firms benefiting from some of the advantages of the virtual office?

As technology continues to reshape the way CPAs and their clients conduct business, the material in this book gives farsighted practitioners an opportunity to understand an important new phenomenon and begin to determine what it means to their professional futures.

**PART I**

**TRADITIONAL FIRMS IN  
UNCONVENTIONAL SETTINGS**



**Chapter 1**  
**Breaking Down the**  
**Barriers**

*Firm name:* Gill & Company

*Location:* Newport News, Virginia

*Year founded:* 1985

*Year the firm went virtual:* 1995

*Number of owners:* One

*Number of employees:* Before going virtual—  
Three full-time; two part-time  
After going virtual—  
Two full-time; two part-time

*Description:* A local accounting firm offering traditional services

*How the service mix has changed since going virtual:*  
A higher volume of new business is from Internet connections.

*Gross fees:* Less than \$250,000

*Words of wisdom:* “Get back to basics. Provide solid services and keep overhead down as low as possible. Our competitive edge over other small firms is that we spend less than others do on overhead.”

**P**roblems with its lease left Gill & Company without an office. As a result, the firm tried an interim experiment with the virtual office that turned into a whole new way of doing business. Not only has the firm broken down the walls of a traditional office, it also has reached out into cyberspace to develop the practice and investigate recruiting opportunities.

## **The Firm**

Before 1995, Gill & Company resembled thousands of local CPA firms around the country. Run by sole practitioner John Gill, it had a small staff of full- and part-time employees who performed traditional tax and accounting services from one main office. It is much the same firm today, except that Gill has dispensed with the main office; many of the firm's services are now performed by employees working in home offices. The firm retains a front office in the Newport News, Virginia, downtown business district, where one employee works full time. The office is also used for meeting clients and for trafficking work. In addition, even though the firm continues to specialize in tax and accounting—the bread and butter of small firms everywhere—Gill has found ways to use technology to develop new practice opportunities that are better suited to his firm's new arrangement. His firm is an excellent example of how a typical small firm can succeed in a virtual office arrangement while continuing to perform its traditional services and serve the same kind of clients.

## **Why the Firm Converted to the Virtual Office**

For Gill & Company, the change to the virtual office came about basically by accident. "We kind of fell into it," Gill says. "In 1995, we had a 1,200-square-foot office—a regular,

conventional, old-fashioned office—and we were under lease for a new 1,500-square-foot office that would be ready by early 1996.” The firm had already given up the lease on its old office when the availability date for the new space was postponed. Gill expected the delay to last only a few months. “Since it was the fall and a slow time, we decided to move our offices into our homes and wait for the new office suite to be ready,” Gill says. “We had every intention of moving to the new suite at the beginning of 1996.”

By December, however, the new landlord was still stalling and uncertain about when the space would be available. Despite this delay, the firm’s business had been running smoothly. Since September, firm members had been working out of their homes, and the firm had been using a small rented office front in the Newport News, Virginia, business district for conferences and meetings with clients. Not only was this arrangement working, says Gill, “It was turning out to be kind of comfortable.” The CPA began to consider the possibility of giving up the new office altogether and extending, indefinitely, what he had expected to be an interim arrangement.

There were compelling reasons to give it a try. “I had tried the new setup for four months and I was saving fifteen hundred dollars a month in rent. I thought, ‘Why don’t we continue with this?’” Gill says.

## **The Transition**

In conjunction with the move to the new office, Gill had been poised to implement a plan for business expansion that included new staff members and new clients. “Then we got thrown a curve ball,” he says.

In the old space, the firm had consisted of Gill, a receptionist, an administrative person, another accountant working full time, plus two other accountants working part time out of their homes as subcontractors. These two accountants were not linked to the firm by computer. They came to the firm office once a week, picked up work assignments, went back home to do the work, then returned it in person when they were finished.

When Gill decided to close the central location permanently, the full-time staff accountant and the administrative person decided they did not like the idea of working from home, so they left the firm. Given that Gill had been planning to expand, not contract, "I had to drop back and punt a little." The two part-time accountants offered to increase their workloads, so the firm invested in telephone connections to transfer calls and data to and from their houses.

"We did that for a couple of months without any conventional office space. When clients called and asked where to drop something off, we'd offer to go to them and pick it up." Gill did not officially inform most clients of the new setup. "What do you tell them?" he asks. "We kind of have an office, but we don't?" Particularly during the fall, firm members' interaction with clients was minimal, anyway. "If we had regular contact with a client, it usually took place in their office," Gill says.

## **Home Away From Home**

In December 1995, it finally became evident that the rental of the new office space was not going to materialize, and Gill decided to find a more permanent central office in which to meet clients and receive mail and telephone calls. The plan was to present this office to clients as the firm's main location, even though to Gill and other staff members, who would continue to work from home, it would really be the remote location.

Gill's first step was to rent space in a shared office suite operated by a franchise that maintained such suites in many locations. Under this arrangement, a number of small companies or independent salespeople have separate offices within the suite and share a conference room, a receptionist, and the reception area. Once this permanent space had been obtained, the firm informed clients that it had a new location, without giving full details about the virtual office setup. The firm used this office during tax season, but Gill was not happy with the arrangement (see chapter 11, "What Didn't Work"). He finally found a permanent remote



home in a client's office suite. The firm's office is in a 4,000-square-foot suite. The firm's name is on the door and its incoming calls are answered by its receptionist.

**Telephones.** "We have two lines on the office's main switchboard that the receptionist answers 'Gill & Company,'" Gill says. The telephone system allows the receptionist to transfer calls to his house or to the home of another firm member.

All of the firm's telephones ring first at the remote office location. If the receptionist does not answer in three rings—and after normal business hours—the call is transferred automatically to Gill's home office. The setup is made possible using a Centrex system provided by the local telephone company. This system also allows the receptionist to take a message or transfer a call to Gill after she has answered it. The Centrex technology uses a *distinctive ring system*, which works almost like an internal intercom. If the receptionist transfers a call, the ring on Gill's end is different from the ring for a regular incoming call. Gill can answer the telephone and talk to the receptionist first to learn the details of the incoming call she has fielded.

The firm has the following telephone lines:

- One incoming fax line is attached to a plain-paper fax.
- One outgoing data line connects to the Internet or sends faxes.
- Two business telephone lines and computer connections are for incoming computer transmissions from the remote office or from other firm members' offices.
- One voice line and one fax line are at the remote office location.

Gill spends about one-third of his time at this remote office. "I see my clients there, if I don't go to their places of business," he says. Clients also drop off and pick up materials there. On his desk at the remote office, Gill keeps a stack of letters and packages marked "outgoing," so that the receptionist can tell what is to be picked up and whether the client is to leave a check or other items.

## The Home Office

Gill's wife, who has been hired as the firm's administrative assistant, has her own office at home—at the other end of the house from Gill's office. Gill's computer and his wife's are networked. He has the following two servers:

- A communications server that connects to the Internet and the firm's fax machines
- A standard file server on a standard network

The part-time accountants and the computer in the remote office suite can dial in and become other nodes on the network.

**Office Equipment.** The technology in the home office includes a copy machine and a printer. The setup allows Gill the option of preparing a financial statement or tax return at the downtown office and printing it out at his home, if this is what is convenient.

Gill points out that when practitioners think about technology for their firms, they should remember that there is more to consider than just computers. "We have the latest and greatest copy machines," he says. Gill believes state of the art becomes important, even for small firms, if they begin juggling remote locations and leaner staffing arrangements. "The machine we have could probably do twenty-five times the volume we actually use it for, but it sorts and staples and has automatic document feed. It has the capacity to handle about twenty-five hundred pages and it's very fast. Since I don't have a full-time clerical staff, it's worth it to be able to pop the work into the copy machine and instruct it to make and staple fifteen copies."

Gill says he probably has spent more than necessary on copying technology, voice mail, and Internet access. "We negotiated a very reasonable express mail fee through a professional group I belong to. We can ship two-day air for six or seven dollars." Gill says he still probably uses express mail more often than a traditional firm might because it saves him from having to make extra trips to the post office. (Express mail service includes pickup as well as delivery.) He adds that he can easily justify slightly higher costs for

office conveniences. “When you’re saving fifteen hundred dollars a month on office space, it makes sense to spend more on express mail, the Internet, and sophisticated telephone equipment. The costs still come to nowhere near fifteen hundred dollars.”

## **How the Staff Has Changed**

The firm now consists of Gill; his wife, who serves as administrative assistant; a full-time accountant who works at the downtown office; an independent contractor who works from home; and the shared receptionist at the remote office location. In the near future, “We will probably have to add another bookkeeper or a junior accountant.” He will seek someone to work from his or her own home who already is technologically well equipped.

Gill sought a new independent contractor through a recruiter and took on an accountant who is now working with him from her home. The accountant lives one hour away. Once every week or two, the accountant comes to Gill’s home office and the two exchange large plastic baskets full of the work that she has completed or that he needs performed. They communicate daily by email, which is Gill’s preferred method of communication, even though they share a local telephone calling area. “We could be using the telephone, but the habit of using email has grown on me,” Gill says.

Gill also reports that technology can be used in the hiring process for the virtual office. Early on in his new arrangement, he needed a bookkeeper for an immediate assignment, so he decided to enlist his computer in the search. Gill posted queries on on-line forums and received about twenty-five resumes from qualified bookkeepers who were working in their homes all over the country and wanted more business. Although he eventually found the person he needed locally—through more conventional search methods—he was encouraged by the response he received and would seriously consider this option in the future if he needs help.

“I would send out low-end monthly write-up or bookkeeping work,” he says. “What I could do is ship them client

bank reconciliations to perform or ask them to prepare small business financial statements. They could input the data into a low-end accounting package and ship the completed file back and forth by express mail or email.”

When he researched his options on the on-line forums, he found an immense number of people willing to do part-time accounting work from a remote location. “If you seek them on an accounting forum or a working-at-home forum, for example, you know that they already have the requisite computer tools and that they’re already working in their homes.” If he pursued this option, Gill would set a fixed monthly fee to be paid for doing all of a certain kind of work for a given client. He also would evaluate the possibility of scanning information onto a disk or transmission via email. “You could send someone an image of a bank statement and its checks.”

Gill had problems with a succession of junior accountants he hired to work full time in the downtown office, until he found someone who works well independently. This person does bookkeeping and some accounting and tax production from the downtown location.

## **What Do Clients Think?**

Gill has exercised discretion in informing clients about his unconventional arrangement. For example, some clients think he just moved to a new office suite and have no idea that he and his employees work mostly from their homes. Other clients are aware of the situation and do not seem to care. “I’ve been in business since 1985,” Gill says. “My existing clients know the firm’s work product and my personality.” The firm’s services, not its office arrangements, are what count to these clients, Gill says.

Gill has wrestled with deciding how to inform clients and now believes that it is best to avoid revealing his firm’s setup. “It’s not worth going into the description of where I am,” Gill says. “I did that for a while, and then I had clients who would call and say, ‘Well, where are you? I called the number for the downtown office, so how can you be at home?’ A full description of my arrangement is so complicated, and it isn’t worth the number of questions it raises.

People ask, ‘How will I ever find you when I need you?’ Or they want to know, ‘Where are my files? Can you get to them? Which fax number should I use?’” The answer to the last question is that Gill is able to have all faxes forwarded to his home by turning a switch when he leaves the downtown office—but this may be more than clients need to know. “It’s easier to tell them only that we have one office—downtown. I have found that the fewer explanations, the better.

“We lost a couple of possible clients because they were disappointed with our office setup,” he reveals. “I met with one prospective client in the downtown office, and I probably went into too much discussion about how we’re sharing the office, and so forth. But I got to chatting with him, so I told him I did 80 percent of the work out of my home, and the guy ended up having second thoughts after he left. He called back a few days later and said, ‘I just don’t feel comfortable with someone who doesn’t have his own office.’ When I thought about it, I realized this fellow wouldn’t have known the difference if I had said nothing. My name’s on the front door, so he wouldn’t have known whether the people working in these offices were my employees or the main tenants’ employees. I’m sure he went to someone with a more prestigious office.”

Gill has no regrets despite the loss. “You have to ask how much a given client’s business was going to bring to our bottom line, anyway, and consider that it wasn’t much.” He will divulge less information in the future, but he still believes that most clients value other facets of his business enough to make the virtual office arrangement irrelevant. “Most people don’t care about your office setup. They care about how much attention you pay to them, how qualified you are to do the work, how fast you’re going to return the call. You’ll retain clients because of your personal service, getting the work done on time, being at their office when they need you, that kind of thing.”

Although he is happy with the appearance of his remote office suite, Gill tries not to use it for client appointments. Not all of his client files and other resources are on site, and it is inconvenient to transport work there and try to occupy his time productively while waiting for clients. “If I have to

take time out of my day to go somewhere, it's just as easy to go to the client's place of business."

This realization has provided Gill with what he considers a practice development opportunity. "From a marketing standpoint, it's forcing me to visit the client and be a little more available to them on site. That's a good thing. Compare that with my competitors who have conventional offices, but who are apt to say that they can't see a client until three o'clock next Tuesday, or who never visit clients and don't get them their work on time. I give prompt and friendly service and will go to the client if he or she wants me. There's a distinct advantage."

Once Gill has established this level of personal service, the client will not mind hearing about his office arrangement, he believes. "If I tell him I spend 80 percent of my time working out of my home, he's going to say, 'Gee, that's interesting,' and then forget all about it. If he gives it any thought, he's going to realize I have the same software as other CPAs, the same education, everything is comparable, but guess what? I'm there visiting right now while the other accountant can't be there until next week. The negatives can be offset with some really solid positives."

## **Remote Control**

The virtual office setup puts Gill in the position of managing staff by email. "It works for me, but it depends on the individuals involved," he says. The independent contractor is "a seasoned accountant and we trust her to give a reliable account of her time," according to Gill. "She requires very little supervision." If she has questions, she sends them to Gill via email or brings them to their regular meetings, depending on the urgency of the inquiry.

Gill makes notes to the accountant and she follows up with any needed adjustments. The staff in his conventional office needed more supervision—as did some junior staff he hired to work in the downtown office. (See chapter 11, "What Didn't Work.") "That's why this arrangement will work better for seasoned professionals than it does for people who need training or supervision."

The hourly rate that he pays his independent contractor is twice what he would have paid for the same work done by someone working in his conventional office. "We're typically paying an accountant or CPA with ten years' experience \$20 to \$25 an hour with no benefits. A capable, full-time staff member who is doing this kind of work with supervision would get about \$25,000 to \$30,000 a year," or \$12 to \$15 an hour. However, because Gill pays only for the accountant's productive time, he generally is able to bill all of her time to the client, except for the hours she spends meeting with Gill and traveling to his home. He does not pay for vacations, holidays, or sick time—or for continuing professional education. Since the accountant works for him as an independent contractor, he pays no benefits or payroll taxes.

He believes, as well, that the higher rate is justified because he is paying for flexibility. "Some weeks, I may have ten hours of work; other weeks I may have fifty. I only pay for what I need. I am paying for the privilege of not having to assume the cost of paying a fixed salary."

The increased rate also reflects the maturity of his independent contractor, who is a CPA with many years' work experience who prefers to set her own hours and work from home. The work she is doing would be done by a more junior-level staff member in a conventional office setting. Gill says, "I have to look for higher qualifications in terms of skills and experience to have that same job done by somebody in the home."

## Housekeeping

The move to the virtual office has motivated Gill to get rid of a lot of books, and instead use CD-ROM or the Internet for research. "We threw out one entire bookcase holding thirty or forty volumes," he says. The client files are stored in his home, and his garage has turned into an impromptu storage area for desks and equipment left over from his former office space. He keeps two lateral file cabinets filled with client files at home but has expedited the process of sending inactive files into storage—in his attic. "That's another savings," Gill reports. In the past, the firm had used off-site storage for used furniture, office equipment, and files. "It's all in the attic now."

Much of the technology Gill uses in his new setup came from his former office, so the costs for new or additional computers were minimal. Most of the up-front costs were in telephone connections for voice and data lines in the new spaces, but Gill says these expenses totaled \$500 to \$600. Monthly telephone bills have gone up, too, to about \$700 a month from around \$200.

The rent on his remote office space is \$200 a month, compared with \$1,500 monthly on his old, traditional office. Moving costs were minimal. The new staff arrangement—working mainly with independent contractors—offers other savings, although Gill notes that it is not necessary to create a virtual office to achieve these savings.

Although Gill's community is covered by zoning laws that place limitations on home businesses, they have not affected his practice. He is not allowed to have an employee working in his home who is not a member of his family. In his case, however, his independent contractor works from a remote location, and his wife works for him at home. In addition, he is not permitted to generate what zoning regulations call *unusual* client traffic. This restriction has not been a problem for Gill. "We don't see that many clients, even in the downtown office." He estimates that he has about three or four appointments in a week, and many of these take place on the client's premises. Gill also is reluctant to invite clients into his personal domain. "I don't want clients knowing everything about my home," he says. Of the few clients who know that he works out of his home, even fewer know where he lives, and only a handful have come to his home. There are two reasons for his reticence. First, in practical terms, allowing clients to drop by obliges him to maintain a showcase for clients, rather than simply a home. "You have to keep the house clean all the time," he notes. Second, some clients will inevitably start to evaluate a practitioner's standard of living once they get a glimpse of it. When clients come over, Gill says, "they begin to wonder how you can afford your house." So, Gill takes special care to prevent clients from stopping by. "A client will say, 'I'll drop this off right now.' I say, 'Fine, but I'm getting ready to leave. You can drop it off with the receptionist'"—at the downtown office.



The firm has three addresses: the downtown office, Gill's home, and a post office box; the mail goes to the post office box. Bills are sent in preprinted envelopes supplied by the firm. The administrative assistant picks up the mail from the post office and forwards it wherever—and however—is appropriate. For instance, if mail is going to the accountant working from her home, it might be forwarded by fax or regular mail, or held until she comes to Gill's home for their regularly scheduled meeting. Most mail, however, is faxed or held for a meeting. If Gill and the accountant are not meeting during a particular week, the firm might use express mail to turn around correspondence quickly. Since he is always looking for cost savings, Gill admits that he has had to retrain himself “not to pinch pennies. There's a small cost to the convenience of things like express mail. If we spend a lot of time worrying about whether we should spend six dollars when we could do it for two, we lose sight of the greater profitability picture.”

Questions about what is to be sent where have caused some confusion. For example, an urgent express mail package cannot be sent to a post office box and should not go to the downtown office because of the delay incurred until Gill or his administrative assistant can retrieve it. If a client calls and asks for the firm's address, Gill knows which address to give because he is familiar with the nature of the mailing. The receptionist at the downtown office, on the other hand, sometimes is unsure. As a general rule, he tells the receptionist to give the downtown office address. If the mailing is urgent, he asks that the material be faxed to him, or he may be able to get it himself on one of his frequent visits.

The independent contractor rarely needs to make copies, so working without access to conventional office equipment has not been a problem for her. She usually returns a finished work product, sometimes transmitting it via email. Gill may have to review a tax return or financial statement that she has prepared, but usually she does not make corrections, and thus does not need to keep a copy of her work. If necessary, the administrative assistant makes copies at Gill's home office or the remote accountant uses a local copy store.

The virtual office situation has prompted no change in the firm's billing and collection policies. Gill does not do financial audits, only reviews and compilations. As a result, since he has always had off-site peer review, the virtual office arrangement has had no effect on this aspect of his practice.

The firm's insurance costs have gone down. Gill's business insurance for the virtual setup amounts to a very small increase in his homeowner's policy. He named his professional corporation as an additional insured, which costs him fifty dollars per year instead of the five hundred he had been paying for business insurance for the old office.

## **Building a Niche in Cyberspace**

The following are two important reasons for Gill's success.

- His virtual office arrangement is structured to be both cost-effective and practical.
- He has successfully adapted his practice development approach to his new situation.

Practitioners whose practices change along with their physical circumstances may find a very profitable and successful transition to a virtual office. For example, a CPA with a very traditional clientele that is used to being entertained in the practitioner's office will find it difficult to gain new clients—and perhaps even to retain existing ones—if he or she makes a radical change. Even someone like Gill, who rarely sees clients, will have to adjust to the virtual office setting. In Gill's case, it meant redirecting his practice development efforts to a point where one-third of his new business comes from out of his area—out of state or out of the country. How does he accomplish this? "We're getting leads and clients on the Internet and on CompuServe," he says, adding that 25 percent to 35 percent of his new business comes from on-line connections.

He has had success with the following two methods.

1. He surfs chat groups and other forums to find people who can use his services.
2. He advertises on other people's World Wide Web (the Web) pages.

**Chat Groups.** “Typically, someone posts a message on a CompuServe forum or an Internet newsgroup and says, ‘I’ve got a problem—Can you help me?’” Gill explains. He then responds to the writer, describing what services his firm can offer. “I have found there are two niches we can service this way: out of state or overseas,” he says.

Even before the switch to the virtual office, half of the firm’s business was devoted to solving problems involving the Internal Revenue Service (IRS). Typically, clients owe taxes and cannot pay. “That’s been a strong niche market here locally,” Gill says, “and it’s a very easy service to get into long distance. We’ve found it really doesn’t matter where we are in order to perform these engagements.” In fact, Gill believes that people with extreme tax problems may prefer to work with a CPA who is out of state rather than in the community. “Working with me frees these clients from worrying about what that neighborhood accountant thinks about their tax delinquency.”

In such an engagement, Gill takes financial information from the client and then contacts the IRS by telephone or fax. He then works out a payment arrangement and evaluates the planning opportunities that could help alleviate the client’s difficulties. All facets of the engagement can be performed without face-to-face meetings between any of the parties involved. “I have had to do some out-of-state travel,” Gill says, “but only for fewer than 10 percent of the cases.”

In addition, the Internet has allowed the firm to reach overseas for new client opportunities. “We’ve built alliances with accounting firms in other countries, mostly in England and Germany, developing and cultivating them over the last two years on CompuServe forums or on the Internet.” Those firms in turn have gone out in their communities and billed themselves as U.S. tax experts. The firms market their services, then ship Gill’s firm the client information, usually via email. “The engagements are mainly U.S. individual tax returns for expatriates,” Gill says. “I had to get stronger on international tax, but that wasn’t real tough.” Out-of-country clients now compose about 5 percent of the practice. “It’s a very small niche,” Gill concedes, “but it’s the fastest growing.”

For work that is out of state and abroad, the firm's facility with technology has been a competitive advantage. "When we're dealing with a client who's not in this area, our virtual firm is just that much more competitive with one of the client's local firms. We are very accessible by email." In addition, contacts made on-line likely will stick with the professional who is easiest to use—and that means someone who is accessible on the Web. "If you're dealing with someone you met on-line, you already have that connection," Gill says. "Especially if it's someone who does not want to take the time to go to their accountant in town."

**Web Page Ads.** As part of his strategy to use the Web as a practice development tool, Gill takes out ads on Internet Web pages maintained by others. "We target Web sites that cater to small businesses that may attract business people with tax problems." The host charges for ads based on the number of visitors—or "hits"—per day to that site. According to Gill, a typical arrangement is to charge advertisers around one hundred dollars a month for an advertisement on a page that is receiving about one thousand hits per day. "We have a banner ad on a Web page that gets thirty thousand hits by businesspeople per month," Gill says. From this page, his firm gets two to four leads per month and one new client with an average fee of one thousand dollars every six to eight weeks. This can vary: The fee may be less or the work may be ongoing, but "most of our on-line work is project related." In Gill's case, the projects are the solution of specific tax problems. "Most of the people we work with have a regular accountant who handles their accounting and tax needs."

The recurring engagements found on-line can be good ones, though. "Through our banner ad, we met a professional in Pennsylvania who had a tax problem, so we helped him solve it. It turned out that he's very comfortable with computers, too, and with doing work on-line." The professional now sends Gill financial information monthly and Gill's firm does corporate and personal tax returns for the man, plus some monthly write-up work. "But gaining an ongoing client on-line is unusual," Gill says.

