

The Great American Payroll Opportunity

The payroll business is one of the hottest businesses in America today!

To take advantage of this opportunity, accountants should embrace an entrepreneurial mindset toward payroll, adopt the right systems and technology, and implement the right marketing strategies.

Admittedly, some more traditional firms consider the payroll business to be outside of their paradigm. But consider this: In the not-so-distant past, accountants provided all of the services that their clients needed, including payroll preparation. At that time, no one was competing with us. Even accountants who competed with each other were considered somewhat unethical. Then along came a few extremely enterprising business people who viewed the government's meddlesome creation of more and more complicated payroll tax laws as a pathway to profits. These business people then set out to eliminate the only competition they had—accountants!

Stepping out of the past and into the present day, these energetic, bright business people have parlayed their ideas into the “Big Two” companies in the payroll business: ADP and Paychex. They, and their followers, have persuaded us with seemingly logical and reasonable arguments that we shouldn't be in the payroll business. In the meantime, their payroll businesses have grown tremendously—and keep growing. Over the last five years, the Big Two's performance shows a 30 percent, or higher, growth rate each year, largely because we keep giving them the majority of their clients for payroll check writing. ADP has come in and “helped” us out with payroll and convinced us, firm by firm, that we are too valuable to our clients to be doing “that kind of work.” They even told us we couldn't make any money doing payroll!

News Flash!

At the end of 2005, ADP's current annual revenue is at \$8.5 billion, with approximately 590,000 clients worldwide!

In the last 10 years, with the payroll business being dominated by ADP and Paychex, there have been some amazing developments. In 1995, ADP had 375,000 clients and Paychex had 215,000 clients. In 2005, ADP had grown to 590,000 clients while Paychex was totaling 522,000 clients (these numbers come directly from their corporate websites). Ten years ago, these two firms' combined number of clients was 585,000. Now they have a combination of 1,112,000 clients with 527,000 businesses coming to the decision that it just doesn't make sense to do their payroll anymore.

It's Not Just the Beans, It's the Business!

If our focus in the accounting industry is counting the beans, and being what big business in America has programmed us to be—number crunchers—then the opportunity to offer payroll services will pass us by. For those accountants who recognize the vast potential of the payroll opportunity in America, we will discuss five key reasons why the payroll business is ripe and extremely profitable for accounting firms. But before we get into the reasons, let's first look at the background of why payroll is such an opportunity in the first place.

To begin with, the government's employment regulations keep getting more complicated and continue to be too much to handle for most businesses. In addition, times have changed for accountants. Technology has vastly improved and is now much more affordable. This has made it easier for firms to help small- to medium-sized businesses navigate the growing sea of payroll tax complexities. Our computers are infinitely more productive—laser printers with MICR ink, combined with blank check stock, advanced 32-bit Windows systems with direct deposit, Web access, and sophisticated reporting capabilities now give accounting firms the tools they need to become formidable competitors in the payroll processing arena.

If an accountant focuses not just on the beans but also on the business, there's a jackpot opportunity to be had by either starting and building a payroll department or expanding an existing one. With an open mind and a focus on increasing profits, let's look at the obvious and also the hidden opportunities for entrepreneurial accounting firms that want to tap into the payroll opportunity.

Let's begin with a snapshot of the potential of the national market for payroll services. According to the largest demographic database firm in the country, there are almost 10 million businesses in America with 1 to 100 employees. This is an accounting firm's primary market for payroll services. Some firms might want to handle companies with 100 to 1,000 employees but the primary clients for outsourced payroll services have fewer than 100 employees. As of mid-2005, out of the potential base of 10 million businesses, the Big Two combined only have approximately 1.1 million. The other payroll firms either producing payroll themselves or providing their payroll to others—Ceridian, Time Plus, and Payroll 1—are responsible for another 200,000 payroll clients. Further research indicates that other companies in the United States, which include payroll services bureaus, and accountants who provide payroll check writing services, have another 200,000 payroll clients. Statistics show that other companies that provide payroll check writing services have another 300,000 to 400,000 clients.

The three largest payroll firms—ADP, Paychex, and Ceridian—are all publicly traded national companies and their public information shows us that they add 10 percent in the number of new businesses they acquire for outsourcing payroll. This puts the existing business market that utilizes a payroll service at, conservatively, under 1.6 million!

That leaves approximately 8.4 million potential payroll prospects that are not currently outsourcing their payroll.

With the 50-year track record of our government continually complicating payroll tax laws, there seems to be no end in sight of business owners throwing their hands in the air and surrendering their payroll to someone else. All indicators tell us that an increasing number of these 8.4 million businesses will outsource their payroll in a continuous stream this year, next year, the following year, and into the foreseeable future. Becoming involved with the Great American Payroll Opportunity is like being on a fast moving business train headed toward ultimate continuing success.

The Big Two and their clones realize this, as well. Have you noticed that they are stepping up their marketing efforts to get their share, along with trying to dominate everyone else into getting their share? Take a wild guess at how much of the Big Two's marketing efforts are directed at the accounting professional—75 percent. What does that tell you?

Having been in the field, and in the trenches, for the last 15 years (nine years on payroll) working with accounting firms to develop their practices, we have learned a tremendous amount about developing firm growth and have found where payroll processing fits in. We know how to beat the Big Two at their own game.

As stated earlier, we have found that not only are there approximately 8.4 million small businesses that do not outsource their payroll services, which represent the most obvious targets, but also 1.6 million businesses that already outsource payroll.

Taking a closer look, what about the 1.1 million businesses that are using one of the Big Two? Due to the uniqueness of an accounting firm doing payroll vs. a check and report-processing factory (the Big Two), this market is actually much more volatile than the untapped non-user market. These businesses are already convinced that having someone else do their payroll is a great idea, so they're already pre-sold. All an accounting firm has to do is emphasize what their brand of payroll service offers that others in their market cannot, and the sale is within reach.

When one looks at the inherent differences between doing business with a check and report-processing factory vs. the capacity, culture, and professionalism of an accounting firm, there is no question who brings more to the table for the business client. Developing your individual brand awareness as the foundation is an important step to take to harvest the payroll market. Integrating this basic premise into your unique company story is key.

As you create your marketing plan, keep in mind that the payroll potential is broken up into two distinct markets:

- The first market segment contains 8.4 million businesses—most will surrender to the payroll complexities and hire someone to handle it for them.
- The second market segment consists of an equally fertile market of 1.6 million businesses that are receiving a minimal value check and report-processing service.

These businesses are extremely susceptible to a value-added service that is already part of your accounting firm's culture and way of doing business.

When you look at the size and makeup of the payroll market, the possibilities are tremendous.

Five Key Reasons to Offer Payroll Services

Now let's look at how and why you can take this payroll opportunity and transform it into a profit machine. The following "**5 Keys**" resulted from working with accounting firms for the last 15 years, while targeting the small- to medium-sized business market for their accounting business.

Key 1: Delegation of payroll begins the process of tapping into the payroll opportunity and yields \$100 per hour and up.

Key 2: Taking the payroll business of every existing business client of an accounting firm raises the gross revenues of the firm by 30% across the board.

Key 3: Payroll is almost pure profit when a client is already on a normal monthly accounting service.

Key 4: Having a payroll service in an accounting firm is a natural marketing tool for the firm.

Key 5: Utilizing payroll as a profit-producing door opener also gets accounting firms exposed to more established, substantial, and larger clients.

The “**5 Keys**” take the seemingly mundane job of doing a businesses payroll and transform it into exceptional profits, so that the payroll service becomes the reason that a business chooses to become a full service client of the accounting firm. In turn, the availability of payroll services becomes the main marketing vehicle for the firm.

Later in this paper, we will discuss, and be very specific, as to how to produce a maximum level of profitability. However, at this time, we want to explore the re-sale value of the payroll clients you acquire if and when you ever decided to sell your payroll business. During 2004 and 2005, we saw a few indicators of what a payroll service with multiple clients is actually worth.

Just saying that a firm selling their payroll division is worth what their accounting services are worth is not the approach. What business payroll people are actually paying is the key. Over the last 24 months, we’ve seen that payroll providers have been offered and received .8 to 2.3 times the yearly gross sales. The main buyers have been ADP and Paychex. There are many factors involved, such as the way the pricing of the payroll has been established, how the payrolls are serviced, and how is the payroll reported etc.. However .8 to 2.3 times has been the standard that the Big Two felt they could get the selling firm to agree to. Too many accounting firms are offered—and accept—a buying agreement that constitutes one to 1.3 times yearly gross sales. This is based on what most firms feel their accounting clients are worth. However, when accounting firms actually know the payroll business, 2 to 2.3 is what they can command.

A recent sale consummated in the southern portion of our country involved a company that spent seven years developing their payroll business into grossing approximately \$3.7 million yearly gross revenues and they walked away from the negotiating table with over \$8.6 million. The firms that take five years to build up a payroll business of 200 to 300 payroll clients have sold for \$600,000 to \$900,000! We’ll talk more about this when we explore “Payroll Economics 101.”

Key 1: Delegation of payroll begins the process of tapping into the payroll opportunity and yields \$100 per hour and up.

As an industry, we have been told that we can make more money elsewhere, but that’s not the case anymore—payroll is extremely profitable. Payroll, as a profit center for an accounting firm, can yield hourly rates of \$100 per hour and above. Achieving this is relatively easy: Delegate, delegate, delegate!