Gill decided not to set up his own Web page early in the transition to virtual. For one thing, he believed he did not have sufficient expertise to create a worthwhile page—or the time to develop it. “There’s only so much you can take time to learn to do,” he says. Gill also questions the value of many Web pages. “Most of the people I have talked to are not making any money with their own Web pages.” Traffic to different sites “is kind of haphazard,” he notes. “If somebody happens to land on your page they can learn something about you. I’m more interested in putting a banner ad on somebody else’s screen.”

If a potential client sees and clicks on Gill’s banner ad on another Web page, information about Gill’s firm pops up, along with an opportunity to send Gill comments via email. When Gill receives email comments, the system immediately returns to the sender a two-page electronic brochure that describes the firm, what it does, and how to make contact. Gill then receives an email message reminding him to follow up with the brochure recipient.

Gill launched his Internet advertising campaign when he was approached by another accounting firm that has a subsidiary that is an Internet service provider. “We set up a trial, and it worked fairly well,” he says. “There are others that I have since started working with, and I really think we’re going to expand in this direction.” Gill reports that he has contacted some of the big-name search engines, which also seek banner advertisers, but the costs have been much higher—up to four thousand dollars for four weeks of coverage. “If we could get a new client a day, it would be worth it,” he says, but short of that, he is satisfied with smaller, more targeted markets.

Gill’s strategy is to exploit a variety of opportunities for practice development. “My approach to marketing and acquiring new business is that you can’t rely on any one given method. I get some work from the Internet, some from the Rotary Club, some from client or attorney referrals, some from the Yellow Pages. It’s good if each method contributes a small percentage of new business. I’m thrilled whenever we find anything that works.”

The firm’s stream of business has been pretty stable, as it continues to generate more new business outside its imme-

diate geographic area. “We haven’t lost any existing clients. We’ve lost some opportunities because of our nontraditional setup, but they were few and far between.”

## **More Time and Money**

Gill finds his home office setup very agreeable. One of the best changes he has made was simply to add doors to his office that isolate him from the rest of the house. He also believes there are time savings associated with his new arrangement. In the past, he would go to his office, do his work, look over the work he had done for the day in order to choose something to take home, choose some projects, put them into a briefcase, and then take them home. Once home, he would unpack the work, do it, and then repack it in the briefcase. “Here, the advantage is that the work stays on my desk. I start in the morning and if I want to work into the evening, it’s still there. It’s a little more organized and I am a little better able to get work out than in a traditional office.”

Many who work at home have trouble staying focused, but Gill has not experienced this problem. “I’m pretty disciplined about my objectives. I do not let my thoughts wander to all of the work I need to do around the house.” Gill believes that it is necessary to be more organized about one’s schedule in the virtual office. “In a traditional office, if you set an appointment for noon and the client is one-half hour late, it’s no big deal. You can do other work and stop when they come in.” Gill now takes two days of the week to meet with clients, and if someone is late or cannot make an appointment, Gill has to ensure that his time at the remote, downtown office remains productive. That means planning to bring enough of the kind of work he can do during any time gaps—work that can be started and stopped frequently without losing one’s concentration.

Because his time in the downtown office is limited, Gill also has to be prepared to juggle. “If a client has to see me on a Wednesday and I’ve scheduled Tuesday and Thursday as my days in the office, I’ll come in on Wednesday.” Gill then must rearrange the rest of his week around that change.

For these reasons, he says, “time management can be critical.” When Gill is at home, he can dress as he pleases; he sees this and other benefits as balances to the scheduling discipline needed to keep a virtual office working. Gill works until his children come home from after-school activities, then tries to leave his business behind. “It takes a little more energy to discipline myself to remember that the home office becomes a home after five o’clock.”

Gill generally is happy with the arrangement. The biggest disadvantages he can cite are the hassles of having to go somewhere else to meet with clients, the occasional recruiting headache and the inevitable disruptions associated with the fact that the radical change in his practice came about through happenstance, without any advance planning.

On this last point, Gill says, “We had a long learning curve initially because we didn’t have a permanent plan when we left the last office. The virtual office setup never was intended to be a long-term solution. Some of the clients who have worked with us over the last year must picture my firm as a bit of a vagabond. We left one office to go to the office franchise; now, we’re with someone else. If we had been able to do better up-front planning, we could have said, ‘Dear clients, Here’s our new office.’”

## **What’s Next**

For the near term, Gill says, “We’re going to be more and more committed to technology. To remain virtual, you have to stay on the cutting edge of technology. That’s part of the arrangement—if you’re going to do this you have to keep up with the latest and greatest in technology.” For Gill’s firm, that will mean gaining scanning capabilities during the next year for scanning client information into a computer and then transmitting it via email to another remote accountant. He also plans to integrate scanning into his U.S. expatriate tax practice.

Surprisingly, although Gill is happy with his virtual office, he is not sure the arrangement will last forever. “The firm will be virtual for the next year,” he says. “Beyond that—I don’t know. It may be that another opportunity will

make sense. It's working well for me right now, but I don't know what I might be doing in another year. I would not consider this a permanent move. It just seems to be what works for right now."



### ***The Works: The Technology in Gill's Office***

- ***Software:***
  - Microsoft Office Pro
  - Microsoft Windows 95
  - Microsoft Windows Messaging (also known as MS Exchange)
  - Windows 95 Dial-Up Server
  - Wingate (This allows two or more users on the local area network to access the Internet simultaneously and specifies one server to dial up, freeing up other workstations.)
  - *Tax software:* Lacerte
  - *Tax research and forms:* TA One-Disc and RIA Tax Desk
  - *Contact management:* Goldmine
  - *Time and billing and accounts receivable:* Timeslips Deluxe
  - *Client and internal accounting:* Quickbooks
  - *Annual trial balance work:* Workpapers Plus
  - *CompuServe connections:* CSNav
  - *Due date monitoring:* PPC Trakker
- ***Telephone:*** GE 9450 four-line telephone
- ***Voice mail:*** Local telephone company service
- ***Pagers and cellular phones:*** Insignificant (The staff have cellular phones, but rarely use them, and do not use pagers at all. "I hate the telephone!" says Gill.)
- ***Most important computer features:*** Email, networkability; the ability to print in any office; Windows 95
- ***LAN:*** Windows 95 as the network operating system
- ***Greatest disappointment:*** The lack of integration of accounting and practice management software

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***Technology Configurations\****

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	<u><i>Downtown Office</i></u>	<u><i>Gill's Home</i></u>	<u><i>Accountant's Home</i></u>
Computers	1	2	1
Printer	Laser jet	Laser jet	Laser jet
Copy machines	1	1 high-powered	1

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***Cost Comparisons***

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	<u><i>Before</i></u>	<u><i>After</i></u>
Telephone	\$ 200	\$700
Rent	1,500	200
Insurance	500	50

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\* The server is Windows 95 Dial-Up-Server; a Windows 95 briefcase transfers data files.



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**Chapter 2**  
**The Virtual Office On-Line**

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*Firm name:* Caswell & Associates

*Location:* Bloomfield, Michigan

*Year founded:* 1991

*Year the firm went virtual:* 1995

*Number of owners:* One

*Number of employees:* Before going virtual—  
Seven full-time

After going virtual—  
Two full-time and more to come

*Description:* A local accounting firm transforming itself into a member of an on-line consulting network

*How the service mix has changed since going virtual:*  
The change prompted a complete revision of the firm's services.

*Words of wisdom:* Consider the choice carefully before jumping into a virtual setup.

**I**n 1995, sole practitioner Janet Caswell instituted complete virtual office operations in her firm. After trying this experiment for a year, she decided to take one more technological leap forward. She has sold the compliance portion of her traditional practice and, as one of the founders of a planned nationwide alliance of business experts in cyberspace, is now refocusing her services on on-line consulting. The following sections give a look at her new plans plus some advice from a veteran on how to approach a virtual office. For more details on her switch to the virtual office, see appendix A, “Going Virtual: How We Did It.”

## **The Firm**

In September 1995, Janet Caswell closed down her firm’s 1,800-square-foot office in Bloomfield, Michigan, to convert to a virtual office. Some of her seven full-time employees chose not to remain with the firm, so the new practice consisted of two full-time workers and two on flextime schedules, all of them independent contractors. The thought process that led to the switch to the virtual office started when Caswell was faced with a new five-year lease, and continued as she began to reflect on all the technological changes that had taken place since she had signed her last lease. As part of this effort, Caswell performed an extensive historical analysis of her firm’s financial data for a five-year period, using the AICPA’s publication, *Managing by the Numbers*.<sup>1</sup> She analyzed the firm’s financial trends, compared them with the benchmarks in practice management surveys, and with trends she was aware of through her reading and committee work. This exercise forced her to realize that she could not sustain the traditional practice

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<sup>1</sup> David W. Cottle. *Managing by the Numbers*. New York: AICPA, 1993.

approach without significant change. So, she decided that instead of committing to the same overhead for another five years, she would send her employees home and store all of her necessary equipment in a 450-square-foot storage space.

After operating virtual for one year, Caswell decided that technology allowed her to make another radical change in her services, so she sold her traditional practice in order to concentrate exclusively on on-line consulting. Now her firm is poised again for radical change as Caswell continues to pioneer the possibilities of the virtual office.

## **On-Line Consulting**

The new service, which was still in the planning stages while this book was being written, is designed to deliver on-line consulting to clients through the Internet. It will be a subscription-based service, at a cost to clients of between fifteen hundred and six thousand dollars quarterly, based on several criteria, including the following.

1. The size of the client's company, meaning three different levels based on the number of employees
2. The companies' use of internal or external legal and other consulting services
3. The fee structure, which may be either a set fee for each use—a "per hit" basis—or unlimited usage

As the creators envision it, whenever clients have a question, they will be able to click on an icon on their computer screen that calls up this service. A form will appear on which the client can fill out his or her question. The information will be sent to the service's database, and then forwarded to the correct expert. Up until this point, all of the work will have been done electronically, without human intervention. The expert will have forty-eight hours to respond to the query. Answers may be sent either to a reviewer for further consideration or straight back to the client. The service will also feature a knowledge database that clients can access using a search engine. Because of the user interface, clients' questions will be coded with information about them, such as their size and special situation.

This coding will help filter out irrelevant answers in the database to hone in on the information that will be most useful to that particular user.

Caswell's firm will now dedicate itself entirely to this service. She reports that there are a total of sixty-three experts in various fields from all over the country who will also be involved, although they may continue to have their own separate practices. All are industry or service line specialists, Caswell says, ranging from disciplines such as oil and gas to foreign transfer pricing to state sales and use taxes to franchising. "We're building a CPA firm of specialists without geographic boundaries," Caswell says.

The service will be constructed as a member-based limited liability company. The founders are trying to limit membership exclusively to leaders in each specialization, although they hope to find ways to introduce less experienced people, perhaps as apprentices. "We want to allow fresh faces to come in," Caswell says.

Consultants and clients will need software that can run Windows 95 on the World Wide Web (the Web), plus high-speed modems. The service's creators have hired technology consultants to help build it. "We're learning some lessons the hard way on mapping and designing Web sites," Caswell reports. A number of her own clients have begun testing the service in an experiment to test its capabilities. Caswell has hired two administrative and technology staff members for her newly constituted firm, and was in the process of seeking a sales manager for her service. That is a big departure for many firms, but so is the service itself. "We're trying to establish a market in what the clients actually value—the CPA's ability to answer a question."

## **Making the Virtual Office Work**

Since Caswell is one of the early experimenters with the virtual office concept, she has gained a great deal of experience with the ups and downs of day-to-day practice in cyberspace. Although she has moved away from the traditional office, her firm did function as a virtual firm offering traditional services for over a year. The following sections describe how she did it.



**Home Office Setups.** When Caswell first launched her virtual office, employees took home whatever was available in the traditional office: furniture, office equipment, and supplies. Caswell also installed 28,800 bits-per-second (bps) modems and telephone lines in home offices as needed.

**Phones.** The firm uses a system specially designed for virtual offices, which supports a voice-activated system called Wildfire, supplied by Concierge. The computer supporting the system is more than one hundred miles away from the firm's area. Clients dial the firm's 800 number and the telephone is answered by a recorded voice. The system prompts the caller to use the telephone keypad or his or her own voice to select options or leave a message. Calls can be routed to an employee's extension through another underlying 800 number. An employee can program his or her extension to tell a caller that her or she is unavailable, taking important calls, or that the call will be taken immediately if the caller is willing to stay on hold while the call is transferred. The system also allows for conference calling. Each user can also set up a list of contacts to be recognized by the system—even the contact's own voice. An employee also can leave different messages for specific callers or for a defined group of callers, or simply a generic voice-mail message.

"I have learned that some clients prefer to use voice mail because they are also busy and don't really want to talk, they just want to leave information," says Caswell. Even before the firm went virtual, she had discovered that clients prefer voice-mail communication over email, especially if the calls are toll-free. She began using the local telephone company's voice-mail system on the firm's main telephone line to answer calls when the receptionist was not on duty. "Once clients learned that we had the system," Caswell says, "Some started to call during off-hours on purpose just to leave requested information or a message to call them in the morning."

The voice-mail system is equipped to page firm members with a caller's number. "We don't use the pagers for anything else," Caswell says. "If someone within the firm wants to get hold of someone, they leave a voice-mail message, and

the system notifies the recipient. Additionally, the Wildfire system can be 'pointed' toward a cellular phone, so basically we can be anywhere and our clients can find us."

**Crucial Technology.** Caswell considers her remote access software applications and file transfer protocol critical to making the virtual office function because they enable firm members to work and communicate from remote locations. She also values the following:

1. Modem speed
2. The ability to input and transfer time reports directly into the firm's time and billing system
3. The Internet or on-line services, which her firm uses mainly for information research and email among staff and with clients
4. Voice mail

Caswell believes that ease of use is a critical consideration in computer applications, as is accessibility. "The most frustrating thing is when the Internet service provider or on-line service is not working correctly—a connection cannot be obtained because too many people are logged on at the same time, or you get pushed off for some reason."

**Mail.** Firm members try to communicate by email and fax directly from their computers as much as possible. Mail is delivered to a post office box and retrieved by the business manager, usually daily, although there is less volume since the firm has begun encouraging electronic communication and because of its move away from traditional compliance services to full-time consulting. The business manager opens and distributes the mail to each firm member's work-box at the storage space. She sends emails to firm members, alerting them to important deliveries.

**Copying.** Caswell discourages the use of paper copies in favor of digital files. If they are needed, paper copies are printed from computers or large copy jobs or unusual items are brought to a local office services store. "I've even copied things at the gas station I frequent," Caswell says. "They have a little office center in the gas station with copy and

fax machines. We have also worked out an agreement with an office nearby our storage space for occasional copies—we gave them a case of paper in exchange for unlimited use during their office hours. We also use our plain-paper fax machine as a last-ditch option.”

**Billing and Collection.** The person performing the work prepared the invoice, which was reviewed and approved by Caswell. The business manager helped with mailing and follow-up.

**Time and Billing.** Each employee prepared time reports on his or her home computer, then transferred it to the time and billing system on the file server. The firm used a time and billing system that allows the employee to enter the data in a time report that has pull-down menus for client and work code data. At the end of the day, the software creates a file that is transferred to the firm’s time and billing system. The business manager then reviews the file and transfers it into the work in process.

**Paper Files.** These are maintained in the storage space, where employees have access to them as needed. Caswell encourages the use of technology to eliminate paper whenever possible.

**Informing Clients.** When Caswell moved to the virtual office operation, she took the calculated risk that some clients would not like the change. She met with significant corporate clients to inform them and sent tax clients a letter along with their 1040 organizers explaining the new arrangement. She reports that clients reacted better than she expected.

“We made the move to attract the future business clients, knowing that some of our existing clients would not be comfortable with the concept. However, we wanted to exist as a small firm ten years from now, and when we weighed the pros and cons of the costs and needs of the client base, we realized that we were allowing some clients to hold us back from operating more efficiently and for developing future growth options.

“I also think that we have a preconceived notion about what our clients want from us. It is true that some clients judge a CPA’s abilities by the visual trappings of success, but others look for how the CPA adds to the success of their businesses. We have found that our clients’ concerns revolve mainly around how they communicate with us. They are also curious about the mechanics of how we work. We were prepared for them to worry about how we were going to manage their personal information, but got no questions about the security of the system.”

**Supervision.** The staff is supervised through the communications network and the degree and kind of supervision depend on the complexity and urgency of the project. “We basically use common sense,” Caswell says. “If the work is repetitive in nature, and the person is confident of its quality, he or she can send it out. If it is more complex, we work on it together.”

Caswell has used both salaried and hourly employees in her virtual office. “The person on salary was exemplary in maintaining her hours and time report to my satisfaction. The hourly person initially found that she couldn’t book an eight-hour day as consistently as she had when she was in the office, and she found it frustrating because she wasn’t making as much money as she had before. However, the trade-off was that she had more flexibility in her day to cope with her family and household responsibilities.” Caswell also told this employee that she could bill some activities that did not seem like “work” time, such as telephone conversations with clients. “Even if a call was only five minutes long, if it was billable, she could post one-half hour, because she had provided a valuable service to the client by being available to respond to questions as needed.”

**Insurance.** The only change in the firm’s insurance was a drop in the coverage for storage space versus the higher amount that had been required by the lease contract for the much larger office.

**Time Management.** Caswell suggests one way to manage time in the virtual office is by organizing work in batches. The following are examples.

1. Schedule meetings out of the home all on one day—and then schedule a whole workday at home.
2. Save up all the copying for one scheduled trip to the copy center.
3. Buy office supplies when you are at the grocery store or copy center.

**Isolation.** For many people, working alone outside an office can be tough. The following are ways Caswell has alleviated the problem.

1. Get to know your service people, such as the mail carrier and bank tellers.
2. Take a break at the local coffeehouse instead of in your own kitchen.
3. Become more active in a variety of organizations. Attend professional service committee meetings and participate in local community events.
4. Call coworkers for social as well as business conversations.
5. Post and respond to messages on on-line forums.

While working at home with a family, keep the following in mind.

1. Schedule short periods of quiet time.
2. Have a separate office in a room with a door (and a separate telephone line that cannot, for example, be answered by toddlers).
3. Work during odd hours, such as the early morning, nap time, and late evening.

## Hindsight

If Caswell could do it all over, she says she would make the transition to the virtual office more gradually. For example, she suggests setting up home offices before closing up the traditional office setup in order to better identify problems and to ensure maximum productivity during the transition.

Since she experienced a number of problems with her telephone system, she also advises firms to have fully operational communications systems before they shut their office doors.

Caswell has observed that most of the people who come to her with questions about switching to the virtual office are nearing the end of a lease. "I try to discourage them as much as possible from jumping ship before they have even tried to work from home, much less work with people on alternative work schedules, or with a time and billing system that doesn't allow for transferring to the main system, and so on. The more that they have done before they close the doors of a traditional office, the better chance they have to maintain their productivity right after they shut down."

Caswell believes that her firm has entered a new phase of its life in a virtual office, a phase that is a natural extension. In her opinion, CPAs often waste time and energy focusing on projects that are not in the best interests of either their firms or their clients. "Many of us have practices that are like bushes that have never been trimmed. We need to eliminate the work we're doing to keep busy so we can find the time to do the work we should be doing," she says, noting that clients value proactive advice that helps them manage and expand their businesses more than the traditional compliance services.

While this book was being written, Caswell's firm was in transition into its new on-line consulting practice. This change is so new that a list of technology and before/after comparisons is not available.



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**Chapter 3**  
**Full Disclosure**

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*Firm name:* Patterson & Associates

*Location:* Ponte Vedra Beach, Florida (a coastal resort community on the outskirts of Jacksonville and just north of St. Augustine)

*Year founded:* 1991

*Year the firm went virtual:* 1996

*Number of owners:* One

*Number of employees:* Before and after going virtual—  
One full-time firm administrator  
and one part-time executive secretary. (Both now work from remote locations.)

*Description:* A firm that performs compilation and review, tax return preparation and consulting, as well as doing some audits, mainly for small businesses and individuals

*How the service mix has changed since going virtual:*  
No change in service mix has occurred.

*Gross fees:* Approximately \$200,000

*Words of wisdom:* Don't scrimp on hardware and software. Don't equip a virtual home office with a computer intended for home use because it won't stand up to workday wear and tear.

**W**hat will the clients think? The logistics of creating and managing a virtual office can be daunting for many firms. Nevertheless, the most important question is how the move will be perceived among the clients that firms have worked hard to attract and serve over the years. Some worry about the stigma attached to “working at home” instead of out of an impressive downtown office space, while others wonder about the hassles involved if there is no main meeting space for client conferences.

The firms profiled in this book have taken different approaches to the issues of whether to make disclosures to clients and retain a central office. In this chapter, we profile a firm that informed all its clients about the firm’s arrangements and now conducts all client meetings in the firm owner’s home. The latter is unusual; most firms use locations other than homes to meet clients.

## **The Firm**

Cecil (Pat) Patterson stumbled on the idea of the virtual office by accident, but once he began to think about the possibilities, they became hard to ignore.

“Two years ago we were looking at renewing our lease and we raised the question, ‘Can we do this out of our homes?’ The response was, ‘No, of course not, because. . . .’ But we never could come up with the end of that sentence.” The idea gained more credibility as time passed, particularly given the nature of some of Patterson’s work. “I do some traveling, giving continuing professional education courses for the Florida Institute of CPAs and in several other states. So, consequently, the more I thought about it, the more it seemed feasible to let everyone operate in a virtual office using telecommunications, computers, faxes, and modems.”

Patterson's firm is a small practice like many others around the country. There are three people in the firm; Patterson is the only CPA. He employs a firm administrator who is a full-time, salaried employee, plus a part-time executive secretary. He has been in practice for twenty years but his current firm has existed since 1991. The firm offers the full spectrum of services for a local firm: some audits, compilation and review, tax return preparation, and consulting.

Before he started his own firm, Patterson was a member of a seven-partner firm. In his own firm, he had a 1,000-square-foot office and up to four people working for him. Eventually, he found that three people could do the work of four "because we started working smarter. For one thing, we used the computer more."

Once the excitement of the idea of moving to the virtual office wore off, the firm had to face a number of realities, such as how to meet with clients during tax season and how firm members would communicate. "We had to address all the typical questions one might ask about how to do it." Both of his employees were women who had teenagers at home, so it seemed that the virtual office would appeal to them, although it was an ironic turn of events for his executive secretary. When she first started working for Patterson, she told him she had spent the last twelve to thirteen years at home with children, and now wanted to get out of the house. As a result, although she was willing to give the virtual office a try, it was not exactly what she wanted. She stayed with the firm through the first nine months of its virtual office setup, but when she was offered a job in a more conventional office, she decided to take it. "She came to me and said, 'Pat, the reason I started working for you was to get out of the home and you put me right back in it—and now I want to get back out of it.'"

His firm administrator enjoys the setup, however. "There are many, many people who like this whole concept of working out of the home," Patterson observes. The firm administrator not only oversees firm management and scheduling but also acts as a paraprofessional, coordinating most of the monthly accounting work. "She takes care of the debits and credits until I review her work. She also does tax preparation under her own Social Security number although I

review the returns before they go out the door. She wears many hats.”

At the time of his interview, Patterson had not yet hired a replacement for his executive secretary but was seeking one by word of mouth for a part-time position beginning in the tax season. “Lots of people want to try it,” he reports. “But it must be the right person. There are definite advantages to having someone answer the firm’s telephone, so telephone skills are extremely important.” At the same time, some issues no longer count in the hiring process. “In the past, for a receptionist or secretary, a whole set of factors came into play. For example, could the candidates handle themselves face to face with a client?” Now, the range of candidates is wider because of the virtual office. “This would be a fantastic opportunity for a disabled person with good communications and telephone skills because the environment is so different. A person could be bedridden and still handle the job.”

## **What Do Clients Think?**

Patterson reports that his clients not only accepted the move to the virtual office, but they also were actually jealous. His home is in a community located between the Inter-coastal Waterway and the Atlantic Ocean. “One of the first requirements for my virtual office was a long-distance cordless telephone so I could take calls down by the water. My biggest problem on pretty days is to get clients to stay in the office rather than work on their tax returns on the dock.”

Patterson says he was completely open with clients about his plans. At the end of 1995, as he was preparing to move to the virtual office, he sent clients a letter telling them he was going to a virtual office concept to operate his business. (See the exhibit on page 50.) He explained what the arrangement entailed, saying in effect that the virtual office is a contemporary term for operating out of one’s home. He assured clients that he would maintain the same professional office setup—the only difference would be that everyone would now be working at home. He told them he hoped to provide better services because the firm would be more relaxed but would have the same professional outlook.

**PATTERSON & ASSOCIATES, P.A.**  
Certified Public Accountants

CECIL PATTERSON, JR., CPA

MEMBER:  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
FLORIDA INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

January 10, 1996

Dear Client:

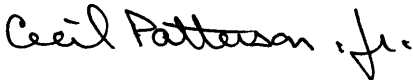
**The tax season is upon us** and we sincerely hope that everyone is having a great 1996. The new year has brought some innovative steps to our firm.

First of all, we now have a "**virtual office.**" That's just a new word for an office in the home that uses the latest technology. We have the same **firm**, more **services**, the same **personnel** with more experience, and even higher **quality**. Plus, our primary location is now at my home. The new location is very near to the old office and for some may be even closer. Directions are given below and a map is shown on back.

We have the same telephone and fax numbers with a voice mail system. There is also pick-up and delivery service available if you simply can't get there.

We look forward to seeing you soon. Please make your appointment early as the requests have already started. Thank you in advance for your continued patronage.

Sincerely,



Cecil Patterson, Jr.

MAILING ADDRESS:  
P. O. Box 2229  
PONTE VEDRA BEACH, FL 32004

OFFICE ADDRESS:  
85 SOUTH ROSCOE BOULEVARD  
PONTE VEDRA BEACH, FL 32082

TEL (904) 285-4489 • FAX (904) 285-1805

The view from Patterson's office has done a lot to convince clients of the value of his new setup. From the window, they can see magnolias, palms, and live oaks covered with moss. "The clients say it's very relaxing to look out the windows in my office. They come here feeling a little tense if their appointments concern taxes, and they say it's more enjoyable to see me now than it used to be. That's far and away the most frequent comment I get." He says that bringing clients into his home makes them feel more at home and comfortable in their relationship with him.

Practitioners should be prepared for some doubts among clients and potential clients, however. Patterson can identify two clients he has lost because of his change to the virtual office. One told the CPA he wanted someone "who was a professional, who did not operate out of his home." I said, "Fine. Here are two or three people I know. I'll recommend them to you." Another told the practitioner that he found the new location difficult to get to, but Patterson believes this client might have been preparing to leave the firm anyway. "We don't do exit interviews. We send out information at the end of the year, but if the client never calls for an appointment, we don't call and ask why."

## **The Home Office**

Patterson considered renting an office in a shared office suite, "but I quickly talked myself out of it." Originally, he considered this option because of the stigma attached to working at home. He believed that other people's reaction would be, "If you can't make it in the real world, you go home." Even among fellow CPAs, he sometimes faces skepticism about his arrangement. "There's a typical reaction—you just see it in their faces," he says. "They're thinking, 'That's too bad, Pat.'"

Now that the move into the virtual office is clearly a great success, he no longer worries about others' opinions. He also knows that he is part of a growing trend. "I am absolutely fascinated by the number of people doing it. All up and down my road, there are people working at home." In his area, Patterson knows of sales representatives, marketing people, engineers, importer and exporters, and plumbers

who operate businesses out of their homes. When he goes to his favorite local breakfast spot, "It's like visiting everybody's office. We talk about networking over our coffee. The only ones who can't do this are people who have to have facilities in which to perform their work, such as medical facilities. But even the Dr. Welbys have always worked out of a reconverted garage next to their homes."

Patterson ultimately concluded that he would never need to rent formal office space. "You don't need an office to do your work. Most of the work is done on the telephone or by fax." He believes that the practitioner's attitude is an important factor in the success of going virtual. "Once you mentally reject the notion that your location makes you a second-rate citizen," he says, the virtual office becomes a valid option for any CPA.

In Patterson's home office, clients enter the front foyer of his home and his office is immediately to the right, separated from the rest of the house by French doors. Figuratively, he has drawn a line between office and home and established a clearly professional atmosphere for his office. "You don't have to go into the bedroom to have a meeting." During tax season—mid January through April 15—he sees three or four clients roughly every other day in his home.

The new arrangement has posed something of a scheduling problem for the firm, since neither of Patterson's employees works in his home and he does not do any work in theirs. As a result, there is no receptionist and the foyer of his home is not set up to be used as a waiting room. But Patterson has come up with a solution for this problem. "We've lengthened our appointments. We used to have one-to one-and-one-half-hour appointments, but if they ran over, or if people came early, we'd have people stacked up in the foyer. Now our appointments are a minimum of two hours apart."

To accommodate this change, Patterson has simply rejuggled his schedule. "I used to block out one to three P.M. every day to return telephone calls and do office business. Now I schedule appointments during that time and I do those other tasks if a client leaves early. It required me to slightly reorganize how I plan and use my time."

**Technology.** Although Patterson kept some of the technology from his traditional office space to use in his virtual office, he has tried to avoid what he considers as a common pitfall of this arrangement. “I didn’t want this to become the classic home office situation in which you go into the bedroom and there’s the office in a corner. In addition, I didn’t want my employees to have to use their spare bedrooms for work.” In that spirit, he encourages his remote employees to be professional by treating them like professionals—even though they are working at home. “I told each of them I’d provide furniture that was compatible with their home decor. It wouldn’t be a two-thousand-dollar desk, but it would be furniture they would be proud to show to guests. The home offices are meant to be just like conventional offices. The employees took their computers, and we equipped them with cordless phones so they work around the house as well as in the office.” He also gave each employee a small copier, a fax, and a modem.

The hardware and software for each computer location cost him about two thousand dollars, including the printer. He did not buy an advanced model printer for each remote office. “We found we did not need a printer that could print eight pages per minute in every location. Some of the personal printers that do four pages per minute worked adequately.” In his home office, where he prints out all of the tax returns in busy season, he has purchased a faster printer that cost about fifteen hundred dollars. That helped raise the cost of his home office to three thousand dollars, including all the software and hardware.

Having benefited by technology, he vows never to get behind in that area again. “We’re not on the cutting edge. We don’t go out and buy the newest things. But we won’t ever again go for two to three years without upgrading something.”

His telephone system is the voice-mail system provided by his local telephone company. It offers up to four voice mailboxes, which suits his firm perfectly. Voice-mail messages are accessible anywhere in the world. Each mail box is private, accessible only to the person to whom it is dedicated. “That’s something I feel strongly about, that everyone’s entitled to privacy.” In designing his reconfigured



firm, Patterson has been careful to take employee needs into account. "If we can do it and have fun, why not?"

Patterson has one direct line to his home office for people who need to talk to him directly. The standard office telephone line also comes to his office, but he forwards incoming calls to the secretary or firm administrator using call forwarding. They then answer with the firm name. If a caller asks for Patterson, the administrator simply hits the switch hook once, and dials four numbers—two to activate call forwarding and two to speed dial to Patterson's phone. The caller hears nothing during this process. Patterson's telephone rings and he answers using his name, just as he would in a traditional office if a secretary transferred a call or buzzed him on an intercom. All of this is accomplished using the basic call forwarding option offered by his local telephone company. If Patterson is not in his office, the call goes to his voice mailbox.

Each office—including those of his remote employees—has three lines: one for the fax, one for the computer modem, and one for regular incoming and outgoing telephone calls. Only the published telephone numbers—those used for incoming calls—are charged the higher business telephone line rate. The business lines cost thirty-five or forty-five dollars a month for service, while the fax and computer lines, which are on residential service, cost only fifteen dollars a month. Patterson paid for the installation of separate telephone lines in employees' homes and signed them up for voice mail. The telephone lines are all in his name and he pays the bills. He pays employees a mileage allowance if they pick up the mail or perform other business errands that benefit the firm. The firm's total cost to move its equipment and furnishings from the former conventional office to employees' homes was less than five hundred dollars.

Patterson uses remote processing capabilities and Windows 95 to maintain and activate his firm's network. Unlike some remote access programs, this option allows him access to other computers, enabling him to work on documents in those computers. His firm members gain access to the other computers by dialing through a tele-

phone line. "The only limitation is modem speed, but we use 28,800 bps and that seems to work."

The firm is considering getting a scanner and using electronic data, but did not move into this technology in the first year. "Electronic data storage is the wave of the future," Patterson says, "but now it takes a lot of hard disk space. Until there are write-on CDs, we won't be able to do it. Realistically, we probably could buy a couple of gigabytes of storage and copy the data over to that, but it would take a lot of effort." As an analogy, Patterson cites all the people who ask him why he does not write checks over the computer. "I write checks sporadically. By the time I bring up the system, get ready to print, put the checks in the printer, call up the program, enter the data, and print, it has taken me more time than it would to pull a check out of a drawer and write it." Thus, he believes some of the most advanced technology is overkill for small firms like his.

For its old-fashioned communications needs, the firm has a post office box that is the official address on the firm's printed return envelopes for monthly bills and other correspondence. Patterson reports also that communication among his remote employees and with clients has been helped a great deal by the growth of inexpensive but reliable and secure courier services in his area. Because nearby Jacksonville is a large city in area, courier services have thrived there. "So, I can have a courier pick up something from my home, deliver it the next day across Jacksonville, fifty miles away, for a cost of less than ten dollars. Postage would cost that much." His paraprofessional can have work picked up at a client's office and brought to her home. She then processes and enters the data, prints it out, assembles it in a final version, and brings it to one of her several meetings during the week with Patterson. "When we meet, we meet at Ruby Tuesday's, where we can have a corner table and a nice lunch. We bring along our notebooks and swap material. It's kind of fun."

In addition to the technology Patterson uses to make his virtual office function, he uses the Internet to help him prepare for conference seminars and the CPE courses that he teaches in different states. "Almost all states have World Wide Web sites. You can get state statutes and legislation,

then copy the information off to your computer. I've used it many times in writing course materials."

**Storage.** When the firm moved to virtual offices, files were distributed to different home offices on the basis of usage. The firm's paper files are kept in his home office. One wall of his office contains a closet shielded by louver doors with a copy machine and a half dozen file cabinets that hold all the permanent tax files. Extra backup in the form of tapes is also housed at the firm administrator's home, and all the files are on the computer system. Bookkeeping files for an entire period or year are kept in three-ring binders at the firm administrator's house. Correspondence files for the current year are kept in a large accordion file in his office and on the computer.

For the first six months, Patterson rented an off-site storage site to hold vestiges of the old office, such as conference room and reception area furniture, that he felt compelled to keep. "We didn't know for certain that this was going to work so we wanted to have a reserve just in case," he says. "We didn't want the expense of repurchasing everything. And we knew that the worst thing that could happen was that we'd go into a real office again." The storage space cost about \$150 a month for a garage-sized storage unit. But long before the firm's first anniversary as a virtual office, Patterson knew the setup was going to work, so he organized a garage sale to sell all of the unnecessary furnishings.

**Peer Review.** Patterson has not yet gone through a peer review in his virtual office setup. He is a peer reviewer himself, so he understood from the beginning that the standards allow smaller practitioners to have what would be considered an on-site review in an off-site location.

**Zoning.** Patterson believes that zoning must be considered for virtual offices. In his community, he went through a zoning board hearing and got an exception that allows him to see clients at home. "I was very open and specific about my situation. I explained that I would have no employees working at my home and only limited deliveries, so there was no problem for me." He advises CPAs, however, that

many communities have zoning requirements that restrict residents from, for example, seeing clients or conducting business out of a home. Most towns are concerned with intrusions on residential areas such as neon signs, parking problems, and waste disposal considerations. "Zoning for CPA firms is loose," he says, "because it's a clean industry. If you're alone in your home, you can only see one person at a time, so your parking lot can't be filled with cars, and you don't have a steady stream of heavy or bulky deliveries." He adds that home owners' or condominium associations or other kinds of gated communities, in particular, may have rules governing home offices that should not be overlooked in the planning process.

## **Managing Employees**

Patterson acknowledges the problem of maintaining control over employees' work in a virtual office. His simple but effective solution has been to hire good people and to trust them. His firm administrator works on a salary, "and I don't care when she does her work as long as it gets out. If she wants to work all Sunday night, that's her business. She can take off during the week if she likes—I know what I'm paying her and what I'm getting for it." His only rules are that the telephone be covered at certain times during the day. "I don't care how she's dressed or where she takes telephone calls," although he requires appropriate dress for meeting with clients.

Another rule covers the hours worked. "One part of the deal is, if you want to get paid by me, you have to do a time report, which is tied into our time and billing system." Patterson monitors chargeable and nonchargeable hours and requires a forty-hour week from his firm administrator. This enables him to judge whether an employee is working as expected. "If she is doing Dr. Jones' financial statements, and all of a sudden they take three times longer than usual, I'd ask why." Patterson put this monitoring system in place to spot possible problems with his remote employees, but so far there has been none.

Patterson prefers telephone communication with employees, although he had purchased email accounts for himself

and all employees on the Microsoft Network. He is unperturbed by the possibility that employees might use these accounts for personal use since none ever uses more than what is covered by the monthly minimums that he pays in any case. "It's a very small perk and they appreciate the personal freedom."

He meets with employees two to three times a week. Time reporting is handled just as it was in the past: Employees submit time reports, time and billing software collects the information.

Clients come only to Patterson's home, so the office setup and other client reception issues are not a concern at remote locations. His carrier covers liability and workers' compensation in their homes. "I've been completely open and honest with my insurance carrier about what we're doing," he says.

Patterson reports some minor disruptions associated with having office setups in remote locations. If he could point to only one headache, it would be the problem created by his secretary's decision to leave the firm. "I had to go to her home and remove all of the firm's belongings and equipment," he remembers, but despite the inconvenience, the move took no more than one Saturday morning to accomplish. The equipment has been stored in his home and will be given to the secretary's replacement when that person is hired. Patterson learned from the experience that it is important not to invest too much in the setup of a remote employee's home office, because it may not be a permanent location.

## **What It Saved**

Rent on Patterson's old office came to about two thousand dollars per month, so the savings on that expense falls straight to his bottom line. Like most firms operating as virtual offices, his telephone costs have risen, but he reports that the increase is insignificant. "I don't think it's more than one hundred dollars a month more than what we used to pay." And he saves on other costs, such as those on his research library, which once was housed in his firm's conference room. The move to the virtual office prompted him to

look into other options. He now gets quarterly tax updates on CD-ROM for about five hundred dollars a year—“more information than I’ll ever use on tax services. When clients ask where my tax library is or how I do research, I open a drawer and hold up two CDs and say, ‘Right here.’”

The change to the virtual office has had no effect on his revenues. Actually, they have continued to rise slowly, which has been the pattern in his practice for the last several years. “Many CPAs have practices that are like leaky buckets: You’ve got to keep putting things in the top or you’ll run dry.” Patterson expects a normal turnover of 10 percent to 15 percent annually, and hopes to add 15 percent to 20 percent to his client base each year.

## **Better Than Ever**

If Patterson has one regret, it is that he did not make the change sooner. “The technology has been there,” he says. “But I’m a little bit of a traditionalist. In the back of my mind, I had the idea that there was a stigma attached to the virtual office. I wondered, ‘Am I a real CPA if I do this?’ I overcame that belief and I feel comfortable about it now.”

That is not to say that there are no drawbacks. For example, Patterson admits that the isolation of the virtual office can be an issue. “I go out every day for lunch—just to get out. I don’t want to go stir crazy, so I force myself to get in my car and drive away—to go someplace. But I always did that—in the traditional office, too.” Patterson calls friends, clients, or staff for lunches that can range from informal to fancy.

In addition, Patterson says he has always tried to do too much in his work, so time management was and is a problem. He still has to juggle appointments occasionally. “It helps to be a self-starter and self-motivator,” he says. “Having good employees who remind you of what you have to do helps, too.”

A number of his fears about possible problems in the virtual office were unfounded, however. Besides worrying about clients’ reactions, he was concerned that he might not be disciplined enough to carry off the new arrangement. “If you get up every morning and put on a suit and tie and go

someplace, and you do that for twenty or twenty-five years, what's it going to be like to throw on a pair of jeans and go to your office?" His answer to that question: "It's great!" He also finds that working at home does not undo years of professional discipline. "You don't go too far in the other direction. Your clients keep you honest, and you do have bills to pay, so you have to get the work done."

Actually, Patterson would not consider trading his setup for a more traditional arrangement. To those who believe in the merits of an old-fashioned office, he says, "You get in your car and drive for thirty minutes, fight traffic, and park for one hundred dollars a month. Meanwhile, I'm at home, sitting on the dock in my cutoffs, answering the phone." Patterson says he does not envy those who "are locked into tall buildings downtown. I'm glad I don't have to make that trip. It takes thirty-five to forty minutes to get to downtown Jacksonville, and it takes one minute to get to my office now."

Although Patterson still takes his clients and their business very seriously, he believes the change has relaxed his practice. "It's not nearly as stressful as it once was," he reports. "I still put on a suit to meet clients, but because I want to, not because I have to." In addition, although he has removed himself from the downtown business nerve center, he finds that his move has indirectly made his marketing and practice development easier. "I'm more selective about the clients that I take. I think that's an advantage for people working out of their homes. Their costs are lower, so their profitability is higher. I'm making more money and enjoying it more than I ever have in my life."

***The Works: The Technology That Makes  
Patterson's Office Work***

- *Computers:* A 486 with 16 MB of RAM and 1.2 GB storage; at least 100 Mhz speed
- *Fax:* Fax and 28.8 kbps modem
- *Telephone:* Local telephone company's voice-mail system

***Technology Configurations***

	<u>Remote Offices</u>	<u>Patterson's Home</u>
Computers	486	486
Server	Windows 95	Windows 95
Printer	four-page per minute capabilities	eight-page per minute capabilities
Copy machines	1	1

***Cost Comparisons***

	<u>Before</u>	<u>After</u>
Telephone	Costs have increased \$100 a month since going virtual	
Rent	\$2,000	—
Insurance	Costs have dropped 25 percent	





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**Chapter 4**  
**The Virtual**  
**Multioffice Firm**

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*Firm name:* Brown & Brown

*Locations:* McLean, Arlington, and Tyson's Corners,  
Virginia

*Year founded:* 1991

*Year the firm went virtual:* 1996

*Number of owners:* Two

*Number of employees:* Before going virtual—  
Three full-time  
After going virtual—  
Two part-time

*Description:* A local accounting firm offering traditional  
services

*How the service mix has changed since going virtual:*  
No change has occurred.

*Gross fees:* Less than \$250,000

*Words of wisdom:* "There are pluses and minuses to the  
virtual office. Because the office is at home, you can  
feel obligated to work all the time. In return, you get  
the chance to spend more time with family and less  
time commuting."

**I**s it possible to operate and be perceived as a multioffice firm when both of the partners actually perform the bulk of the practice's services in their home? One Virginia firm has proven that it is. Brown & Brown is a traditional services firm made up of two partners, who are also a married couple, one part-time accounting employee, and an administrative person who works as needed. The firm performs tax, accounting, and audit services. The partners work out of their home but retain two "shell" offices at different locations. Clients have not been informed of the firm's arrangement, so the switch to the virtual office has been completely imperceptible to them.

## **The Firm**

Steve Brown and his wife, Beth, opened their own firm in a 1,200-square-foot office in Tyson's Corners, Virginia, in 1991. They later bought another practice in Arlington that was 1,200 square feet in size and had a staff of three. "At that point, we had the two of us as partners and two offices," Steve Brown explains. They decided that the firm had too much office space. An attorney friend took over the Arlington lease, although the firm continues to rent an office from him and use his secretary in order to retain a presence there. In addition, a part-time employee works at that office in the evenings. At the same time, the firm closed its Tyson's Corners office. "Most of the rent was paying for file space, underused lobbies, and conference rooms." The partners rented space in a shared office suite in the same town, which has become the firm's official address. "We rent the address and get the use of the conference room." The two partners moved into a finished basement suite in their home, performing between 85 percent and 90 percent of their work there.

The change has saved the partners a total of over two thousand dollars in monthly rent. Because of the success of moving the office into their home, which occurred in the summer of 1996, they have consolidated operations under the new arrangements. "Originally, we had intended to set up some equipment in the shared office suite in Tyson's Corners, but we now plan to have a network set up at home with terminals in the office."

## **Seasonal Changes**

The partners moved the firm during the summer, mainly to enable them to be closer to home while their children were in summer camp. For the tax season, the partners' idea was to get a bigger office in the shared suite in order to have more room to meet clients. But even tax deadlines are easier with the partners closer to home. "In August, for the 1040 extensions, it was real nice not leaving the house at seven A.M. or going back to the office to finish the tax returns at night. Instead, we just come downstairs," Brown says.

To Brown's surprise, he has been very disciplined in the new environment. "I thought I'd never get to the basement. Instead, what I find is I don't particularly come home from work. At quitting time, I go eat dinner, play with the kids, then go downstairs to finish up something." The Browns have two children, ages five and ten, and he says he never would have considered this arrangement when they were smaller because of the possible disruptions. "Now, even though they sometimes forget, they understand that although I'm at home, I'm really at work."

## **A New Home**

The partners will make the Tyson's Corners office the firm's main home away from home, but will keep a presence in Arlington. "We do all our tax season meetings out of Tyson's Corners," bringing client files to that office as needed (all paper files are now stored in the basement home office).

The arrangement offers savings in several areas. The move cost less than five hundred dollars. The firm's rent has dropped from three thousand to six hundred and fifty

dollars per month. In addition, secretarial help is available in the shared suite for under twenty-five dollars per hour. "We get help as needed, and when they're not working for us, we don't pay for it. The big attraction for being there during the tax season is to make better use of the secretary's service."

All telephone calls are routed to the Browns' home. "If we're at Tyson's, we use a cell phone, because all incoming calls go to the home office." The firm has two lines in each location, all connected by a local telephone company's Centrex system. If one partner is at a different location, it is easy to set up a conference call with a few keystrokes on the telephone pad.

If the partners are not home, a voice-mail system picks up after three rings. Both Browns carry pagers that tell them if they have a message waiting. "Usually, we're able to respond in fifteen minutes," Brown says.

The partners pick up their mail at the Tyson's Corners office daily. They have a copier in their house, plus use of the attorney's copier in the Arlington office, and a copy room in the shared suite.

Supervising the part-time employee, who worked for the firm the Browns acquired, has not been a problem. He does monthly payrolls and keypunching, and retrieves the data himself from client offices.

The biggest headache in the shared suite has been lack of access during off hours and on weekends. Thus, if a client wants to schedule an appointment for an unusual day or time, it cannot be held in the suite. However, there are benefits to being permanently "out of the office," and they add up to the reason the Browns have chosen not to tell clients about their new arrangement: Because the firm does not divulge its home office address to clients, none drops in unannounced to disrupt the Browns' workday.

"Even though we may be doing the work at the house, I really don't want clients there," Brown says. "We've always had an office and a way of going about client meetings. I want them to get used to dropping their stuff off and meeting the secretarial staff in the shared suite. I want clients to understand that we're accessible, but they need to make appointments."

The oldest files are packed away in storage in the Browns' garage. They had rented a warehouse storage facility across the street from the Tyson's Corners office, but it was difficult to gain easy access to materials, and the Browns decided that it is much more convenient to have files close to home.

Brown obtained a zoning clearance for a professional office in his home as soon as he moved into it because he anticipated working there someday. The partners' office insurance policy covers all three locations.

A drawback to working in a residential area is the isolation from the business district. "When we had an office, we could call an attorney or banker and hop out to lunch. We can do that now, but not without traveling."