A properly trained bookkeeper-level staff person can do the complete payroll processing job at a going rate of \$12 to \$20 per hour, with an average of \$15 per hour. In calculating typical payroll production, the average payroll processor can process a minimum of 100 accounts per month at an average fee of \$100 to \$150+ per month, per client, yielding \$10,000 to \$15,000 in recurring monthly billings each month, which means that they are responsible for averaging \$150,000+ of yearly payroll revenues into the firm.

In most firms, the breakeven in labor costs for this person will be 20 to 35 clients per month. Once this process is at a breakeven point, the real opportunities of payroll open up and can bring monetary value to the firm. In the above example, startup costs are not calculated, just labor costs, including payroll taxes and benefits. Every firm will have a different breakeven point but once you have surpassed this, everything else falls to the bottom line.

To illustrate the costs further, let's use the example of a CPA firm in the Midwest who has one individual servicing 130 clients at an average of \$1,500 yearly fees. The bottom-line numbers in this firm are \$195,000 in gross payroll revenues while paying approximately \$40,000 in pay and benefits to the processing person. When the system of payroll processing delegation is achieved, very little daily or weekly communication with the client is required of the accountant. The exception would be a higher-level discussion that might lead to additional billings. This allows the principal(s), the partners, and others to concentrate on other productive endeavors.

These are the obvious benefits of payroll, but let's view payroll as an iceberg. The eye normally sees only the part of the payroll opportunity that lies above the surface. What lies beneath the surface is the real value of payroll processing. Once a firm has accomplished the first step of delegation, the other four "keys" of payroll reveal themselves and produce additional profits and benefits.

Key 2. Taking the payroll business of every existing business client of an accounting firm raises the gross revenues of the firm by 30% across the board.

Once a business becomes the client of an accounting firm, the firm, as part of their policy and procedure, simply takes over their payroll. During the last seven years, we have kept detailed statistics on almost everything associated with practice development and have discovered some interesting trends in payroll services. We have found that in comparing the monthly/quarterly/yearly statistics of firms across the country, where some did payroll in-house and others did not, the firms that handled payroll check-writing for their clients consistently increased their gross revenues by 30% and up. It is only natural for business clients to have their own accounting firm handle the entire job. The firm just needs to make payroll as part of their package of services, handle the entire job, and they'll increase revenues by more than 30%!

As a certified public accounting office in the Midwest told us during the first year of working with them, we made them aware that "payroll processing will create additional value" within their firm. They listened and started a payroll division. In 18 months, their program generated \$8,464 of new monthly payroll billing. They now have a payroll processing business that exceeds \$13,600 per month (\$163,200 in yearly billings) and is growing each year.

Key 3. Payroll is almost pure profit when a client is already on a normal monthly accounting service.

If your firm has a client being serviced on a monthly basis (including monthly/quarterly financials, and after-the-fact payroll), the profit margin for the additional fees collected for payroll check writing services for that same client skyrockets. This happens because the bookkeeper in charge of that client has already been handling after-the-fact payroll responsibilities, and the firm has already incurred the cost. Once that client has your firm handling the check writing part of the payroll and pays the firm for it, the labor cost for the bookkeeper doing the monthly work goes down 30% and the monthly work becomes more profitable...or...the additional fees collected for the payroll check writing yields much higher profitability due to the labor already being accounted for. In either case, when a firm has a monthly accounting client plus their payroll check writing service, profits go up substantially.

Key 4. Having a payroll service in an accounting firm is a natural marketing tool for the firm.

Marketing payroll as a stand-alone service leads to thousands of dollars of other services to those same businesses. Our experience with accounting firms—and with marketing payroll services as a stand-alone product—has shown that there were more businesses that wanted to talk about payroll than accounting. It is not only easier to get business owners to sit down and talk about their payroll issues, but once you are in front of them and they are comfortable with the fact that you can help them, the other services your firm provides naturally flow onto the table. In fact, what we found was that for every \$1,000 of payroll fees paid to an accounting firm, another \$3,000 in accounting fees can be realized. One accountant outside of Columbus, Ohio, recently acquired another outside salesperson to handle payroll only. In the second month of marketing payroll full time, the salesperson acquired 12 new payroll-only clients for \$1,217 in monthly billings (\$14,604 in yearly billings). In the first 30 days of processing the new payrolls, three of the 12 new payroll clients became monthly accounting clients for an additional \$17,255 in yearly billings. The immediate total of new billings for that month was now \$31,859—and all created through payroll.

This also opens the door for all the other related services that a firm may also handle, such as financial services, IT services, or eldercare. Payroll is not only profitable, it's an absolute door-opener for the other ways we can help businesses.

Key 5. Utilizing payroll as a profit-producing door opener also gets accounting firms exposed to more established, substantial, and larger clients.