## Technology

To connect the firm's three locations, the partners are combining the capabilities of Windows 95 and Windows NT. It had previously used PC Anywhere. "Our older computers all have Windows for Workgroups," Brown says. "The new ones have NT, and we'll be switching from Workgroups to 95 as we get newer computers." The firm makes use of Windows' peer-to-peer networking capability. The partners are shopping for a server on which to run Novell 4.

The partners are also trying to set up Windows 95 on at least some clients' systems so that they can call in and either operate the clients' systems and print reports, or download data and work in the firm's office. The firm's existing computers have been in use since the move to the virtual office, although they have been constantly upgraded.

The partners have always looked for power in the firm's technology. "Generally, we've had more muscle than any of the clients, which at times could be frustrating." They have purchased a wide variety of software, even to perform the same applications, in order to mirror the clients' software. "We find it's easier to take their data disks and do their taxes by working on their data in their offices than to ask them to do reports or to spend time at their offices ourselves. Usually, in clients' offices, the computers do not have enough memory to print the reports we need, even if they're

on Windows.” If a client has an older version of a software package, Brown will import and upgrade the data to the firm’s level.

They plan to move the firm fully into Windows. “We will be changing all our 16-bit applications to 32 bits as they become available for the stability of Windows.” They also plan to add a mail server that can receive faxes, separate the junk mail, and, finally, sort and deliver the faxes to individual computer mail boxes.

## **Dual Benefits**

Brown believes the virtual office arrangement has both personal and professional advantages. He notes that some businesses praise staff for being away from the office. “When I was with a bigger firm, if you were in the office, you weren’t being productive anyway.”

Although he is certainly being productive in his new setup, he is also getting more time to spend with his family. “When I’m doing taxes at night, it’s so much nicer doing them at home. My kids get to see me.”



### ***The Works: The Technology at Brown & Brown***

**Computers:** 486s being upgraded to Pentiums; when possible, at least 16 MB of memory

**Communications:** One 486 (employed as a communication server for use with FastTax); Windows for Workgroups; Windows 95 and Windows NT; fax with modem

**Printers:** Three Hewlett Packard (HP) 4 printers (Its tax printer has 10-MB memory and an auxiliary 500-sheet paper tray.)

**Telephone:** Two lines in each office; Centrex system

#### ***Technology Configurations***

	<u><i>Brown's Home</i></u>	<u><i>Remote Office</i></u>	<u><i>Remote Office</i></u>
Computers	Pentium computers in all locations		
Server	Windows 95 and Windows NT		
Printer	Hewlett Packard 4	Hewlett Packard 4	Hewlett Packard 4
Copier	High-powered	Use of share copier at both remote spaces	

#### ***Cost Comparisons***

	<u><i>Before</i></u>	<u><i>After</i></u>
Telephone	No change	
Rent	\$2,800	\$650
Insurance	No change	

**Chapter 5**  
**Using the Internet**  
**for Improved**  
**Service Delivery**

*Firm name:* Jack Burson, CPA

*Location:* Boulder, Colorado

*Year founded:* 1977

*Year the firm went virtual:* Early 1990s

*Number of owners:* One

*Number of employees:* None

*Description:* Tax, write-up and—increasingly—Internet consulting for other CPA firms interested in using the Internet as a way to deliver client services.

*How the service mix has changed since going virtual:* Internet-related services in mid-1997 accounted for 20 percent of revenues, up from zero eighteen months earlier.

*Gross fees:* More than \$50,000

*Words of wisdom:* “The Internet will generate a paradigm shift in the way many professional services are delivered, one that will be perhaps even more significant than the changes brought about by the introduction of PCs. CPA services, especially tax preparation, planning and advice, accounting services and support, and many forms of consulting, are especially well suited for delivery through this medium. The results are far more efficient than those of traditional methods.”

**J**ack Burson, a Colorado sole practitioner, has used the virtual office to achieve the following two important goals:

1. Improve his lifestyle.
2. Launch an emerging practice area by creating a high-tech method for delivering services to clients—a method that he now shares with other CPA firms who have become his clients.

## **The Firm**

Burson has had his own firm since 1977. At one point, the firm was a large solo practice located in Houston, but the CPA finally decided that less is more. “In 1989, I made a conscious decision to simplify and go back to a one-person office. It was a lifestyle choice. I make less money now but I enjoy it more.”

## **Finding a Home**

Once Burson made this change, however, he was disappointed by the choices of office space that were available to him. “As a solo practitioner, you’re limited to smaller offices or executive suites. It was never a good fit.” Once Burson took the step to the virtual office, he realized that it was the solution he had been seeking for the last ten years, “but I had just figured out how to do it. And the technology was not available even a few years ago.”

As his main office location, Burson uses the services of a company created especially to serve remote employees or small businesses without main offices. The arrangement includes a receptionist (who answers calls using his firm name and forwards them, if appropriate), plus voice mail, group rates on long-distance telephone service, and an 800

number—among other features. “You get the benefits of a fixed location with nice offices and a conference room and still have the flexibility of working wherever you happen to be.” Unlike one practitioner, who encountered staffing and other problems in the same kind of arrangement, Burson is completely satisfied with his experience. “Their system is configured to offer a custom, Windows-based computerized telephone system. When my phone rings, a screen pops up on the receptionist’s computer with all the information about me: how I want my phone to be answered; where I am—either at my home office or at a cell phone; lists of callers for whom I should be contacted immediately, and those who can wait. All of that information is on the computer screen. The receptionist doesn’t have to remember any specifics about me. Whenever I’m going to be out for a couple of hours or more, I’ll call and let them know where I’m going to be and how I can be reached.”

## **Clients and the Interactive Web Site**

Burson’s clients have been very receptive to his change, in part because he has used his jump into the high-tech office as an opportunity to add an interactive World Wide Web (the Web) site to his practice. Unlike many businesses that try to take advantage of the Web, Burson does not rely on his site to be a marketing tool for his practice. On the contrary, he believes it is misguided to regard a Web site as primarily a marketing tool. “I see the value of the Web site in the delivery of professional services,” Burson says, and he has begun to implement this use in his practice.

For example, a number of clients now submit their financial information to Burson over the Web. “I have forms on my site that they can use for the submission of tax and accounting data so that tax and write-up can be handled over the Internet.” Because of this site, “it’s much easier for them to maintain contact with me and I have several of them submitting data over the Internet rather than by mail or fax.”

Burson chose to use a Web site rather than a bulletin board for client communication because of the wider range of access available on the Web. “Bulletin boards are limited

primarily to the local calling exchange," he notes. "The Web gives you that as well as national and international coverage. I have clients around the country—in California, Texas, Georgia, Alabama—that I've dealt with for years, and I'm using it quite a bit for them."

Burson had investigated using a bulletin board and actually purchased the software and configured the bulletin board, but by the time he was ready to go on-line, the accessibility of the Internet and the World Wide Web made the Web "a better investment of time and resources."

In the earliest stages, clients who submitted data over his Web site made up less than 10 percent of his practice, but 40 percent to 50 percent contact him via email using the site—and he expects the numbers will change over time. "At this point, it's limited because a lot of people don't use the Web and a lot of clients don't have access to it yet," he concedes. "But I would estimate 85 percent to 90 percent of what I do can be done efficiently and effectively over the Internet. And I think we're going to be moving toward that very rapidly. I've tried to build my Web site to accommodate that usage rather than as a flashy marketing tool. As I've learned more, and as new technology comes on-line, I'm continuing to add to the interactive capabilities."

Burson has investigated how other practitioners are using the Web, and so far he has found relatively few who use it as a service delivery tool. He has developed a directory of CPA firms that have Web sites and found only about four hundred that do. "Virtually none has anything more than an email capability or a guest book, where they'll take your name and address and send you information. Only a handful have forms for data submission."

In the belief that this, too, will change, he has leveraged the benefits of his own Web site by beginning to offer similar capabilities to other CPAs as part of his Internet consulting niche, which has grown to represent about 20 percent of his practice.

Burson provides CPA firms with copies of pages from his Web site that can be modified and used to set up interactive pages under their own names, for use by their own clients for data submission. Firms add their own names, addresses, and telephone and fax numbers to the form, and then their

clients are able to submit data and communicate with them just as Burson's clients do with him. "I have eight CPA firms in different parts of the country that are using this form," he reports.

The CPAs to whom he offers this service originally thought of the Web mainly as a marketing tool, but by using their new site's interactive capabilities, "some of my clients are starting to use it as a delivery tool. That's the way I've been promoting it—as a tool for the delivery of services rather than for marketing." He feels strongly about CPA firms' need to reassess the value that the Internet can offer them. "I predict that those who defer adopting the new technology to improve services to existing clients will regret their procrastination." (Jack Burson's directory of interactive capabilities of CPA firms is available at his Web site at [www.olac.com/cpalist/](http://www.olac.com/cpalist/).)

## **Managing the Virtual Office**

Burson does not meet clients at his home office, although they are aware of his arrangement. "I explained to clients what I was doing. Boulder is a relatively high-tech community, with a lot of computer software companies and other technology companies, so a virtual office setup is a little more common here than it would be in other locations." Although many CPAs worry that clients will react negatively if their practitioners move to a virtual office, Burson has noticed an increased interest in his practice "because high-tech people are impressed by an accountant who is using new technology."

To outfit his home office, Burson employed the technology he had been using in his traditional office plus the computerized telephone system provided by the office suite franchise with which he is contracted. The office suite's sophisticated telephone equipment and full-time staff are an improvement over his previous solo office. "Before I had that coverage, I was using an answering machine."

The practitioner reports that his costs have gone down substantially. In his traditional space, he paid total fixed costs of five hundred to six hundred dollars a month, plus a telephone bill of a couple of hundred dollars monthly. The

bill from the office suite, which includes all his telephone charges, has been just over two hundred dollars a month.

When Burson needs help in his practice, he contracts accountants from other CPA firms. He finds that he needs no administrative assistance. Routine mail deliveries, such as subscriptions, go to his home, while business correspondence goes to the office suite, which he visits a couple of times a week. "I'm usually there for client meetings anyway, so that's when I pick up the mail." The office location provides a pickup and drop-off spot for clients, and overnight packages are also accepted there. Burson has added a rider to his home insurance policy for computer equipment, but the cost of this addition was negligible.

Burson relishes the many unexpected advantages of the virtual office. "One of the significant benefits from a personal standpoint is that in an office, at lunch, I'd either go out or I'd have to go home. Now I go out for an hour's exercise at lunchtime. I'm feeling better because I'm getting exercise consistently, which was not easy to do in the office."

As for problems with the setup, he reports few. "To me it's provided a significant improvement in my quality of life." One minor drawback—that he feels could actually be considered a positive factor—is that clients cannot simply drop in unannounced if they are in the area. "They know they have to arrange an appointment." That does not mean that he does not see his clients on a regular basis, however. Burson maintains, "I have always made a habit of going to client offices. I try to maintain a presence in their offices. I've found, over the years, that you build a better relationship if you're actually seen, so they can ask questions and discuss matters without having to arrange a conference or a meeting for small items. That has more to do with the way I've always practiced rather than the change to the virtual office."

Burson has found it easy to adjust to working at home. His wife works in Denver but is beginning to work from their home in the virtual mode for a couple of days a week. One child is in college and another is old enough to take care of himself when he returns from school each day. Burson has little patience for complaints about the potential loneliness of working in a remote location.



“Isolation is a problem that a lot of people are simply going to have to overcome. Many are very resistant to the idea of working alone, but I see it as an ability that will be required in the future. Those who can adapt to it are going to be successful and those who can’t are going to have some problems.” He admits that his background has helped prepare him for his new arrangement. “Having been a sole practitioner for ten years, it’s not as big an issue for me as it would be for someone who’s been in a large office and went cold turkey to this kind of arrangement.”

### **The More the Better**

Burson is committed to continuing with his practice as it is. “What I have now will continue to get better as the technology improves.” He has installed integrated services digital network (ISDN) lines, which expedite Internet access. His next significant addition will be video conferencing capabilities. “It can be done over modem but becomes more reasonable over ISDN.” He explains that one of his larger clients is located in San Diego. “They’re into lots of different ventures and operations and we’re on the phone a lot.” Both he and the company owner visit each other throughout the year. With video conferencing, “I think each of us would probably save enough in telephone and travel to pay for significant additions to each of our systems.”

He also plans to continue offering Internet consulting to other practitioners. He does not worry about competition from the CPAs to whom he sells this service in part because they are in different regions of the country but also, more important, because “to me, this is a mode of service delivery. I don’t see a significant competitive factor in that. My clients choose me because of the professional services that I offer, rather than because of what my Web site looks like.”

In addition, he thinks that greater technological sophistication is to his advantage. “I think the more CPAs use technology, the better off we’re all going to be in the eyes of the public.”

***The Works: The Technology in Burson's Virtual Office***

*Computers:* Pentium desktop; 486 laptop

*Printers:* Two Hewlett Packard printers

*Telecommunications:* 28,800-bps modem and ISDN lines

*Other equipment:* Visioneer Paperport scanner for copying (Burson scans whatever he needs copied, then prints that document); fax machine; cellular phone

*Telephone:* All of these are located in Burson's home; his office suite contains no firm-owned equipment.

Burson purposely downsized his practice, and so cost comparisons with his former office are not applicable.



**PART II**

**USING THE VIRTUAL OFFICE TO  
CREATE A NICHE PRACTICE**



**Chapter 6**  
**A Pension Benefits**  
**Boutique**

*Firm name:* Ed Johnson & Associates

*Location:* San Antonio, Texas, and Atlanta, Georgia

*Year founded:* 1995

*Year the firm went virtual:* 1995

*Number of owners:* One

*Number of employees:* Before going virtual—Seven

After going virtual—Five

*Description:* A firm specializing in pension benefits

*How the service mix has changed since going virtual:* Firm members continue to perform the same kinds of engagements they performed when working in a division of a Big Six firm.

*Words of wisdom:* “The virtual office adds more productive hours to a day and hundreds of dollars to your paycheck.”

**C**PA Ed Johnson was part of a pension benefits section of Ernst & Young (E&Y) when the Big Six firm decided to sell off that business in 1995. Johnson chose to purchase the practice and to run it as a virtual office. He retained a small office in a CPA firm's suite, and his employees work entirely from their homes. The practice performs valuations for 401(k) plans. The firm began with three former E&Y staff and has added two new people: one manager in San Antonio and another in Atlanta to serve clients in each of those locations. Sarah Henderson, a senior manager of the firm and the nerve center of its operations, describes how the firm has thrived in the virtual format.

## **The Firm**

“When Ernst & Young decided they wanted to get out of the benefits business, we had to make a choice about what we wanted to do,” says Henderson. “I had always wanted to work out of my home. We looked at different office arrangements but realized that this was an opportunity to do what we had always wanted to do.” After working twelve-hour days and on weekends for the larger firm, the prospect of being able to spend more time with her family was very appealing. “It was an idea whose time had come.”

Henderson describes the firm's niche as one that is “three inches wide and twenty miles deep. Our clients are employers who sponsor plans for their employees, and we range from small plans up to plans for ten thousand employees. There are all different kinds of plans—pension, profit sharing—but the big driving force in this field is 401(k) plans.”

Henderson says her job was easily adapted to the virtual office. “It's a very computer-intensive job, but I am completely capable of producing an 800-page report for several thousand employees in my home office, using my laser printer. We get our data from the payroll department



because they are withholding the contributions from people's paychecks. Then we align two different systems: We look at what money the people have put in, then we look at the trust side, at what the investments are and what money is going out to people who leave. We calculate the earnings and then tell both the employer and the employee how their money has grown and what kind of investments they've had. It's all driven by formulas and computer work."

Three E&Y alumni came to the new firm: Ed Johnson, Henderson, and another senior manager, Jodi McDonald. "Because we're a small company, we all wear different hats," Henderson says. For example, besides producing reports for clients, the firm members might do some accounting and marketing. At E&Y, they had been part of a pension benefits department of seven, but four chose to remain with the larger firm and enter its tax practice.

For the nascent firm, "The timing couldn't have been better. The change was made over the Christmas holidays. If you have large employee populations, you do quarterly valuations on the calendar quarter. So when we left the large firm, we had done three-quarters of that year's work for all of our clients. We assured the clients that we are the same people handling their work, we work with the same software and hardware, which E&Y sold to us. We have the same commitment to quality. We wanted a seamless transition. And it basically has been. We kept all of the old clients through the first year or so," she says.

After that, they faced challenges that are common among small firms. Henderson explains that the pension benefits field is undergoing a technology change. "The industry had been doing quarterly processing, where all of the record-keeping is done on an accrual basis. For example, the money that's withheld from the December paycheck doesn't really go into the trust until January, so there are big time delays. The industry is in transition from that kind of recordkeeping into what's called *daily valuations*. It's a matter of applying mutual fund industry technology in valuing people's money in units or shares and having the value of those shares change day by day."

Updated technology is necessary to perform these daily valuations—technology the new firm did not have. "The

E&Y clients were large national companies. Many of them changed to daily valuation systems within the first year of the new practice and it's only within the last several months that we had the resources to go out and buy the additional technology needed to do those systems." As a result, even though the firm's profits remain solid, it lost some large clients.

## **Geographic Diversity**

The virtual office, on the other hand, provided only benefits to the new firm. One reason that it was easy for the firm to adapt to a virtual office is that firm members had traditionally served clients as far away as Georgia and California. "None of our clients has ever been to our offices. Our physical location has always been completely irrelevant to their notion of who we are and what service we provide because we have never been affiliated with a building or a set of offices. They contact us by phone, so from that perspective, it was a completely transparent transition."

At E&Y, the practice served clients with five hundred employees and over. Because the firm is now much smaller, and because Texas has a lot of smaller employers, the practice now serves clients with over fifty employees. The shift to smaller clients has nothing to do with the switch to the virtual office, Henderson says, but occurred instead because firm members are now affiliated with a much smaller firm.

## **Technology**

All of the firm members had stand-alone PCs that the firm bought from E&Y. Each firm member had an existing home office, so the basic start-up costs were low. Installation of added telephone lines cost under two hundred dollars at each location. "The phone lines were the key cost," Henderson says.

For those starting from scratch in a virtual office, Henderson advises focusing on software rather than hardware costs. In her field, for example, the specialized software the firm needed was extremely costly, while the purchase of hardware entailed a much smaller outlay. "For

under four thousand dollars, you can get really world-class computers," she notes.

One mistake the firm made early on, according to Henderson, was the attempt to save money by buying a laser printer that was housed in office space the firm rented. "We rented a main office to give us extra credibility," she explains. "We put the laser printer there with the idea that we would do our work in our home offices, then do the printing at the office. That was a huge time waster." Firm members realized that the alternative was to spend two thousand dollars to put a printer in every remote office location and save the hours of time spent running between the home and the main offices to pick up hard copies. The Hewlett Packard printer now in Henderson's home cost about two thousand dollars and produces seventeen hundred pages in one and one-half hours. "The quality and quantity for the money is remarkable," she says. "And it's got years left on it.

"One thing we didn't understand early on was that having completely independent production facilities in each person's home was really critical. We thought we'd be able to share resources. But for the money involved, it was very clear that the time we were spending this way was costing us more than the initial outlay for the laser printer." Spending the extra dollars on independence and convenience was a very good decision, Henderson says. For very large jobs, firm members might sometimes use commercial copiers, but on a daily basis it is best to have everything they need immediately at hand.

The firm now consists of five people: The three original E&Y alumni plus the new managers in San Antonio and Atlanta. Each has a fax at home. With this equipment, firm members find that cheaper is better. "We all bought thermal paper faxes but we sprang for a plain-paper fax in one location and it hasn't been worth it. We really haven't gotten our money's worth because it doubles as a copier, but it's not a high enough quality or quantity copier to justify the cost. We could get better service and quality from a commercial copier." The firm members do not have copiers in their homes; they rely on local copy shops.

## Staying in Touch

The firm conducts weekly staff meetings that are held around Johnson's dining room table, with the Atlanta manager participating by telephone. Johnson serves as the reviewer of all the managers' work and as the marketing person.

Firm members have daily contact by telephone or email. "Our work is not interdependent," Henderson explains, because each staff member has his or her own clients to serve. "However, we're working on similar software and we run into similar problems." The firm members are not connected by a network, but the company pays for individual accounts on the same Internet service provider and the staff find it easy to transfer information via the Internet when necessary.

For those who work at home, Henderson believes that it is critical to be in daily contact with a colleague or someone else who has a similar assignment even if only through a ten-minute telephone conversation. "The purpose of our staff meetings is to share what we're doing, our personal goals. It gives us a sense of being a group that's moving in one direction."

Each firm member has a personal home telephone line, plus one business line and one for a fax/modem. In the beginning, the firm members each had only one line for both business and personal use, "but it just wasn't worth the small amount saved." The local telephone company's voice-mail service picks up when firm members' lines are busy.

The firm has had to make unusual investments to make its setup work. "We spent a lot of money on file boxes," Henderson says. "We take boxes of things to Ed for review." Quarterly projects fit neatly into accordion files, which are stored in the main office after year-end. Inactive files go into Henderson's garage. Like many virtual offices, this one takes protective measures to safeguard files. For example, separate liability coverage has been added to homeowners' policies, and files are backed up every night, with copies of each file kept off site at another firm member's home.

## Home Away From Home

The office in the CPA firm's suite is 12 feet by 15 feet. The telephone line is connected to the other firm's switchboard and is answered by the firm's receptionist. The pension-benefits firm can use the CPAs' secretaries for an added cost, but this happens rarely.

"We have found that professionals can easily meld administrative duties into their days," Henderson says. Each firm member has taken on a clerical responsibility. For example, her garage is the mail room. She has a workbench with binding materials and whatever else is needed for routine mailings. Because the firm mails statements directly to plan participants, however, its needs sometimes are too great to be met in Henderson's garage. For these projects, the firm contracts with a local company that stuffs envelopes and groups them by zip code for bulk mailings. "It ends up costing less than a 32-cent stamp," Henderson reports. When it has needed extra services, the firm has found that any extra duties can be easily outsourced, thanks to the explosion of new businesses that have been formed to perform these tasks. "It makes the need for secretaries and support services just evaporate. We've been real pleased with how much we've been able to buy from outsiders."

Client mail goes directly to each firm member's home. Although no members have left the firm yet, assignments have been switched. If that happens, the new person assigned to the engagement sends the client a letter, introducing him- or herself and explaining how to make contact. "There have been no complaints," Henderson says. The small volume of mail that goes to the main office is disruptive only to those who must retrieve it, Henderson says. Billings are sent to the firm's post office box, which Henderson checks every day. Staff send out their own bills to clients and Johnson keeps track of the invoices.

## Choosing Employees

The new arrangement suits Henderson perfectly. "Because of all the time I spent in jobs that had long, demanding hours, it will be years before I get enough of working

at home. I'm able to be productive and feel good about what I'm doing professionally and also be at home." She admits that there can be drawbacks. "If it weren't for the daily contact with my colleagues, I would suffer from a sense of isolation. That contact gives me a lot of moral and social support."

For employees working alone at home, "it's absolutely critical to be self-motivated. You must be goal-oriented and completely committed to what you're doing. You can't work with someone who needs supervision in this context because there's no way to supervise. What criteria would you use?"

To ensure that work is being performed, Henderson recommends using a clearly defined, objective productivity threshold measured by income. "This situation lends itself very nicely to using income rather than hours, because who cares when you work?" The firm's Atlanta staff member has chosen to do a great deal of her work beginning at 10 P.M. each evening because those hours fit best into her family's schedule. "She's highly productive and profitable."

In line with this philosophy, the firm is less stringent about recording time. "It's evident that the staff are putting in the requisite hours if they are productive enough in terms of work and billing." The firm does not use time and billing software. "That's something we gleefully left behind at the big firm," Henderson says. After trying to record time in the beginning, the firm essentially stopped doing so. "We realized that what was important wasn't how time was being used but how much money we were making."

## **A Satisfied Employee**

Henderson, the mother of two daughters who are eight and eighteen, is extremely happy with her situation. "I wouldn't change anything," she insists. "It's so wonderful to be here when my daughter gets home. I don't stop work, but I'm here." Henderson recalls the heartbreaking choices she once had to make between working late—whenever she was facing deadlines in her old firm—and seeing her family. "Now I can meet my client commitments and have dinner with my family."

Henderson feels her life is better integrated than it was when she had to rush to work and adjust to corporate culture every day. “Now I am one person who plays a lot of roles. I’m a mom even if I’m working. I’m a dedicated employee even if I’m serving dinner.”

Another advantage Henderson has discovered is a decline in personal expenses. “I spend 20 percent less money than I used to on gas, lunches, and business clothes. Within the first two months, I noticed how much more money I had.” She also notes there is less wear and tear on her car. “It will last ten to fifteen years because it only gets driven ten miles a day. Add to that the productive hours you gain every day by not commuting.” Thus, the change has economic as well as quality-of-life benefits.

The firm also has fared well in the new environment. Despite some necessary adjustments during its initial years, it has been successful. “Our first year out, the work was handed to us. We were all able to keep our E&Y salaries,” Henderson says. “In the second year, we didn’t get raises, but we have bought new equipment and software and completely paid them off.”

The firm believes that as it continues to grow, its virtual office arrangement will put it in an excellent position to recruit top employees. “I see us using the virtual office as a major strategic recruiting tool for the future,” Henderson says. “People who do what we do are very hard to find, and we can effectively compete with any employer in the nation because of the way we do our business.” Johnson plans to have as many as ten or twenty other employees around the country handling the 401(k) daily valuation technology. “We can attract the very best people in the field because we can offer amounts comparable to what they’re already being paid and increase their quality of life so dramatically. This business requires long hours—with the virtual office you can do it without abandoning your family.”

***The Works: The Technology in  
Henderson's Home Office***

*Computer:* At first, a Dell 486 from E&Y, which has been upgraded to a Pentium 166-Mhz model

*Printer:* HP LaserJet 4

*Telephone:* Fax/modem

***Each Firm Members' Home Offices***

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Computers	1
Server	Files transferred via Internet
Printers	1
Copiers	0

Cost comparisons are not applicable because the firm was a division of a Big Six firm in its previous incarnation.





## **Chapter 7**

# **Long-Distance Employees Give a Marketing Edge**

*Firm name:* Information Management Associates

*Location:* Honolulu, Hawaii; remote employees in California and Connecticut

*Year founded:* 1990

*Year the firm went virtual:* 1995

*Number of owners:* Two

*Number of remote employees:* Five remote full-time employees

*Description:* A technology consulting firm

*How the service mix has changed since going virtual:* No change has occurred.

*Gross fees:* \$500,000

*Words of wisdom:* Firm leaders should visit remote employees regularly to ensure they retain a bond with the firm.

**C**onsultants have long known that office location is not an important factor if they are serving niche clients across the country. For one consulting firm in Hawaii, however, location did become an issue. That firm found that creating virtual office satellite locations on the U.S. mainland gave it the advantage it needed whenever it faces more conveniently located competitors.

## **The Firm**

Information Management Associates (IMA) was founded in Honolulu in 1990 as a consulting services firm that provides information management services. Seventy-five percent of the firm's revenues come from its consulting work for a software company, PeopleSoft, located in Pleasanton, California. In addition, the firm performs software development support on client server applications. There are two partners in Hawaii and five employees who live in either California or Connecticut. The firm has retained local consulting clients who have been unaffected by the switch to the virtual office.

## **Improved Access**

IMA's employees are certified consultants on software produced by PeopleSoft. The software developer does all the development and marketing. Any client who buys a product is also referred to the independent certified consultants who can install the software and train client employees on its use.

After IMA began working with PeopleSoft, representatives asked the firm if its employees could service assignments on the U.S. mainland. Vying for assignments on the mainland presented a challenge to the firm. "There are other certified consultants, so we are actually competing

with them,” explains CPA Tom Ueno, an IMA partner. “When people look at our address and see Hawaii, they say, ‘Oh, it’s going to be expensive to fly you guys out.’ That’s why we started the virtual office. We can hire people on the mainland and keep them there. If there is an assignment in Tennessee, and we tell the prospective client that our person who will work with them lives in Connecticut, the reaction is, ‘Oh, well, we can just fly them in.’”

The firm retains a small main office in Hawaii. Most of the firm’s work is performed on the mainland for Fortune 1000 clients, although it has some clients in Europe and Australia. Assignments can be as short as one week or as long as three to four months.

## **Hiring the Best**

To find employees, the partners advertise in local papers on the mainland, screen the resumes, check references, and narrow down the pool to a handful. The last step is to fly out to interview prospective staff members.

The virtual office setup has not changed the firm’s hiring process. “The people we need as consultants have to be experienced,” Ueno says. “When we go to a client, the client expects our people to know more than their people. I tell the people we hire that we assume intelligence. When we hire people, we have only two criteria—we want them to be smart and we want them to be fun. That’s it.”

Qualifying as “smart” isn’t easy, however. The firm normally looks for at least three years of software applications development experience. Candidates must have a minimum 3.5 college grade point average. In addition, all new employees go to a PeopleSoft training course. “They must finish in the top 25 percent of the PeopleSoft training class that they’re sent to,” Ueno says. “If they don’t, it’s just over.”

After a new employee’s PeopleSoft training, he or she usually spends a week in Hawaii getting to know the partners, the firm, and its standards and procedures. If employees set up their own home offices, the firm pays three-quarters of the cost of remote staff members’ choice of computer equipment. “We want them to make some investment,” Ueno says. The firm covers the costs of travel, email, and

telephones. Since employees only meet clients at the clients' locations, the firm has no rules about where staff members' offices must be located or how they should be outfitted.

## **People Problems**

There have been no serious problems with the logistics of having remote employees or with the quality of service given to clients. The remote employees "have initiative and intelligence," Ueno says. Most have worked for large employers in the past—including the Federal Deposit Insurance Corporation and state governments—but seem to have no trouble adapting to the independence of the virtual office.

It takes between two and three months to replace an employee—a long time for a small firm. Ironically, the firm's only difficulty with its virtual office arrangement has been a result of the very factor that makes the arrangement viable—the long distances between the firm and its staff.

"When something doesn't work, it's because you don't have face-to-face contact with employees," Ueno says. "Especially when you have young staff." IMA has failed to retain some good employees because they apparently did not develop a strong bond with the firm. "There's no loyalty to the firm, and they start looking someplace else," Ueno explains. In one case, the firm lost a staff member with five years of previous experience who was highly qualified, had finished at the top of his class in the PeopleSoft training course, and had done well with his first client assignment. "But he didn't have enough interface with us," Ueno says, so he took another offer not long after starting with the firm.

To combat this problem, the firm has tried to make employment with the firm an attractive prospect. One strategy is to offer staff members training in areas that are of special interest to them but that will also benefit the firm. Subjects might include education in the use of another vendor's program or in networks or other technology. The firm might also send a staff member to computer conferences. "We want to show them that we care and that we'd like to develop them professionally," Ueno says.

Also, in late 1996, the firm launched a new initiative to eliminate the employee retention problem and, more important, to help put a ceiling on salary costs. IMA has formed an alliance with a much larger software applications development firm. Under the terms of the agreement, IMA will call in this firm's employees to carry out assignments whenever it needs them. Although it will retain its own employees, the arrangement vastly expands IMA's personnel without the usual concomitant costs.

"It's a strategy of risk aversion," Ueno says. "We have people available when we need them, but our downtime is zero. If we cannot use them, we're not burdened with payroll expenses." In exchange for using the employees, IMA splits the profits from the engagement with the other company.

## **Making It Work**

The following sections provide a detailed description of how IMA manages its practice.

**Communications.** The partners and their employees generally stay in touch by telephone or email. At one time, the firm relied on the fax a great deal for communications, but this was not always reliable as a way to reach consultants on the mainland.

In one instance, cost consciousness turned out to be the best approach to technology. "We are a small firm and we watch our costs carefully," Ueno says. "When PeopleSoft first tried to tie us all together, they started with Lotus Notes. But that was a large investment for us, so we delayed our decision. Now we don't need it—we use the Internet."

**Payroll.** One hassle involved in having remote employees is understanding payroll issues in different jurisdictions. "We are paying people in different states, and I have no idea what the laws are in all these states," Ueno says. So the firm has outsourced its payroll function. "That works well," he says, "but it's expensive because we don't have that many employees. The breakpoint is fifteen people and we're much smaller."

**Files.** The firm does not retain many paper files. PeopleSoft requires the documentation of all expenses, so the firm asks employees to send in all expense documentation, and copies are kept at the Honolulu office. IMA has developed a time report. Employees fax or email completed forms to the firm, which then emails them to PeopleSoft for bill preparation. Generally, the firm's administrative needs are small, and it retains no administrative staff.

**Paperwork.** All billings and other administrative mailings are done from the main office, but remote staff members use their own addresses and telephones to work directly with clients.

**Hawaii Standard Time.** The time difference between the firm and its employees is no problem, according to Ueno. "There are very few conversations that are time critical. The employees can always leave a voice-mail message. We tell them that when they leave messages, they must not just tell us they called, but tell us why, and we will get back to them." The firm prefers email for transferring documents because not all employees have faxes and because of the convenience of transferring files.

## **The Personal Touch**

In working with remote staff, "the most important thing is to keep people motivated," Ueno says. "It's hard to do by telephone only. You've got to talk to them and email them—and you have to visit them once in a while." When they come to visit, the partners typically spend the afternoon and then go to dinner with the employee. "You don't do it every week, but if they're on a job, at least every other month, you go visit," Ueno advises. "It's expensive, but they can talk to you and get to know you in a different context."



***The Works: The Technology in IMA's Virtual Office***

The following technology is in the main office.  
Technology in remote offices varies.

**Computers:** Three desktops: Zeos 386, Zeos Pentium 133, Dell Pentium 160; two laptops: Zeos 486, Dell Pentium 133 (Ueno considers multitasking, sufficient RAM, the fax, and Internet access to be the most important computer features.)

**Printer:** HP LaserJet, HP DeskJet color printer

**Communications:**

- Fax machine
- Telephone with three lines ("Nothing special," according to Ueno, "just a message recorder with it so we can pick up messages remotely. The firm uses an answering machine rather than voice mail.)
- Small copier (Large copying jobs are brought to an office services store.)
- Pagers (Firm members have discontinued carrying these because they were never used. The firm has a cellular telephone for emergencies.)

Cost comparisons with previous practice do not apply since the main office remains in existence.

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**Chapter 8**  
**Litigation Services in the**  
**Virtual Office**

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*Firm name:* Harris & Associates

*Location:* Littleton, Colorado

*Year founded:* 1992

*Year the firm went virtual:* 1996

*Number of owners:* One

*Number of employees:* None

*Description:* A solo practice devoted exclusively to litigation services

*How the service mix has changed since going virtual:*  
Exclusive focus is now on litigation services.

*Words of wisdom:* The virtual office works well for a practice that is devoted 100 percent to consulting.

**M**any CPAs fear that moving to a virtual office carries a stigma. They worry that clients and peers will believe the change was made not as a shrewd or farsighted business strategy but because of financial or other problems facing the firm.

At the same time, practitioners who have specialty practices often either offer services to other CPAs or rely on them for referrals from among their own clients. One stumbling block in this kind of relationship is the referring CPA's fear that specialists may take away clients because they also perform some traditional services. That fear can prevent a specialist from gaining new referrals.

A CPA specialist in Denver who recognized this problem has found a way to use his virtual office setup as a marketing advantage. Because his practice and its location are so unconventional—and because it is so clear he is not seeking clients for traditional services—he has found it easier to network among his fellow CPAs and build a thriving litigation services practice.

## **The Firm**

Jack Harris launched his own firm in 1992, intending to perform litigation service work exclusively. Now, he does not do tax returns (he even hires a CPA to do his own taxes), financial statements, personal financial planning, or any other traditional services.

Harris opened his firm in Omaha and moved to Denver in April 1996. In Omaha, the firm was located in a shared office suite. Although he liked the idea of having a virtual office in his home, he believed he needed to locate his firm out of his house because he had just left his employer and was worried about clients' perceptions. "I thought the appearance would be that I got fired, and I was just hanging around the house as a consultant." The problem was magni-

fied, he believed, by his intention to offer the kinds of services performed by consultants, not those traditionally associated with CPAs. "I was afraid that *consultant* would be taken to mean that I am somebody who got fired and now has a business card."

Harris believed the shared office suite would lend needed credibility. "I thought, 'If I'm paying rent somewhere and I have office space, then that'll overcome that perception.'" Surprisingly, the traditional office and his new firm gained such a positive image that it slowly became a problem for his practice.

"I found I was taking on some traditional work because the phone would ring and someone would say, 'Hey, I met you a year ago, would you do my taxes?'" As time went by, I was doing about one hundred tax clients and some financials, and I was getting spread too thin."

When Harris and his wife had the opportunity to move to Denver, he seized the chance to rebuild the practice as he had originally intended. The relocation itself caused no problems for his litigation services work. "It's so specialized that it doesn't really matter where I live. I've been hired in California, Wyoming, Minnesota. And I still do a lot of work in Omaha, so the move really didn't affect my niche."

Harris concentrates on construction contract issues, though he has general expertise in contract disputes. "Typically, there's a developer in litigation with the contractor, or it's a contractor versus a contractor. I'm called in to do claims analysis, forensic accounting, cost supportability, and damage calculations."

Harris has also done some business valuation but does not actively pursue such engagements. "A lot of business valuation is done for estate planning purposes, because a firm is putting together a family limited partnership and they need a CPA to perform a valuation. The CPA might be called upon to defend his or her work with the Internal Revenue Service (IRS). I don't want to deal with the IRS. I'm not afraid of them; I just don't want to deal with them." Harris has a similar aversion to taxes. "I understand taxes, but I just got so frustrated because it didn't make any business sense. It's not like revenues and expenses. It's more a matter of finding the right box for the right number."

Harris does pursue due diligence engagements in acquisitions, analyzing one side's finances and financial situation. He feels confident about his facility with financial statements. "I can find pretty much anything in a set of books."

## **A Marketing Advantage**

After he settled in Denver, he found that accepting traditional services created new problems for his fledgling practice. "A friend would ask me to do his taxes, so I'd have to buy the software. Then I'd have to take on more tax work to pay for a one-thousand-dollar piece of software."

Performing tax and other services also posed competitive problems for his litigation services practice. Harris tried to promote these services among other CPAs who had construction clients, but they perceived him as a general practice CPA. "I'd talk to them about my niche, but they'd say, 'Well, you do all this general work, why would I send you business? You might steal my client.'"

Since Harris was starting his practice from scratch in a new city, he decided that a radical break from traditional services was the best way to establish himself as someone who was not interested in tax or accounting and auditing engagements. "To me, the virtual office is a nineties buzzword for working out of your house. But I thought, 'If I have one, that will help prove I'm not a general CPA. If I have voice mail, a fax, everything associated with it—there's no way I can be a threat to some other CPA's practice.'"

By promoting himself as someone devoted exclusively to litigation services, Harris has been able to gain potential clients' trust—and their business. "There's a CPA here in Denver who has a highly successful general practice focused mainly on construction. He's got about two hundred contractor clients and he does their financials, taxes, business advice, whatever. If one of those clients, or someone related to those clients, gets into a dispute, the CPA's got a conflict. He can't do the work."

Harris targeted this CPA firm as his first major marketing prospect in Denver. After mailing an introductory letter, he contacted the practitioner and asked him to lunch. The letter had described Harris's niche in detail—and empha-

sized that Harris performs no other accounting services. “Right away, he realized the benefit of my services,” the consultant says. “He’s got the experience to do what I do, but he can’t do it because he has a conflict,” according to Harris. “If his client gets into a dispute, he runs the risk of getting chewed up on the witness stand.” The opposing counsel would have ample reason to question the independence of a CPA testifying for his own tax or accounting client. But that is not the case with Harris, who has no other relationship with any business that uses his litigation services.

Harris says the CPA he contacted was relieved to find a CPA-litigation expert who performed no other accounting services. “In the past, his client would have to go down the street to some other CPA. He told me he’d be biting his nails, worrying that he might lose the client to the other firm. He said, ‘Now I’ll send my clients to you.’”

Harris has gotten engagements from this practitioner and has referred work to him when it was appropriate. “So that whole strategy has really paid off tremendously,” he says.

## **An Unusual Background**

Most of Harris’s professional experience was gained working in internal audit for corporations involved in construction or financial services, performing much the same kind of analysis he does in his litigation practice. His solo practice works, he says, because a lot of small to midsized companies do not have someone in-house who can do a wide range of financial analyses if there is a contract or other dispute. “Typically, if there is litigation or potential litigation, the company will engage an outside law firm to represent it in a dispute.” When Harris was an internal auditor for corporations, “I would be assigned to the outside attorney as their nondisclosed adviser. Clearly, I was not independent, so if we needed an independent person to work with them and testify in court, I would turn my work over to that person or provide whatever documentation was needed. So I learned the process throughout my professional career. I really enjoyed it, and I think I really got good at it. I learned all the pluses and minuses and pitfalls.”

Harris believes it is his job to be proactive. “Mentally, I picture what the end results look like,” particularly to a nontechnical audience. “How is the attorney or the judge going to interpret my work if the charts and graphs are not explained? They’re going to think it’s worthless.”

Harris tries to bring an analytical perspective to what can be a theatrical process. He actively seeks to suggest compelling but workable methods to present an argument. “If I know a bell curve won’t work, I’ll come up with a bar chart and tell the attorney why it will explain the client’s position.”

Harris tries to make regular marketing efforts, but he believes his work is his best advertisement. One advantage in litigation services is that many lawyers on both sides of the case may see an expert witness’s report. “That’s the best exposure,” but such word-of-mouth efforts do not always work fast enough. Attorneys do not like cold calls, according to Harris, so he has found mass mailings of his brochure to be the best option.

## **The Virtual Setup**

His home office is a 14- by 15-foot space separated by French doors from his living room. He never receives clients in this office. “That’s the nature of the practice. When I evaluated the three years I spent in an office suite in Omaha, I recalled that there had never been a single occasion when a client came to my office. Usually, an attorney called me to work on a project and asked me to come to his office.” Harris did research the shared office suite options in Denver and found that he could use conference space on a daily or hourly basis. Although he has not needed this service, he plans to use it if, for example, an out-of-town client arrives for a brief visit.

The shared office suites also offer on-call secretarial services, which Harris has used to put together mass mailings of marketing brochures. He reports that the local suites offer corporate image programs, in which a secretary at the office answers a business’s telephone with its company name, then routes the calls to wherever is necessary. Harris, whose practice serves fewer clients than a traditional firm would, has not used this service.



Harris maintains a mailing address with a company that franchises mailbox locations. He does this mainly for security reasons, because he prefers not to have his home address or telephone number on his business card. In addition, due to the confidential nature of some of his work, a secure destination is essential. He points out, for example, that some express mail services leave deliveries on doorsteps, but his mailbox address will hold packages for him. The franchise offers other services, as well, such as the use of its copier. After working for many years in large corporations, where a copy machine was around every corner, he was surprised to discover that having one in his home office was not essential. "I find that the less I write down, the less I get chewed up in court. Whatever documents the client sends me become my working papers." He keeps a ledger for each client in which he logs in his time, then sends bills at the end of each month.

Because he typically is working on only a few lucrative engagements, Harris performs all his own administrative work, except for marketing mass mailings, which he farms out. "I try to charge a rate that's high enough that if I get eight hundred to one thousand hours a year, I'm more than happy. If I'm billing that amount of hours a year, I don't have a lot of bookkeeping. I don't receive one hundred checks a month. I receive two to four checks a month that are each worth thousands of dollars." Harris relies on Quicken for his bookkeeping and has a CPA do his taxes as part of his complete break with traditional CPA services. "When I got out of it, I said to myself, 'I'm never doing another tax return manually again. My CPA charges me three hundred dollars and it's done.'"

The cost of outfitting his new Denver office was minimal. He furnished the new office with furniture he had purchased for the shared office suite in Omaha when he launched his own firm there. He also had a desktop computer and a laptop that he bought when he went on his own. The major outlay was the installation of a separate business line at home that rings only in his office, "because I have a seven-year-old who likes to answer the phone." Since he receives a high volume of faxes, he has a separate fax line for a machine that is on all the time.

Another cost associated with his move was the redesign of the trifold firm brochure that he mails in a legal-sized envelope. In Omaha, Harris used a brochure he designed himself using Microsoft Office and had printed locally. For his new Denver venture, Harris hired a graphics design company that created a logo and completely redesigned the brochure using his ideas. "I said, 'Let the creative juices flow.'" Total cost of the new brochure was five thousand dollars, which included new letterhead and business cards, plus some advertisements for Harris' firm and the cost of mailings. "It really looks a lot better, and I've gotten that money back many times over. I target mainly law firms. When I send out five hundred of my new brochures, my telephone activity is much better than it was when I was using the old brochure, and I attribute that success to the quality of the mailing. I may not get a project immediately, but I'll get calls or correspondence telling me my niche looks interesting and asking me to go to lunch. To me, that's a major win, if I can get in front of somebody and explain what I do and how I can help them. My response increased dramatically just by spending the extra money." Harris got a response when he used the old brochure, "but I had a feeling in my stomach that it just didn't look right."

Personally, Harris has adapted his business appearance to his practice, which in his case means taking on an image that is slightly different from that of the average CPA. He will wear a suit to meet an attorney or go to court, but that attire may not be appropriate in a construction client's office. "If I go to a job site, the people there, including the owner, are wearing blue jeans, so that's what I'll wear. Typically, I don't wear a lot of suits; I want to roll up my sleeves and start digging in."

In addition, he says, "I don't need a fancy car." He has a Bronco truck that is almost nine years old. "I go out to these construction sites, and all the construction workers gather around and say, 'Wow, this is a cool car.' If I pulled up in a BMW, it just wouldn't look good. Contractors are very, very cost-oriented and cost-conscious. If I send them a bill, the first thing they're going to do is look it over carefully. I worked for a major contractor for years, and every nook and cranny of every cost was scrutinized very carefully because

the business is very competitive. It's a difficult business. So I keep this old car. It's got some door dings, but that's fine."

## Communications

Harris has taken advantage of the Internet, but the response has not been encouraging. He has a home page on CompuServe that he built using that service's technology, and has put out postings on on-line accounting and legal forums. "I'm still trying to wade through the Internet to see how it will benefit me. I really haven't had time to figure it out." Harris's Web page allows visitors to send him email, but he did not receive any during the first few months after the page was up. But Harris lists his home page address on marketing correspondence and expects to receive responses once people who get the correspondence try to contact him. The Web page has a shortened version of his brochure, his firm logo, and his picture. Harris received help in building the page from his brother, who came by his Web page expertise the hard way after paying a consultant \$250 to build him a page. Once the page was up, the consultant disappeared, but Harris's brother didn't know how to modify the page or find answers to other questions he had. His reaction was to learn about Web page construction for himself.

Harris believes the page has value even if it does not receive regular visitors. "If someone does a keyword search, I want my information to pop up. They can call me or send me an email." Harris also has an 800 number, which is popular with clients.

Harris is rarely away from the office for long periods, so his only remote link with the office is voice mail. He also bought a cellular telephone in 1997, which he uses to check his messages. It took him a long time to decide to make that purchase. "I typically don't have emergencies. I may get two important calls a week. If I get engaged, the revenues are significant so I don't have a bunch of small assignments that I need to attend to. Every attorney I'm engaged with right now has voice mail, so they're satisfied to leave me a voice-mail message." Nevertheless, Harris checks his voice mail frequently when he is away from the office. "I don't want to lose an account. There's too much money involved."

## Staying Virtual

Harris finds that the virtual office has had a positive effect on his work habits. His wife works outside their home and his son is in school, so his workday is uninterrupted by domestic activity. “I can’t think of a negative aspect” of the virtual office, he says. Harris does not try to conceal his office arrangement, but he does not volunteer information about it either. His lack of employees is a selling point with many attorney clients, who value the fact that working with Harris’s firm carries no risk of a breach of confidentiality or conflict of interest. In addition, Harris performs all of the work on their engagements, which adds credibility during testimony.

Having turned his unconventional office setup into a marketing advantage, Harris is reluctant to change. Other professionals have offered to share office space with him, “but once I start associating with them and their clients, even just by being in the office, then I run the risk of appearing to have a conflict of interest in court. I don’t need to share an office with other CPAs to network with them.”

Harris plans to remain virtual. At some point he may take on an employee, although he is uncertain what role this person would play. At the moment, he borrows staff from other CPAs or engages other practitioners to perform second reviews of his reports. He usually charges his clients for these services, but even if he does not he appreciates the comfort of having added help or another professional’s opinion.

Harris foresees the possibility of hiring an administrative assistant with a knowledge of spreadsheets. “I build a lot of spreadsheets and perform modeling, and there are a lot of times I think I could just turn this over to somebody else. I’ve got all the mechanics set up and it would take them a day to do it, while it might take me half a day.” Another option would be to take on another practitioner in order to diversify the practice. “It might make sense to bring in a partner with a different niche that complements my own.”

***The Works: What It Takes to Run Harris's Practice***

***Computer:*** One 486, 50-megahertz Gateway DX2 desktop computer (purchased in 1993) and a 486 Compaq laptop

***Office equipment:*** He has a thermal fax machine, an adding machine, and a handheld calculator.

***Telephone and fax:*** AT&T telephone and a voice mailbox offered by U.S. West; an 800 number and call forwarding (In his home, Harris has separate telephone lines for his business telephone and fax.)

***Software:*** Microsoft Office; Quicken; Quick Books (He prepares about one-half dozen invoices on Microsoft Word once a month: "I can crank them out in a matter of minutes.")

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Cost comparisons with Harris's previous setups are not applicable.

**PART III**

**ROAD WARRIORS: INSIGHTS  
FROM REMOTE EMPLOYEES**



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**Chapter 9**  
**A Partner in Another State**

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***Firm name:*** Botello Matthys and Polansky, LLP

***Location:*** San Antonio, Texas

***Year founded:*** 1986

***Year the firm went virtual:*** 1996

***Number of partners:*** Four

***Number of employees:*** Eight full-time employees

***Description:*** A local firm performing tax, audit, and litigation support services

***Gross fees:*** \$800,000

***Words of wisdom:*** Before launching a remote office, firms should test all equipment on-site, and staff members should become self-sufficient with computers and peripherals.

**C**an a partner be involved in a firm if she does not live or work in the same state? One CPA firm has found a way to remain intact despite the cross-country relocation of one of its key people. Her success as a long-distance partner has prompted the firm to consider whether more firm members can benefit from the virtual office concept.

## **The Firm**

The firm was founded in 1986 by Paulo Botello, a specialist in litigation support. It now has four partners (one is doing litigation support, two are in tax, and one is an audit partner), eight CPAs, and a total of twelve personnel. It has grown from a 1,000-square-foot office to one housed in 6,500 square feet of space.

## **The Choice**

Many of the firms studied in this book emphasize the importance of planning ahead for a virtual office and, if possible, trying it out on a limited basis before jumping into it with both feet. The firm of Botello Matthys and Polansky inadvertently got the opportunity to do just that because of a development in the life of tax partner Laura McNutt.

“I made partner in January of 1995,” she recalls. “In February of 1995, my husband took a job as director of the Museum of History in Raleigh, North Carolina.”

In addition to the obvious dilemma, the couple also had a son who was completing high school, and they were reluctant to move him to a new school at that point in his studies. Since both McNutt and her son needed to be in San Antonio, her husband commuted between Raleigh and Texas for eighteen months.

Apart from her personal reasons for wanting to remain in Texas, McNutt had strong professional incentives. “I had a

great desire to continue working with my client base,” she says. For one thing, she had established a reputation in San Antonio. “It takes too long to reach a point where clients are just coming in by referral.”

More important, however, was her long-standing personal and professional relationship with her clients. McNutt had been with her firm since 1991, when she left Ernst & Young (E&Y) to join other former E&Y and Arthur Young (AY) partners in the current firm. “We had clients who had followed us from AY to E&Y, and then to this firm. I had been working with some of these people for fifteen years. You become very much a part of their routine and their family. They become friends.”

At the same time, relocation is a regular part of her husband’s profession, so McNutt had to consider the practicality of starting a new practice in Raleigh. “He could relocate again,” she says. “Then I’d be creating little firms all over the place or working as a staff person while I built up a practice again.” For all of these reasons, “I never thought for a minute that I’d part with my practice. And my partners were very anxious for me to remain part of the firm.”

When McNutt’s son graduated from high school and went off to college, however, the family no longer needed a residence in San Antonio, so she was faced with difficult choices about her living arrangement. “Early during the tax season of 1996, I decided I needed to pull my family back together, and I set a time frame.” She told her partners she wanted to try to remain with the firm while spending part of her time with her husband in Raleigh—fifteen hundred miles from San Antonio. Her partners said they would go along with any arrangement she proposed. And so, in August 1996, McNutt began commuting regularly, spending half the month in each state. McNutt plans to schedule one day a week to do practice development in North Carolina. “I do hope to develop a practice here but I don’t want to sever the one I have.”

### **A Close-Knit Firm**

The firm has worked hard to create an atmosphere in which members work together. McNutt says she has built a

personal and professional chemistry with all of the members of her firm, and has a long-standing working relationship with tax partner Ed Polansky. “We really enjoy working together and we approach everything as a team,” she says. “If I bring in a client, I always want the client to know Ed, and if he brings in someone, he introduces me to them. So when a client calls, if one of us is unavailable, they have someone else they can ask for.”

This approach has been very important in making McNutt’s arrangement work. “If a client has a crisis during the time when I’m not in San Antonio, it’s very easy to say, ‘I can’t be there for that three o’clock meeting, but is it okay if Ed’s there instead?’” She adds that this solution is feasible only because of the firm’s philosophy concerning clients. “A lot of people in our profession are very possessive about clients—they don’t want them to have contact with other firm members. We just don’t operate that way. It takes a team to service this account. We’re all equal players on it, from the receptionist to the partner. We’re here to take care of these people any way we can do it and the best way we can.”

The rarity of this attitude was another incentive to remain with her current firm. “Because that was a very special arrangement and relationship, I wanted to preserve it.” In addition, firm members speculated that once McNutt tried the virtual office, it might turn out to be a possible option for others. “We had a desire to experiment with this concept for the future,” she says. “We really believe that down the road, this is the way to go for the service industry.”

Perceived advantages include the possibility of reduced office space costs and the chance to offer employees flexible schedules. “We have three people on flextime right now, CPA moms who wanted more time with their families. Our goal is to have them set up like this down the road. That’ll help us all. They’d love to do it tomorrow.”

McNutt maintains a close relationship with her staff. She has up to five people working for her—including all of the firm’s flexible employees. “We’re a team,” she says. “Nobody’s better or smarter than anybody else. It takes every one of us to make things happen.”

The firm itself is in the midst of some big changes. In the near future, McNutt and Polansky plan to become a

separate firm under the umbrella of the old firm, which would perform litigation support exclusively. The two partners would take the flextime employees with them. At the same time, their current office lease on 6,500 square feet of space terminates soon. The firm would like to have new quarters that are half the size of the old ones. "We have all this office space and we have cut down on staff." The firm has begun to rely more on seasonal workers and envisions a space in which there are fewer offices and more staff work in a shared area.

The firm's goal is to learn from McNutt's experiences and begin to establish other firm members in remote locations, albeit closer to home than Raleigh. Tax partner Ed Polansky will be the next to try out the arrangement. "He is very anxious to work from home," McNutt says.

## **The Advantages**

McNutt has a lot of positive results to report, including increased productivity. "When you're in the office, you just can't get a darn thing done," she says. "You end up working late into the night because that's the only time the phone stops ringing." Actually, even though isolation is a complaint among home workers, McNutt counts solitude as a major advantage. "Being able to sit down and focus on a project without interruption is amazing and wonderful because it's impossible to do in the office." To preserve her work time, she is trying to establish set communication periods between herself and the office. Although the telephone has been the most important means of communication between McNutt and her office, it can become a disruption. "The first couple of weeks I was doing this, I'd have a thought, and I'd pick up the phone. They'd have a message for me, and they'd pick up the phone. I couldn't get away from the phone. Now, I check my email every hour, and if there's something critical they call." McNutt also has a set calling time, and the firm members hold their communications for that one telephone call. The office and McNutt are able to exchange mail twice a week because they rarely have to do anything on an emergency basis—and if there is a rush they rely on the fax. In addition, she and Polansky communicate by email frequently at night.

McNutt also orchestrates her visits to the office. She informs the receptionist ahead of time about which files she will need, and by the time the CPA arrives, those files have been pulled, laid out, and are ready to use.

Other staff with an interest in working from home follow McNutt's exploits carefully. "Folks who are anxious to do it are always asking me, 'So, how's this week going? How soon do you think we can do this? It looks great.'"

## **Telling Clients**

Among her clients, many were aware of her arrangement with her husband and were surprised they had maintained their long-distance commute as long as they had. Some were struck by her conviction that she could continue to provide services to Texas clients. "But, really, you're working with clients on the phone all the time anyway unless you schedule a meeting. Day-to-day, there is no difference between taking care of people from this phone than from my desk phone in San Antonio."

Her goal from the beginning was to make the arrangement as transparent for clients as possible. In fact, some clients did not know about it for several months because she wanted to tell each one in person. She retains her office within the firm's suite. "When I step in, it's as if I've never been gone."

Informing clients of the change was easy, McNutt says. On each return trip to Texas, she met with another client to discuss her arrangement. Until all clients had been informed, the people answering McNutt's telephone in the office told them that she was out of the office, which was true, or on the telephone, which was also very likely true. "I didn't want the people in the office to have to cover for me in a way that would make them uncomfortable, but I wanted to tell people about my arrangement face to face," McNutt says.

A handful of McNutt's clients have her direct telephone number. "I don't want everyone to know my number here because I'll wind up answering the phone all day like the receptionist does." If she calls clients who don't have her home number—and who may not even know her situation—

she leaves a message for them to call her office telephone number. When these clients call the office, the office receptionist contacts her.

She attributes the positive client reaction to her firm's philosophy of client service. "The clients tell us, 'Nobody else jumps and serves us when we call.'" McNutt describes the extra gestures that she has made for clients, when she can, such as feeding their pets or picking up their mail if they are away. "I joke about being a circuit rider, because I'll swing around and visit so many clients before I get to the office. By the time I get to the office, I have animal hair on my clothes and runs in my stockings, but, boy, if the pets love you, you're in."

She believes that this approach is part of what makes her practice—and its highly unusual setting—successful. "I think the secret to this business is responding to people. I never wait to return a phone call. There are plenty of people who are located in the same town as their clients, but the clients won't get a response from them for a day or two." In her new setup, "as long as I'm responding to them and getting work to them when they need it, then they feel as taken care of as they did before."

## **The Home Office**

McNutt has to make some adjustments in order to be in sync with her Texas colleagues. For example, she tries to keep the same hours as they do even though they are in different time zones. "Being on the phone with a client at eight o'clock at night is no big deal," she says, explaining that this was standard practice even when she worked in Texas.

She has always had an office at home, so that, too, is not a big change. Her advice to home workers is to set aside a separate space and equipment that are exclusively for work; create an office with its own telephone and telephone line, plus a computer. "No one in my family even knows my password," she says. She has established working hours that her family respects.

McNutt maintains professional decorum in her home office. "I don't sit here in my jammies," she says. Her family

leaves the house at quarter to seven in the morning, and she is in her home office by seven, fully dressed as if for a traditional office. When the arrangement began, McNutt and her office exchanged overnight packages daily, but they have learned that this is unnecessary. Instead, they ship packages as needed, about twice a week.

Maintaining the appearance of professionalism can sometimes be a challenge, McNutt admits. "One problem occurs if you're on the phone trying to make it appear that you're in your office, being very professional, and your cat cries or your dog barks or a courier rings your doorbell. The client says, 'Was that a dog?' And you say, 'No, I don't know what that was.' That's the kind of thing that really blows it."

The bottom line for the firm's virtual office is negative because of McNutt's travel costs. The firm has had to make decisions about whether to pass on McNutt's costs to clients. For example, is her car rental related to client work? Is the hotel? For the moment, the firm covers all of her costs because her experiment is really a trial run for its own planned future virtual operations.

The firm provided McNutt with her computer, and she purchased her own laser printer, fax, and telephone for her Raleigh office. With some remote experience under her belt, she has decided that laptops rather than desktop computers are best in a remote office. "I can just take the machine back with me to San Antonio. I don't have to handle diskettes." Because the newer laptops can be upgraded, and therefore are less likely to become obsolete, she believes her firm will offer them instead of desktops to remote employees in the future.

McNutt, who continues to perform all her duties as a tax partner, goes to Texas for two weeks out of each month during the busy season. She stays in a hotel when she is in Texas—a one-room efficiency with a kitchenette and bathroom. She has resisted more luxurious accommodations because she spends little time in the hotel; she usually stays late at the office or goes out to business dinners. When she gets to town, she shops for snacks and breakfast foods—but little else—to keep in her hotel room. "If I'm not staying late at the office, I try to meet a client or a partner for every lunch and dinner so that I'm seeing people the whole time



I'm there." Despite the regularity of her visits to Texas, she thinks that an apartment there would be unnecessary. She has been happy to scale back to only one residence after eighteen months of having two. In addition, she likes the maid service.

The hotel costs about two hundred dollars for a ten-day stay. Under the arrangement, she pays a set rate for a seven-day stay, then gets a reasonable rate for any days beyond that. The accommodations are not elaborate, but the CPA says the hotel is clean and she feels safe, because there is a security guard on duty. She prefers hotels that allow residents to enter through a central lobby over those with rooms that must be entered off a parking lot because of the added safety, but if she is in the latter kind of hotel, she simply asks for a room near the office, and she says she has never felt scared. "It's certainly cheaper than it would be to rent an apartment and only use it half of each month."

McNutt and her partners believe that because of the transient nature of her husband's work, the sojourn in Raleigh is not permanent and that she will be back in Texas in five or ten years. "Otherwise, I wouldn't have done it." The partners have made the arrangement work "because we all do different things. All we need is a common ground and a good presence for the clients. Some partners work very closely, but partners in different fields work very independently of each other."

## **Technology Regrets**

The biggest headache that McNutt has encountered is her own lack of familiarity with the mechanics of the hardware and software that are so vital to her setup. "I'm very well able to move around within software, but when I hit a problem, I don't know what to do. That has been my greatest personal frustration."

Because she made her move in the midst of a deadline, she did not have time to walk through her new system with the firm's computer expert and then practice to work through the uncertainties or potential glitches. "I couldn't really run through all the paces beforehand," she remembers. "I worked on it with him for about an hour, then he

shipped the computer to me.” If she has problems, “Since I’m not good at diagnosing, we’ve gone in circles trying to fix it. Every day I learn and every day I think, ‘You shouldn’t have pawned this off on other people. You should have invested the time to really understand the technology.’ I think that will be a problem for many people, especially those from large firms, who have relied on computer staff people to get them over the bumps.”

The firm uses a consultant as a computer troubleshooter. “I’ve got his 800 number,” says McNutt, “and I know everybody in his office.” When she calls, she and the consultant read through computer screens together, trying to discern the problem. Because of the pitfalls she has encountered, she strongly advises that firms make sure remote equipment is totally operational in their new settings well before a practice intends to rely on them.

McNutt finds irony in her lack of sophistication. “It’s funny because I work with a lot of women who are either divorced or widowed and who have their own wealth. We spend a lot of time talking about the fact that they have to understand and control their resources. And I move out here and I don’t know how to do anything on my own with the computer. After lecturing female clients about self-sufficiency over all these years, now I’m getting a dose of my own medicine.”

McNutt regrets all the years when she picked up the telephone and said, “There’s something wrong with this machine. I’m going to leave the office for a while to work and you fix it.’ I’ll never do that again. You need to know about behind-the-scenes workings of your computer whether you want to or not.”

She vows that she and other firm members will become better acquainted with their office equipment. “When they’re faced with computer glitches, some people just pick up the phone and say, ‘Help! I’m leaving, can you make this work before I get back?’ Before we initiate virtual offices with any other employees, we’re having a massive on-site training session.” A typical problem for McNutt will be that a printer stops working and she does not know what steps to take to make sure it is hooked up correctly. Another frequent pitfall is a program that is not copying to the right

drive. She knows that she needs to change the drive but does not know how to do this.

“I hit bumps because the software I use is so varied. Word and Excel are pretty easy together, but when I jump into a tax program, I have to have a whole different set of fonts. The other night, I tried to download a font but I never did get one that looked like what I get in the office. So I gave up, and said ‘I’ll stick with my regular fonts.’ Then I couldn’t get the printer to forget the fonts from the tax program.” That hassle took two and one-half hours, and “that’s how every day goes—I’m facing new glitches. I learn something from each one, but it’s my greatest frustration.”

Although there are drawbacks to being fifteen hundred miles away from the firm’s computer expert, McNutt has found advantages in her home setup, too. “When you’re on a network in the office, you have to go down the hall to get what you’re printing. In my home office, everything I need is right here.”

The firm has taken pains to protect itself from possible viruses coming from McNutt’s computer. Using her Pentium computer, she can dial into the office, and the system recognizes her telephone number and lets her in. In the future, when more firm members will be working at home, the firm will address concerns about security and possible virus infestation by switching to a process in which the caller is cut off and then called back. McNutt communicates with only one computer in the San Antonio office but can email anyone in the firm over the Internet.

Because she is not on the office network, she is denied access to some important programs. Billing and collection is one example. The partners enter their time once a week, then the office manager generates bills and the partners do the billing. McNutt cannot access the office manager’s time and billing program since it is available only through the office network, which McNutt cannot enter. The solution is to get hard copies of the office manager’s records, do the billing, and return them to her. The firm is looking into the possibility of exporting the office manager’s data to a Word or Excel file.

She believes the limitations are worth the trouble. “If I send a virus over now, I can contaminate only one machine.

After battling a virus on our system that was imported from something we got off the Net, I became convinced that getting rid of a virus is really a nightmare. The one that got into our system was on every file. It wasn't even really destructive, but if it had been and had gotten into tax returns, it could have wiped out the practice in an afternoon. For an accounting firm, security is critical, but so is the risk of having everything wiped out in one fell swoop. As you build a tax practice, you accumulate a database of returns that is carried forward every year. If that prior-year file is destroyed by a virus, then everything starts from zero again."

McNutt says the remote access options on Windows 95 are the key to her setup, allowing her to call into the office computer to which she has access, retrieve files, download them, and then go off-line. The package was installed by the firm's computer consultant and, "It was set up so any fool can run it. There's a little icon that says 'dial to home office.'"

McNutt acknowledges that it is inefficient in public accounting to allow someone with a high billing rate to spend several hours figuring out why the printer is not working. "But that's one price to pay if you go solo," she warns.

## **The Virtual Future**

The firm has definite plans to establish as many employees as possible in virtual offices. One of the main questions concerns how much of the cost of the change will be absorbed by the firm. McNutt's case is unusual. The firm has absorbed all her costs, including those for travel and hotels during her stays in San Antonio. But if future remote employees are in the San Antonio area, the firm's only expenses should be for a computer to maintain remote access and telephone lines.

The plans for expanding virtual operations call for retaining a central office in which a receptionist and office manager would work. The firm makes the most of its employees' skills. "Our receptionist may do data entry and client write-ups, or type letters or proposals. We've really worked to make it a charge position." For its virtual opera-

tions, the partners envision having a greeting area, the office manager's work area for personnel and payroll work and firm records, a meeting room, and a large open work area with cubicles. It does not plan to give up the main office altogether. "We will continue to have an office and a presence, but not 6,500 square feet. We hope to pay higher salaries instead of higher rent."

The firm would have left its current space if it had not had a five-year lease. "We would have loved to have gotten out of that space or traded it for a smaller office." While waiting to go virtual, the firm has leased out some of its space to other professionals—an anesthesiologist, a nutritionist, and another virtual firm run by a CPA. (See chapter 6, "A Pension Benefits Boutique.")

The firm plans to create other virtual offices for members in preparation for the end of its lease. "We have a huge conference room and another one we've converted to offices recently. That's space that is never used," McNutt explains. Three of the firm's eight CPAs have flexible schedules, and each retains an office within the firm's suite. "They could and would prefer to do their work at home. They could come to the office for client meetings or whenever they're needed. With the audit staff, our goal is that they will never be in the office—they're supposed to be with clients all the time." She notes that people are willing to work with professionals who are not local. "We have clients who have investment advisers all over the country." She points to hoteling, the concept used by large firms in which some staff members have no permanent offices, as a practice that could be adapted at smaller firms. "The need to have floors of office space has become a thing of the past."

***The Works: The Technology That Runs  
McNutt's Home Office***

***Computer:*** A Dell Pentium computer with keyboard and mouse

***Printer:*** HP OfficeJet model 350; a multifunction machine that serves as a printer, fax, copier, and scanner

***Telephone:*** Sony cordless telephone with answering machine; cellular telephone

***Most useful technology:*** Remote access capabilities of Windows 95; telephone; fax

***Network:*** Remote access allows McNutt to network with the firm's local area network.

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Cost comparisons are not applicable because the firm is not fully virtual.



**Chapter 10**  
**A Far-Flung Consultant**



***Firm Name:*** Boomer Consulting

***Locations:*** Manhattan, Kansas; and a remote firm member, Roman Kepczyk, in Tempe, Arizona (The Boomer Consulting division is housed in a separate building across the street from Varney & Associates in Manhattan, Kansas. The two buildings are connected with underground cables for telephone, cable, network, and fiber optics. The new building has a complete training center with a classroom with twelve computers.)

***Year founded:*** 1996

***Year the firm went virtual:*** 1996

***Number of owners:*** One

***Number of employees:*** Six full-time

***Number of remote employees:*** One full-time

***Description:*** A consulting firm that provides technology coaching and guidance

***Words of wisdom:*** "Make sure you really love your work and that you can do it in isolated circumstances. I enjoy the projects I do and can't imagine doing anything else. This keeps me focused on the work at hand rather than being pulled away by the multitude of distractions available in the virtual office."

**I**n September 1996, Boomer Consulting became a separate, fully owned division of the thirty-six-person firm Varney & Associates, under the direction of CPA L. Gary Boomer. One firm member, Roman Kepczyk, is a full-time principal in the firm, but his home base is in Tempe, Arizona. The firm consults with clients to provide technology coaching and guidance. Firm members also perform speaking and writing engagements. The majority of Boomer Consulting's clients are CPA firms, banks, hospitals, universities, and foundations.

## **The Firm**

When Boomer Consulting was formed by Varney & Associates in Manhattan, Kansas, in 1996, Roman Kepczyk, a computer expert who had been working for another firm in Phoenix, Arizona, came on board to concentrate on providing consulting services to CPA firms. Kepczyk and firm director Gary Boomer decided that Kepczyk would remain in the Southwest for the following three reasons:

1. Much of Kepczyk's work is performed on the road, and Phoenix is better than Manhattan, Kansas, as a hub for travel throughout the United States.
2. The majority of Kepczyk's projects are either performed on his own or in collaboration with Gary Boomer. Since Boomer also is on the road a lot of the time, the two habitually communicate electronically rather than in person, making physical proximity unnecessary. As a result, location is an insignificant factor in their work together.
3. Kepczyk enjoys living in the Phoenix area.

## **The Transition**

The new division began on a trial basis in February 1996. It was decided that Kepczyk would continue working from his home in Arizona until the division's official launch in September. Since Kepczyk was this division's first employee, it was easy to tailor firm policies and procedures around his remote location. As their planning progressed, the men realized the arrangement was working well. "Things were going great, so we decided in July that I would stay in Phoenix permanently," Kepczyk says.

Since its launch, the division has added five other people—one consultant, two administrative people, and two technicians—who work in its traditional offices in Kansas.

Because the division was new, clients either knew the CPAs already or had no expectations about employees' whereabouts. And because of the nature of the practice, few clients are actually in Kansas. The consultants usually arrive at a client's office from out of town, and clients are not concerned about where they are from or where each division member's office is located. The division refers to Kepczyk's location as "the Tempe office," and most clients know that he lives and works in Arizona.

Kepczyk already had a computer in his home, so his start-up costs for a laptop, telephone, printer, and peripherals were minimal. One important cost consideration is the money saved by his arrangement. For example, he estimates that the cost of an executive suite with facilities comparable to those he has in his home would run about six hundred dollars per month.

## **Working Together**

Firm policies have been written to ensure that all client and project data that Kepczyk handles are backed up and archived in a central location—the Manhattan office. Permanent files are kept in Manhattan, and Kepczyk receives paper or electronic copies of all files that he works on.

Firm members communicate by phone, email, and pagers. Kepczyk uses Office Logic for internal communications, Pegasus for the Internet, America Online for all his

associates and family, and CompuServe for other business contacts.

Kepczyk carries a Skytel pager with national coverage so that he is accessible anywhere. Kepczyk's pager can compose and respond to messages directly from the pager. He dials into the local area network in Kansas using ReachOut software and a Cubix card.

The division members in Kansas fill most of Kepczyk's administrative needs, such as benefits administration and other issues. Billing and collection are handled by Gary Boomer and firm member Sandra Wiley in Manhattan. Wiley coordinates all the billing with each firm member. "I get a production analysis, usually the week after a month closes, so I know exactly how I am doing. We review team goals monthly and individual goals quarterly."

Kepczyk's compensation is based on completed projects, not hours, although he keeps track of his own hours in order to monitor his progress in reaching personal goals. "My contract was completely customized," he says, to match the benefits he received at his former firm and to base his earnings on results.

Gary Boomer reviews Kepczyk's work regularly, throughout all projects, before anything becomes a final product. Since Gary Boomer is the last person to review a project—and his home base is in Kansas—once he has signed off, the Manhattan office can put the report on division letterhead, take care of any necessary binding or other needs, and send it on to the client.

"Communications is the key," Kepczyk says. "We're pretty good about sending emails all day long and calling. For instance, I talk to the office at least a couple of times a day and check my email about that often. That gives me direct, one-on-one contact with the people back there so I know what's going on all the time." Since Kepczyk is in a different time zone from his colleagues in Kansas, he adjusts his schedule to work during the same hours as the Manhattan office, beginning in Tempe at 6:00 A.M. and finishing by 5:00 P.M. each day.

Kepczyk performs all of his own personal administrative work. "Everything I have to do from here—such as time sheets—I have to do myself." He has a personal express

mail account that allows him to dial a number, punch in his code, and then leave a package on his doorstep for pickup.

The firm has faced some difficulties in coordinating medical benefits because of differences in what is available in different states. Kepczyk's paycheck is mailed to him because the firm banks with a local Kansas institution that does not have affiliates in Arizona.

## **The Home Front**

Kepczyk works out of an office in his home. All of Kepczyk's business equipment is covered by the division's insurance. His homeowner's policy covers liability and personal equipment.

The firm pays only for his direct expenses for telephone and supplies, as well as for travel, hotel, rental cars, and meals for trips to clients and on his monthly visits to Kansas. Kepczyk has no problems with zoning since running a business out of one's home is allowed in Arizona as long as any related activities cannot be seen from the street.

Kepczyk integrates his equipment to perform various tasks. For example, if he has small printing jobs, he uses his scanner to scan the document into his computer, then prints it on his laser printer. For large print jobs, he goes to a copy center.

Because he planned for the venture for two months before it started, Kepczyk has had few problems with the setup. He says that he would have liked to have had his current computer when he started. "We did some heavy-duty work early on and a 75-Mhz laptop with 8-MB RAM barely cut it." In addition, the firm has been frustrated in the attempts made to transfer large amounts of data over telephone lines: "We are installing an ISDN line to handle the multiple capabilities needed."

Kepczyk's main ongoing complaint is the lack of nearby computer support. Fortunately, because of his experience with his former firm, he had already become familiar with support providers in the area. He now relies on a local computer consultant to perform maintenance when he needs it. "You need to have local support to get your equipment fixed quickly," he says. "There's no way I could ship my machine to Manhattan to get it fixed."

Although many firms that move to a virtual office shed their employees and use independent contractors instead, Kepczyk does not believe this practice is advisable. "I think employees are better from the firm and client perspective in terms of continuity and trust," he says. He thinks that the optimum assignments for remote workers are specific, measurable projects. "They are the best bet because they can be done completely by the virtual employee with little supervision."

To prevent some of the interruptions experienced by people working at home, Kepczyk places his office off-limits when he is working. If disruptions appear unavoidable, somebody relocates. "If family events are going on in the home, I plan to work outside. If I have conference calls scheduled, my wife takes our son outside." Kepczyk's wife works until one o'clock in the afternoon every day, and their son also is away during that time. "I usually take a long lunch when my family comes home."

Steps such as lunch with the family are one way to dispel the feelings of isolation that people working at home often complain of. Kepczyk admits this can be a problem, but he has found solutions. "Sometimes when I'm grinding out a project, and I don't go out of the house all day, I do get a little isolated. So once or twice a week, I go to work in a library." He reports that Tempe's public libraries have study rooms with conference tables. "I get a small conference room and spread things out, just to change the scenery a little bit." The rooms all have doors, but they also have glass walls, so Kepczyk can experience the bustle of a traditional office environment but is still able to focus on his work.

## **A Break With the Past**

Kepczyk's setup is quite different from what he had at his former practice. "I had a staff of eight at my old CPA firm plus administrative support, and they were great." But he is more than pleased with his arrangement. "This is a dream job. I wrote out my goals a few years ago and one thing I wanted was to be able to work on the road—any place and any time. This was the best opportunity to do that."

Kepczyk feels his experience has proven that the virtual office works. “Gary and I are confident that we can operate our consulting practice from any location that is convenient to an airport.” He even foresees changing his locale to match the seasons. “Long term, I would like to work out of a virtual location in a cooler climate during the summer months.” He also believes the firm could take on more employees working in virtual offices because of the nature of the practice.

Gary Boomer and Kepczyk find it easy to collaborate on a remote basis. The two colleagues hold to unconventional—and hectic—schedules. “We work some odd hours,” Kepczyk says. During an upcoming trip, he expected to work from 7 A.M. until 10 P.M. for three days. “But then the whole project is done.” A typical travel scenario had him flying to Oakland, back to Phoenix, on to Kansas City, and then to Dallas.

He does not expect his situation to remain static. “I feel our services will continue to evolve. Our practice focus is always pushing the leading edge and our services have to change with it,” he says.

### *The Works: The Technology in Kepczyk's Office*

*Computers:* Micron 133-Mhz laptop with 16-MB RAM, 1.3-GB hard disk, active matrix screen, 28.800-kbps modem, 4x CD-ROM drive, 3.5-inch floppy and two lithium ion batteries providing over four hours' road life (Dialing into a Pentium computer using a Cubix card allows access to the network.)

Also, a Professional 486-DX2/66 Mhz with 20-MB RAM, 1-GB HD, 15-inch monitor, 4x CD-ROM, 3.5-inch and 5.25-inch floppy drive and Soundblaster 16 sound card, which serves as the fax machine and personal home computer; also, an Iomega Zip Drive

*Printer:* HP LaserJet 5L with 5-MB RAM, 600-dpi printer

*Scanner:* Visioneer Paperport for quick scans; Logitech Color Hand Scanner

*Telephones:* One business line with two telephone numbers (voice and fax) (If the line is busy, all calls are routed to a messaging service that he can retrieve from anywhere); call forwarding

*Most important computer features:* Central processing unit speed, random access memory, and hard disk space: "Can't have too much of any of them," Kepczyk says.

*Networking:* Kepczyk dials into the Manhattan local area network using ReachOut and a Cubix card.

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Before/after and cost comparisons are not applicable because the firm is not fully virtual. However, Kepczyk estimates that the cost of an office suite to house his office would be about six hundred dollars a month.





**PART IV**  
**PRACTICAL INSIGHTS**



**Chapter 11**  
**What Didn't Work**



**S**ometimes, the best way to learn about the benefits and feasibility of a new venture is to understand the potential pitfalls—the common challenges faced by others who have tried it. This chapter features details on the hurdles that one mid-sized firm faced when it attempted to allow a number of employees to work at home. (For this specific example of a firm that learned through experience, see the section in this chapter entitled “A Trial Run With Mixed Success.”) It also discusses the problem areas identified by the subjects of some of the other case studies in this book.

## **Equipment**

Reliable computers and communications are vital to any virtual office. That means that if related equipment does not function, a practice’s work can come to a crashing halt. If a screen suddenly freezes or a file cannot be found, those who are working at home or at another off-site location do not have the luxury of switching to a different task while the firm’s computer support technicians repair the problem. They must either become their own support technicians or know where to find help fast. Here are some guidelines for responding to glitches as effectively as possible:

*Be prepared for everything to fail at least once—usually at the point when it is most needed.* Practitioners who expect snafus and have emergency plans to address them will have the smoothest experiences in the virtual office. The following are suggestions for anticipating and responding to glitches as effectively as possible.

1. Either buy duplicates of small, inexpensive equipment, such as adding machines and tape recorders, or know where they can be purchased in a hurry. Imagine what tools you would need to complete a project late at night, or under other unusual circumstances, and then be sure you would be able to perform the work even if any of

those tools were to fail. Do not overlook even the smallest items. For example, a defective splitter, an item that costs a couple of dollars and connects several telephone lines into one jack, can bring office communications to a standstill until the problem is discovered and corrected.

2. Install separate, dedicated telephone lines for each of the office's most important needs, such as regular business calls, faxes, and computer modem, depending on your usage of each. A minimum of two telephone lines—with two of the essential functions sharing one line—is advised, for two reasons. First, clients are less likely to receive busy signals when trying to call or send a fax, which promotes a perception of the virtual office as a more professional environment. Second, if there is trouble on either line, even a technology novice will find it easy to transfer functions to the working line by simply switching wires on the telephone jack.

It is also a good idea to investigate the voice-mail system offered by the local telephone company or another vendor. Callers are sent to voice mail instead of a busy signal, and multiemployee firms can set up a separate mailbox for each worker.

If you are evaluating your virtual firm's need for what may seem to be luxuries, such as cellular telephones and laptop computers, remember that, in a pinch, these apparently inessential items can replace a malfunctioning telephone system or a computer gone haywire. Backup arrangements can keep an office functioning when all else fails—literally.

3. For communications equipment, consider investing in the equipment maintenance plans offered by manufacturers, local vendors who sell the products, or local phone companies. Although these plans can be a complete waste of money if they are never used, they can also be a very valuable insurance against breakdown if a remote worker needs assistance. Be prepared, however, for the likelihood of occasional long delays when scheduling service appointments. Remember, too, that

even with a maintenance contract, a small firm often does not get the attention afforded a larger business.

*Know where to get help.* Roman Kepczyk, a peripatetic principal of a firm in Manhattan, Kansas, who does all of his work from a home office in Tempe, Arizona, has identified a local computer consulting company that will offer technology support when he needs it (see chapter 10, "A Far-Flung Consultant"). Jack Harris, a sole practitioner who performs litigation support in Denver, relies on a local shared-office franchise for clerical help to put together mailings and do other administrative work (see chapter 8, "Litigation Services in the Virtual Office"). There are a growing number of franchises and local businesses that provide a variety of services to home-based businesses and workers. Practitioners should be familiar with the options in their communities, including what services are available and how to use them.

For example, many local office supply stores and even pharmacies and other small retailers offer outgoing and incoming fax service. If a fax machine breaks down or if telephone lines stop working, a practitioner can keep business functioning as usual by giving an alternative fax number to anyone trying to transmit documents to the firm. In addition, it is a good idea to explore the services offered by the local branches of chains of shared-office space franchises, in which a number of small businesses each have quarters in one suite, usually with a shared receptionist, waiting area, and conference room. Although some practitioners had complaints about these operations (see "Office Suites" on page 151), they sometimes offer temporary administrative help, which could be valuable to practitioners facing a deadline. Other franchises offer users a mailing address that will accept overnight packages and related services.

*Become proficient in the use of your own equipment.* As noted by Laura McNutt, the tax partner of a San Antonio, Texas, firm who works part of the time from a home office in Raleigh, North Carolina, it is dangerous to rely on computer support technicians instead of learning to solve your own problems (see chapter 9, "A Partner in Another State").



## Communications

For Janet Caswell, the biggest headache was finding sophisticated communications technology suited for a small practice. "We spoke with several of the larger phone companies," she says, "and although they told us that they could provide us with the system that we wanted, when it came down to it, they couldn't do it." Caswell wanted to receive clients' telephone calls directly at a remote location. As a result, "the client was usually forced to leave a voice-mail message, instead of getting through to us the first time. Also, the long-distance telephone company does not have voice mail, so we had to tape and glue together the capabilities of two competing companies." She ultimately switched to a very effective, more costly alternative.

Pagers were also a problem for Caswell. "Initially, the national company pager coverage was not broad enough in our local market. It was soon corrected, but at first we had problems being paged whenever we had voice-mail messages."

## Staffing

According to John Gill, under the virtual office arrangement, it is much more difficult to hire and retain staff, especially accountants with three to five years' experience. Gill reports that during the summer of 1996, his firm went through three accountants in one month when he hired them to work in the firm's remote location. The remote location is an office in a suite owned by another business that contains two desks and two computers and housed no other firm employees, except a shared receptionist. "These employees did not work well without supervision in the front office," even though Gill met with them each morning and afternoon.

"It's tough to find someone who feels comfortable with that arrangement," he says. "The employees were junior-level accountants, and they had a different idea of what it means to work for a firm. They wanted to be in a cushy office with perks and people to talk to." Gill says more senior employees are also difficult to find, but that those

who look hard enough will find many seasoned bookkeepers, for example, who are willing to work out of their homes. He also believes that more and more senior-level people will become available as professionals at this level opt out of firms and corporate life because of lifestyle conflicts. "There has been an influx of women into the profession who have now come to a point where they want to spend more time with their kids, and, in general, there is a bigger population of people willing to work from home." Another hiring advantage is that Gill pays higher rates for work done by a remote, seasoned independent contractor than he would for the same work done in a traditional office setting (see chapter 1, "Breaking Down the Barriers").

In working with remote staff, "the most important thing is to keep the people motivated," says Tom Ueno of Information Management Associates, a Hawaii firm with employees in California and Connecticut. "It's hard to do by telephone only. You've got to talk to them and email them—and you have to visit them once in a while." (See chapter 7, "Long-Distance Employees Give a Marketing Edge.")

Laura McNutt, the tax partner who works in a home office fifteen hundred miles from her firm's headquarters, warns firms against underestimating the problem of isolation. "I miss the hustle and bustle of the office," she says. Although her arrangement suits her current personal situation, "I couldn't work like this forever. When somebody from the office calls and says, 'We have a crisis,' I say, 'Great!'" Firms should understand the frustrations of remote employees who feel out of the loop. "It's easy to feel that you're in a maintenance mode professionally, not a growth mode," she warns. (See chapter 9, "A Partner in Another State.")

## Office Suites

John Gill of Gill & Company used an office in a shared-office suite operated by a franchise when he first launched his virtual office, and he was unhappy with the experience. "They do things their way, and if you want something done another way, they won't change. We had a very bad situation."

One of Gill's complaints was with the protocol for reserving the shared conference room space available to all tenants for an hourly fee. Having run his own firm out of his own traditional office space for many years, he was surprised to realize that conference space might not be available to him when he needed it. "Once, I made a client appointment and forgot to reserve the room; another time, I did make the reservation but their person failed to record it. So we had some headaches."

When Gill tried to hire staff to work out of the office, he asked if he could bring in his own furniture to the 12-foot by 12-foot furnished office he had rented and was given approval to do so. However, because of communications failures among Gill, the suite managers, and the leasing agent, Gill inadvertently moved furniture that he should not have. "Monday morning, I get an angry phone call from the receptionist and the secretary who run the suite, because it turns out they are not connected with the leasing agent. They're asking me how I dared to move the furniture without their permission. They were so rude about it that I knew it just wasn't going to work. I'm not going to deal with someone else dictating to me. I need to do what's necessary for my business. On one day's notice, I was out of there."

He warns potential users that the tenants have limited control over the different facets of these suites. "When you're with these office-suite arrangements, you're at their mercy," says Gill, who found a fairly high turnover of receptionists and staff at his location. But tenants have no control over staffing decisions. "If you don't like the receptionist, that's your problem," he warns.

Moreover, in a virtual office arrangement, staff must be able to work with the sophisticated technology involved. "Because of the turnover at the suite, we had some problems with teaching new people to forward calls out of that office to me or to our people in their various locations," Gill says. "The receptionist was telling clients, 'I'm not real sure how to transfer you over there—if I disconnect you, call me back.' The clients were calling me, asking what was going on." Gill notes that when using the sometimes complicated telephone arrangements needed in a virtual office, "If you don't have trained people who know how to use the telephone correctly, it's a problem."

At the shared suite, the staff seemed unwilling to take instructions or change their routines, and Gill had no recourse if he had problems. "They are serving one or two dozen businesspeople in each location. If one tenant doesn't like the staff, it's too bad. It doesn't matter how rude that staff are to a client or whether they understand how to use the telephone."

Nevertheless, other practitioners found these suites helpful, both as remote offices and for temporary office help. For an alternative view, see chapter 5, "Using the Internet for Improved Service Delivery."

### **A Trial Run With Mixed Success**

Berger, Goldstein & Company, a fifty-person CPA firm in Deerfield, Illinois, tried a test in which seven professional staff from the firm's tax, audit and accounting, and client accounting services departments worked out of virtual offices in their homes. Participants ranged from partner level to in-charge level staff. The experiment began in January of 1996. The purpose was not to eliminate its traditional office but, rather, to determine whether some professionals could work from remote locations.

The firm chose seven professionals at different levels and in different departments to participate. Each home office was equipped with a computer (if the participant did not already have a laptop); two telephone lines; a 28.800-bps modem with fax capabilities; and a multipurpose machine that served as a laser printer, a fax, a scanner, and a copier. According to managing partner Michael Pierce, "For the most part, participants found this setup fully functional."

A major problem discovered in the test was the incompatibility between the software programs the firm used to perform its services and the software necessary for communications with remote staff. The firm has a Novell network. For the virtual office project, the firm chose a communications package called Citrix that allows remote users to dial into the network rather than into a single computer station, which is the setup offered by a number of packages.

"Unfortunately," says Pierce, "we had significant difficulties getting our income tax software, CCH's ProSystem FX,

to run over the Citrix software, due to some file-locking aspects of the tax software. We expended considerable effort trying to make the two packages work together, but only achieved a less-than-productive work-around solution.” The firm contacted CCH at the outset for help and learned that the software maker knew of no other firm trying to do quite the same thing. Since the firm had boldly decided to launch the test just as tax season was beginning, access to tax software was particularly important. Although Pierce concedes that trying out the virtual office during the firm’s busiest time “may not have been the best strategy, we really wanted to see how it would work during the tax season.”

Unfortunately, tax software was not the only challenge, according to Pierce. “In addition, we had a problem getting one of our DOS-based packages—our client accounting software—to run over the Citrix software.”

“As you can imagine,” Pierce says, “these problems dramatically affected the participants’ effectiveness and attitude towards the project.” He maintains, however, that most people were happy with their experiences. Several participants considered it a bonus to have the freedom to set their own work schedules.

“We asked each participant to fill out a three-page questionnaire weekly so that we could measure the progress of the project. These questionnaires allowed us to track the working patterns of the participants. It was interesting to see how each participant put in their hours, with some working a normal pattern, while others took several hours off during the middle of the day but worked very late at night.”

Although participants had control over their home working schedules, the firm did insist that they work in the office one or two days a week during the tax season and one day a week the rest of the time. This made it easier to schedule internal meetings and gave virtual office participants an opportunity to socialize with other staff members and keep up with what was going on in the office. “This aspect worked out very well for us, with all participants indicating that morale and communications were not problems for them,” Pierce says.

Not everyone worked equally well under the setup, however. "We did find that certain people are better suited to the virtual office concept than others," Pierce says. Problems for virtual office participants stemmed from both personality and the work. "For example, individuals who need to be around others to derive their energy or motivation do not take well to this concept. In addition, those who work on many projects over a short time may not do well under this arrangement without having a way to gain access to all the documentation on a quick-delivery basis."

The firm had anticipated this delivery problem and planned to use a messenger system to address the issue, but this solution was not always optimal, especially for staff who lived far from the office. Pierce believes technology can bridge this gap. "It would appear that imaging may be our biggest hurdle in being able to tie people and documents together," he says. This technology "would not only provide the ability to make all documents available to all remote users but also would solve several review issues that occur when the person performing the service is not physically near the person reviewing the work."

The firm was optimistic about its experiment despite disappointments. "In the last analysis, we have been encouraged by our test but understand we have a long way to go before we can achieve the goals we set for ourselves," Pierce says. "Although we hoped that the success of the project would not turn primarily on the technology issues, we found that technology issues did serve to define success or failure for those who took part."



**Chapter 12**  
**What Makes It Work**





**I**s a virtual office right for your firm? Before you decide, review some of the essential elements of this arrangement. The following sections summarize some of the issues that must be considered before taking the plunge.

## **Technology**

All of the practitioners depend on technology to fuel their arrangements, but the levels of sophistication and commitment to automation vary greatly. “To remain virtual, you have to stay on the cutting edge of technology,” says one CPA, who, along with his subcontractors, offers tax and accounting services performed from home. “That’s part of the arrangement—if you’re going to do this, you have to keep up with the latest and greatest in technology.” But another practitioner who specializes in litigation services in construction disputes does not share this conviction. He does not think that he needs the same level of equipment for his practice because he performs fewer—and more lucrative—engagements than a traditional firm might. He works on a three-year-old desktop and a laptop, and he just got a cellular telephone. And while expensive, complicated technology can make life easier in the virtual office, it is possible to communicate with remote staff and present a professional image over the telephone using simple, easily obtainable tools such as the call-forwarding and voice-mail services offered by any local telephone company.

The initial investment in technology does not have to be great, either. One practitioner who works from his home and has two full-time staff members working from theirs, estimates that between two thousand and three thousand dollars per office is a realistic budget to set up each employee with the proper hardware and technology. “If it costs more than that, you’re spending too much,” he advises.

## Service Mix

The firms covered in this book fell into the following three categories:

1. Those that provide traditional services
2. Those that specialize in a narrow niche
3. Those that maintain conventional firm office setups but have one or more full-time professionals working from a remote location

These professionals' experience suggests that the virtual office can work for a variety of firms. Firms with a large tax clientele, for example, either met the clients in a central office location rented solely for that purpose or at a partner's home. Obviously, specialists may find it efficient to do computer- or research-oriented projects on their own, but tax practitioner Pat Patterson has created a thriving practice in which he sees all of his clients at his home office and employs staff who work from their homes. Moreover, although none of the fully virtual firms here has more than a few employees at most, even some medium-sized firms are exploring the concept by having one or more staff members work from home. In other words, no practice should consider itself exempt from this possibility.

## Marketing

For a number of firms, marketing a virtual firm is indistinguishable from the marketing for any other practice. As is the case in any firm, services and the people who perform them are the most important factor for clients. However, one crucial question is specific to the virtual firm: Would clients and referral sources continue to respect and want to work with a firm that no longer had a prestigious office and all its trappings?

By and large, the answer was *yes*. No firm suffered more than minor client losses. As CPAs have always known, clients look for accountants they can trust and service that is thorough and reliable. If those needs are met, a change of address should not disrupt a good client relationship.

Nevertheless, this is not to say that all firms disclosed their virtual office arrangements to clients. In one case, a firm has chosen not to tell clients that its owners spend 90 percent of their time working from home. This decision was made to prevent clients from dropping in at the CPAs' home, not out of fear of what clients would think. A number of practitioners revealed their plans to all clients; others told only a few. For an example of how one CPA disclosed his plans, see the exhibit on page 50 in chapter 3, "Full Disclosure," which is a letter that Cecil (Pat) Patterson sent to his clients. Existing clients rarely left due to a switch to the virtual office, although some prospective clients were put off by the idea of working with a practitioner who didn't have a "real" office.

For two firms, the virtual office was a marketing advantage. Jack Harris's firm, which is dedicated to litigation services, used the very obvious independence that is part of the virtual office as a marketing tool. Because his specialized firm has such an unconventional setting, he finds it easier to cultivate CPA firms as referral sources because these firms have absolutely no fear that he will lure away their clients for traditional engagements. (See chapter 8, "Litigation Services in the Virtual Office.")

A Hawaii-based firm, Information Management Resources, needed to be able to tell potential clients that it had employees who could easily travel around the country for consulting projects. The solution was to recruit staff to work in virtual offices on the mainland (see chapter 7, "Long-Distance Employees Give a Marketing Edge").

## Staffing

Managing remote employees is one of the most worrisome aspects of the virtual office. How does one supervise an employee one never sees? Generally, long-time employees who worked in a traditional office before they switched to a virtual office have been found to remain productive, reliable, and conscientious in the new setup. Not all such employees chose to jump into the new arrangement, but most of those who did continued to be valued—and in most cases much happier—employees. Newly hired staff

sometimes had problems becoming integrated. It can be difficult to rely on these employees to perform their work as expected and remain loyal to a firm with which they have no face-to-face contact. Still, a number of firms believe that the freedom of a virtual office gives them a recruiting advantage.

Few practitioners had anyone except an occasional temporary working with them in their homes. One practitioner, a married man who worked from his home, worried that having a woman staff member working at home with him all day would give the wrong impression to the neighbors.

Nevertheless, potential awkwardness and long distances do not prevent firm members from communicating. Many depend on email and a local telephone company's Centrex system or voice-mail packages—technology that is affordable and accessible to even the smallest firm.

## **Home Office Details**

Some of the firms in this book have retained central office locations, but most of their work is performed outside of these offices. That has meant tremendous savings for all of the firms, who no longer pay monthly rents on large office suites. One minor offset to these savings is an increase in telephone bills. Firms must install new telephone lines at one or more remote locations and pay for communications over telephone or email, communications that once took place in individual offices, firm hallways, or at the watercooler.

A major question for firms taking this step is whether to maintain a presence in the downtown business district by keeping at least a "shell" office location in the local business district. The core issue here is whether a firm can function—and uphold a professional image—even though it lacks so much as a room in which to meet clients or to hold staff conferences. Several firms rented space in shared office suites that also provided administrative services for tenants at an added cost. One firm, which has not disclosed its new arrangement to clients, has two such shell locations. One firm rented space from a client because the practitioner was unhappy with the rigid rules and quality of services in

shared suites. One CPA meets all his clients in a home office overlooking Florida's Intercoastal Waterway. In sum, there are a variety of successful approaches.

**Isolation.** Almost all of the people interviewed identified this as a potential problem, but all had found viable solutions, such as regularly scheduling lunch appointments, keeping in touch with other staff members on a daily basis, or working in the local library. Those who cannot adapt will probably be unhappy in this environment. "Some people say they're workaholics, and they would never leave the home if they worked in a virtual office," observed one practitioner. "They could have a problem."

**Mail.** Firms addressed this issue in different ways. Some rented mailboxes or post office boxes, others had mail sent to a central office location. A few used their own home addresses—and those of employees. Some used several different addresses, depending on the mailing. For example, express mail packages were directed to a home address while firm correspondence went to a post office box.

**Copying.** Most firms invested in small copiers and brought large copying jobs to a commercial copier. Tax-oriented firms often invest in sophisticated copiers for their homes to ensure that the busy season will run smoothly.

**Zoning.** Professional practices that do not receive excessive client traffic generally are excused from zoning requirements. Most firms received special permits for their setups when necessary.

## What It Means for the Profession

On the whole, the practitioners interviewed for this book are a satisfied cross section of professionals. They have lowered their office overhead, achieved greater control over their schedules, increased their productivity, and are spending more time with their families. Despite a number of challenges, they believe that the move to the virtual office has enhanced their personal and professional lives.

But is it right for everyone? The virtual office is only one effect of the rapid growth of user-friendly technology in the last decade. High-power computers, high-capacity printers, faxes, and high-speed modems: all are now consumer items found in many homes and most offices. A number of firms have chosen to use the technology to create a virtual office; others do not favor this option. Few of the practitioners interviewed for this book believe that all or most firms will one day be virtual. Indeed, some of the practitioners performing specialized services find it hard to believe that more traditional firms could function in this setting. Even a CPA who conducts a tax practice from his home wondered whether the virtual office was right for everyone. "I don't see this as a wave that will sweep the profession," says Pat Patterson. "People are social animals, and a lot of people like the idea of going to work." He notes that the requirement for virtual offices is self-motivated workers for whom working at home is a convenience.

However, all of the practitioners believe that the virtual office offers an example of an improved way to deliver services. In almost every case, firms were able to lower costs and improve productivity by cutting rent and sometimes salaries. Flexibility is a recruiting advantage in attracting both highly specialized professionals and support staff or bookkeepers. In addition, clients may prefer practices with virtual offices because they associate this kind of setup with high-tech and other advanced expertise.

That means CPA firms that remain in traditional settings must at least begin to consider how to compete against virtual offices. More and more practices will be considering this option, or sending some employees home to work from remote locations. What does it mean if your competitor can adjust fees and services or improve its output because it is no longer paying for luxurious offices and full-time staff? What does your firm need to offer to a highly qualified prospective employee if a firm thousands of miles away is willing to allow him or her to work from home and set his or her own schedule? What's the standard for technology among similar firms in your community—and will your firm measure up?

Some CPA firms will always be housed in conventional offices, and the growth of virtual firms will not change that. But the existence of these firms will alter expectations among clients and professionals. That means that all practitioners should at least be aware of how virtual offices work and how they can affect their own businesses. Those who ignore this development certainly will find themselves at a disadvantage as firms continue to come up with new ideas for what it takes to be a successful professional services firm.





# **APPENDIXES**



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**Appendix A:**  
**“Going Virtual:  
How We Did It”**

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CPA 2000: WHAT'S AHEAD IN PRACTICE MANAGEMENT

Reconsidering what's really necessary.

# Going Virtual: How We Did It

BY JANET G. CASWELL

**M**oving to a virtual office challenges you to rethink every process you've always accepted as necessary. Basic office tasks must be questioned, reviewed and probably redesigned. It won't be possible to rely on the time-honored business premises. Additionally, you have to accept that not everyone will

be able to adjust to the new way of doing business. For a while, you will blend the old with the new.

To make the virtual office concept effective, the firm must provide the basics employees need to operate. Equipment (such as a copy machine, postage meter, fax machine and bindery equipment) isn't any good if it is in one place while the employees are scattered. It takes a good portion of basic mutual trust, flexibility and ingenuity to create a unified front. A few simple company policies must be established and then the employer must sort out the rest of the details by employee. If there are too many rules, the firm will lose the main attraction of the virtual office—flexibility—as well as what's been saved through lower overhead.

## RECREATING JOB DESCRIPTIONS

With reorganization, we've redefined staff positions to ensure maximum flexibility and to eliminate employees' down time. We now have three employee designations:

The first is the usual full-time, salaried employee expected to work a minimum of 40 hours per week. The employee benefits are the same as in the past, such as paid time off, health insurance and a profit-sharing plan. The people who remain in this position know everything that needs to be done and how to keep themselves productive eight hours a day.

The second is the project consultant, who is paid an hourly rate or on a predetermined, per project basis. As long as these employees maintain their skills and can perform the services our clients need, we'll hire them on a project-by-project basis. They are 100% chargeable consultants, although they may already know the client and appear to be a firm employee. They may work for one client or manage the same 12 audits every year, for example.

We won't pay for these consultants' training unless it fits our needs. They must keep up their own certifications and



DENNIS MILBAUER

**Caswell says that if there are too many rules, firms lose the most important attraction of the virtual office—flexibility.**

credentials. We will help build their careers because we want to be the firm of choice for quality employees, but they need to bring something to the table, too. If they can't maintain their computer skills, for example, they won't continue to work for us. In most cases, they won't be independent contractors—the current tax laws and Department of Labor regulations make it almost impossible to pay anything other than form W-2 wages. We are hoping the laws eventually will change, but until then we'll comply. Perhaps the more critical concept is that we often have to pay our consultants before we are paid by the client. As we expand our team of project consultants, we plan to develop a legal resolution to this problem.

The third position is new—business coordinator (formerly office manager). The job description is under development—but in general it includes various administrative tasks, such as daily mail pick up at the post office box and distribution to staff “in-boxes” at the storage space, changing backup tapes in the file server nightly, banking, producing and mailing client statements, paying bills and reconciling our bank account, setting up client computer files, managing employee-consultant files, overseeing our few large equipment purchases, managing workers' compensation and insurance, acting as the fallback position for pager notification of voice-mail messages and general corporate business needs. The job description will change over time because technology will make many of the duties obsolete. For example, we're encouraging clients to fax communications to us. To distribute other daily mail, we're considering faxing it to the recipient or scanning it into the system to make it accessible.

We have outsourced some tasks, such as tax and audit research, computer systems analysis and selection assistance, Internal Revenue Service audit representation, management project design and implementation.

Initially, consultants are earning less because they are working less—there is virtually no administrative time. Not

## CPA 2000: WHAT'S AHEAD IN PRACTICE MANAGEMENT

all employees made the transition—three out of seven felt uncomfortable with the new arrangement. We will definitely add on more staff—as consultants. We have 6,000 chargeable hours, for which we'll need a total of four full-time people. When we hire, we'll seek people who can adapt to our approach—and we know that orientation to our way of doing business will take some time. In addition, computer skills will be critical; I won't look at a resume that doesn't list them.

**A RUNDOWN ON BASICS**

Here are some of the policy decisions we've had to address during the transition.

**Computers:** Some of our employees had home computers or fax-modems; some didn't. In most cases, we had to trade in our network cards for fax-modems. At transition, we owned various levels of computer equipment, so we were able to give every employee some type of system for home use. We did not charge for them because the value of the equipment was negligible. We have plans for expensive notebook upgrades in the next 12 months.

At the end of every week, all the employees' files at home must be downloaded onto the file server so it contains the main file backups. All files will be listed under a client number; in the current system the client's spreadsheets would be filed under the Lotus software, for example, and the tax returns under the tax software.

**Printers:** We didn't have a printer on every desk before we went virtual, nor was it practical for us to purchase a laser printer for each employee when we have future plans for a paperless office. We will provide the employee with a printer or an equivalent cost credit if he or she chooses to purchase a better one. This is an example of the flexibility gained in going virtual. Some people will want to print at home, while others will want a smaller, more portable option so they can print documents on the fly. They can also print some files from disk at a copy center or wherever they are when they need something printed.

**Faxes:** We plan to eliminate the fax machine as soon as possible. Inbound faxes will be sent to the file server, and we will be able to access them from our remote locations and then direct them to a printer, if necessary. Outbound faxes will be sent directly from our computers (documents

**Firm Profile**

**Janet G. Caswell, CPA, PC**

**Year opened:** 1988.

**Locations:** Currently, a 450-square-foot storage station in Bloomfield, Michigan. Until September 1995, had an 1,800 square foot office, also in Bloomfield.

**Total personnel:** 4: 2 full time, 2 on alternative work schedules. Previously had seven full-time employees.

**Number of partners:** 1.

**Number of CPAs:** 2 and 1 aspiring CPA.

**Areas of concentration:** Tax preparation and planning; strategic planning; financial reporting; business advice; technology consulting.

**Gross fees:** \$516,000.

**Percentage of fees in**

Accounting: 22%.

Auditing: 5%.

Tax: 30%.

Consulting and PFP: 43%.

**Type of clients:** Service-oriented businesses such as engineering firms, architects, medical, legal and manufacturers' representatives; printers; salons and spas; high-net-worth individuals; foreign entities with U.S. concerns.

**Advertising and marketing programs:** Hired marketing and strategic planning person last year on monthly retainer (at \$75 per hour) to train, educate, motivate and organize staff.

**Best thing we did in the last five years:** Invested in technology: network, e-mail, modems.

**Worst thing we did in the last five years:** Accepted clients we shouldn't have and wasted time trying to make them work instead of concentrating on obtaining good clients.

**How the practice will change in the near future:**

More consultants; a move to the paperless office; more international work; increase or sell off audit engagements; sell off traditional services work.

will be scanned in or composed on the computer).

**Telephone:** This is causing a lot of frustration. The technology to accommodate our type of office doesn't exist yet in a practical form, so it's necessary to piece together a couple of programs to make the system appear seamless. In addition, we're really too small to get the kind of attention we need for such ambitious plans from our local telecommunications company. A lot depends on what is available in any given geographical area.

We are paying for a second line in the homes of our full-time employees—installation, basic monthly fee, long-distance charges, voice-mail and pager notification. Consultants are reimbursed for monthly voice-mail and long-distance charges only. They are not required to have a separate line or pager notification.

**E-mail:** A CompuServe account will be part of all employees' job requirements. If additional business-related charges beyond the basic monthly account can be attributed to a client, we will reimburse the employee.

**Scheduling:** We still go to clients as teams on occasion, so for the moment we'll have to rely on e-mail and telephone calls to coordinate. We'd like to get to a point where we can check each other's schedules on the computer.

**Library:** We canceled every service that wasn't offered on CD-ROM and let publication subscriptions run out. We are

looking into subscribing to alternative services provided on CompuServe or through the Internet World Wide Web. We also have access to a very good tax and audit library at a local business college. We have considered a partnership with other local small firms that might want to share the cost of necessary services and publications by purchasing them and donating them to the local college library for all to share.

**Postage:** We will reimburse for any postage costs on a monthly expense report.

**Letterhead, envelopes, report covers and other items with corporate logos:** At first, we have made up small travel packs for employees to keep at home or in their briefcases. The packs can be replenished at the storage space. Our long-range plan is to develop something that can be printed as needed.

## CPA 2000: WHAT'S AHEAD IN PRACTICE MANAGEMENT

**Copies, assembly, binding, overhead transfers:** Employees are authorized to charge to our account at the local office of a 24-hour copy center chain and we receive a detailed monthly invoice. One employee who lives in a rural area doesn't have close access to this center, so she will have copies made locally and be reimbursed.

**General office supplies:** I couldn't believe how much stuff we had when we closed down the office. Employees packed up a box or two for their own home use and we still had four bankers' boxes of items such as staples, Post-It notes, tape, correction fluid and rubber bands. (Anyone need paper clips? We have several years' supply.) We are going to keep all the extras in the storage area for everyone's access. When the backup is gone, employees will buy their own and be reimbursed through the monthly expense report. They can also have supplies delivered through one of the larger office supply store chains.

**Other office supplies, such as new files:** We have provided these items at the new storage place—reluctantly—because we plan to move to the paperless office next summer.

**Express mail:** With fax machines, we rarely use overnight services. When necessary, the employee will use our corporate account numbers.

**Mileage reimbursement:** Mileage will not be paid except for out-of-state travel. The employees will be free to organize their own days, so this policy should encourage staff to make the most effective travel plans.

**Monthly expense report:** No, we won't be developing another form. Our time and billing software records expense information. With the current federal and state tax laws, it doesn't make sense to reimburse employees for expenses in above-the-line wages for below-the-line, schedule A deductions. So we are going to reimburse when we can unless it becomes unmanageable or cost-prohibitive. A separate reimbursement check will be issued by the 15th of the month following the month the employee incurs the cost. Unusually large amounts will be paid as incurred. As a policy, we are not going to advance employees any up-front flat amount for their expense account needs. Travel costs such as air fare or hotel costs will be charged to the corporate charge account.

**Security:** We are working with our computer consultant to ensure data file access is secure.

**Common charges:** We will have to provide everyone with a master list of corporate account numbers to ensure they have the information needed for their daily business needs. Perhaps the best place to locate this list is on our computer system, so the most up-to-date information is available when they need it.

**Dress policy:** Employees must dress professionally only when there is direct contact with clients and referral resources, for speaking engagements and continuing professional education courses.

**Long-range plans:** We plan to eliminate the storage space completely over time. Our computer purchases will focus on portability with interchangeable parts, such as hard drives. We expect our file server usage to diminish. We envision the general ledger software and client files on one plug-and-play hard drive and the tax return software and related client files on another. As we adapt to technology, the need for paper will diminish, and we will have to deal only with old historical files, which will be transferred

to data storage next summer. Eventually they will be destroyed under our document destruction policy.

How do we decide which issue to address next? One way we are monitoring our needs is by maintaining a sign-in log for the storage space, which tells us what common purposes bring us there. We also expect employees and clients to suggest changes along the way. The virtual office provides us the flexibility to react quickly and cost efficiently.

**THE BOTTOM LINE**

The move cost \$715. Our rent fell from \$2,700 a month to \$650 and our insurance went down. We cut our six telephone lines down to two, but the cost of the 800 number could offset any related savings. We resold our \$4,000 phone system for \$1,000; we bought two new phones for \$400. We sold most of our office furniture for about \$0.75 on the dollar. In the storage space and on the road, we are learning that all we need is modular furniture on which to set up a laptop.

**WHAT ABOUT CLIENTS?**

Clients generally were pleased with the change. A very detail-oriented client told me he knew he would have to be taking the same steps himself sometime soon—and he was glad I was taking them first.

We periodically review our client list and rate them against certain criteria, including profitability. If the client no longer meets our objectives, we suspend services. For the past few years, we have noticed that it has become more difficult for us to sustain profits on clients who seek only traditional, product-based work. We have decided to concentrate on expanding more specialized consulting services.

Before our transition to the virtual office, we had already eliminated 20% of our clients (in dollar volume) through a very strict application of our "good client" criteria. Over the next 18 months, we plan to evaluate each type of product and service in minute detail to see which should be retained and which sold off. In the meantime, we are focusing on the top 25% of our clients, who look to us for analysis and interpretation of their information.

Over the past few years our emphasis has been on fewer clients with much larger annual fees. Our new target client will generate minimum annual fees of \$20,000, with a \$75,000 average. Their annual sales will be no less than \$1 million, but the average will be around \$30 million. How will we obtain these clients? Beyond the usual client referrals, we are using a marketing consultant to implement a program of target and relationship marketing tactics. We are evaluating industries to determine which will have the best outlooks and the most potential for sustained profits.

**AHEAD OF THE STORM**

We could have easily continued doing business as we were, but I couldn't ignore the signs that change was necessary. People tell me they hear a lot of discussion in seminars of the concepts I'm implementing. Former firm members who explain to prospective employers why they left are peppered with questions about how we've pulled off our reorganization. Small CPA firms today are in the position of watching a tropical storm on the horizon and knowing they can't do anything to stop it. The best approach is to be prepared for the storm before it arrives. ■





**Appendix B:**  
**A Decision Checklist**



## Clients

Will the firm inform clients of the change?  Yes  No

How will this be accomplished?

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Will they receive a letter explaining the transition?  Yes  No

If so, who will compose it and what will it say?

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Will the firm maintain a "main office" solely for client meetings?  Yes  No

Does the firm plan to change its client mix or service offerings as part of the move to the virtual office?  Yes  No

Has the firm evaluated which clients it is most likely to lose or gain in the process?  Yes  No

Which clients will it seek to shed or retain in the process?

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## Employees

Will all current firm members be retained?  Yes  No

Will employees become independent contractors?  Yes  No

If so, should their hourly rates be raised in line with the attendant loss of benefits?  Yes  No

What employee benefits will the firm continue to pay?

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How will continuing professional education be handled?

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How must the hiring process change in the virtual office?

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How will supervision be handled?

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How will time and billing be tracked?

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Will there be performance compensation versus hourly salary?

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## Home Offices

What computer, fax, telephone, and other major office equipment will the firm supply?

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Will the firm pay for office furnishings?  Yes  No

How will employees get supplies?

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How will they make copies?

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Where will paper files be stored?

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How will these files be transferred between offices?

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What other expenses will the firm pay; for example, telephone line installation, telephone and fax charges, travel, and travel time?

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Will the firm set core working hours for employees?

Yes  No

Will it set policies for when or where work must be done?

Yes  No

How will remote employees be monitored and managed?

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Will the virtual office arrangement affect salary reviews?

Yes  No

Will the firm pay employees for use of home office space?

Yes  No

Who will pay for travel to the main office?

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Will the firm set standards for the home office, such as separate facilities and entrance?

Yes  No

## Technology

What kind of computer setup will the firm use?

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How will remote employees access this network?

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Who will provide microcomputer support?

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Will the firm set policies on the kind or level of technology employees must have?  Yes  No

How will upgrades be accomplished/reimbursed?

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What emergency backup systems will be needed?

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What backup resources are available commercially in the area; i.e., computer rental, fax services, and so on?

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What kind of computer security will be enforced to prevent viruses and unauthorized entry?

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How will the firm ensure the compatibility of programs?

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## **Communications**

What kind of telephone system will enable employees to communicate most effectively?

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How can phone calls be answered in a way that presents a professional image?

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How can the firm make use of services offered by local phone companies, such as call forwarding and voice mail?

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Where will mail be received: at a central location, a mailbox franchise, post office box, at the home of one firm member, or elsewhere?

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How frequently must employees check in?

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Will the firm allow employees to give out home addresses and phone numbers to clients and others?  Yes  No

If it does, what procedures will be followed if an employee leaves?

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Will the firm use pagers for voice-mail notification?  Yes  No

How will email be handled?

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### **Zoning and Insurance**

Is a home office or home business allowed in the community?  Yes  No

Does homeowners' insurance include a rider to cover the office equipment?  Yes  No



**Billing**

How will time and billing be tracked?

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Who will handle billing and collections?

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Who will enter the information into the system?

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**Culture**

How will the firm's culture be kept intact?

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How will its image be upheld?

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**Marketing**

Who bears responsibility for marketing?

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How will consistency be maintained?

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What will be the standards for client contact?

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How could the virtual office enhance the firm's image?

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How could the virtual office harm the firm's image?

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**Publications**

How will paper publications be routed?

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What kind of library will the firm supply to employees?

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***Breakdown of Monthly Costs***

	<i>Actual for Current Office</i>	<i>Projected for Virtual Office</i>
Rent	\$ .	\$ .
Office lease/space rental	.	.
Telephone	.	.
Insurance	.	.
Supplies	.	.
Other	.	.
Equipment	.	.
Computer support	.	.
Administrative support	.	*
Cost of outsourced services	.	.
Travel/mileage	.	.
<b>Total</b>	<b>\$ .</b>	<b>\$ .</b>

\*Cost of professional staff performing administrative duties

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***Cost to Set Up Remote Office***

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Breaking current office's lease	\$	_____	.
Moving		_____	.
Storage of paper files		_____	.
Advertising to sell unneeded furniture		_____	.
New hardware and equipment		_____	.
New software		_____	.
Telephone line installation		_____	.
Training		_____	.
New furniture		_____	.
<b>Total</b>	\$	_____	.

## **About the Author**

Anita Dennis is a journalist who specializes in writing about finance and professionals. A former managing editor of the *Journal of Accountancy*, she writes the *Journal's* monthly Small Practitioner and Financial Manager columns and edits the public practice supplements to the American Institute of CPA's *CPA Letter*. A graduate of Sarah Lawrence College, she has written for the *Wall Street Journal*, the *New York Times*, and the *New York Post*. She works full-time from a virtual office.