There are countless businesses that are top-fee clients of other firms that normally would not talk to you about your services, or invite you into their businesses. The reason? They already have an accounting firm. Perhaps they feel that all firms are the same, or maybe they feel they are not getting what they truly want, but changing firms seems too complicated. Payroll has proven to be one of the best ways to get an accounting firm in the door of these larger businesses. These businesses would not normally have invited another accounting firm in. But now that your firm is in their offices helping them with a payroll issue, the door opens wide to talk about how their payroll relates to their entire business and how it relates to their other accounting issues. It is a natural progression.

For example, we know of one CPA firm that acquired a client with a 50-person payroll at \$300 per month, and it led to \$35,000 in yearly accounting fees for them (within four months). Another case history was a firm where a \$100 per month payroll led to an \$8,000 per year client, plus a full retirement plan. So again, payroll is a superb marketing tool. Payroll is the only marketing activity in which an accounting firm is engaged in that can, in and of itself, produce substantial profits, and also produces thousands of dollars of additional business.

Once an accounting firm begins to believe the “**5 Keys,**” the payroll business becomes one of the hottest businesses in America for that firm. These entrepreneurial accounting firms have a great opportunity to tap into this vein of pure gold. The fertile payroll market that exists in this country for outsourced payroll services will be tapped into by accounting firms that have a vision for the future—the vision of the one-stop shop, of which payroll is a part, and the vision of the accounting firm being the most trusted advisor that a business has. By offering and marketing payroll, an accounting firm not only provides a much needed service that produces substantial profits, and opens up to businesses all the other profitable services that the firm provides, but also creates for themselves the natural “Payroll Economics 101”.

The initial “Payroll Economics 101” includes some fundamental ideas that your payroll business is worth more as an asset for resale than your accounting business. We talked about it earlier. Now we’ll review some real examples based on asking, and getting, two times the yearly gross.

Average Yearly Fees for All Clients = \$1,500

# of Payroll Clients	Avg. Yearly Fees for These Clients	Immediate Sales of These Clients
100	\$150,000	\$300,000
200	\$300,000	\$600,000
400	\$600,000	\$1,200,000

Transforming this great phenomenon is strictly business—smart business. Set up the payroll part of your business as a separate legal and tax entity, as a separate business from your accounting business.

Another fundamental of “Payroll Economics 101” is that you operate your payroll business as a cash business—no collections or bad debts. Simply cut your firm’s check at the same time that you do their payroll.

When calculating the cash flow of the payroll business, some payroll accounts will be weekly, bi-weekly, or even monthly, depending on what your business payroll clients need. In the following example, we’ll use weekly payroll and/or monthly payment cash flow.

Average Yearly Fees for All Clients = \$1,500

# of Payroll Clients	Avg. Yearly Fees for These Clients	Weekly Payment Cash Flow	Monthly Payment Cash Flow
100	\$150,000	\$2,884	\$12,500
200	\$300,000	\$5,769	\$25,000
400	\$600,000	\$11,538	\$50,000

Additionally, you'll have certain opportunities with payroll clients who want other services and/or reports. These opportunities create additional fees for your firm and 80 to 90% of your payroll clients will see these as opportunities for themselves. One very commonly used service would be a year-end archival service. This service takes years of your client's records and transfers them to a single CD. Business clients love this because of its simplicity and conciseness of the actual records. The average fee can be \$75 to \$125 for one year of archival CD records sent to the client. The reality of this is that more than 85% of the clients will gladly take this service as a year-end benefit for themselves. In billings, the payroll client is sent the records either on a CD or via an e-mail. Within 10 days, their billing is automatically deducted from their account and electronically put into your payroll business account.

Yearly Billings at \$75 for Year-End Archival Services

(80% of client base agrees to this service)

- **100 Clients: Additional fee paid to you in January = \$6,000**
- **200 Clients: Additional fee paid to you in January = \$12,000**
- **400 Clients: Additional fee paid to you in January = \$24,000**

Other possible additional fees might be New Year file creation, custom reports such as 401K reports, set-up for garnishments, etc. The bottom line is that you have a group of users for payroll that can become opportunities for fee collections for additional services.

Now let's look at other business considerations that need to be addressed to truly take advantage of the Great American Payroll Opportunity.

- How do I convince my staff or my partners to follow me into the payroll business?
- What are my firm's technology requirements?
- What are my firm's liabilities?
- How should I staff for my payroll business?
- How do I price payroll profitably?
- How do I deal with the scheduling of payroll?
- How can I professionally market my unique brand of payroll services and compete on value rather than price only?

How Do I Convince My Staff / Partners to Follow Me into the Payroll Business?

Does your firm perform a limited number of payrolls as an accommodation for select clients? Do you want your firm to be able to take advantage of the payroll opportunity? If this is your situation, your first consideration is, "Do my partners and key staff agree?"

If write-up and tax has been the mainstay of your practice, getting your partners and staff to buy-in and integrate payroll services may require some careful assessment of the readiness and willingness of them to switch gears and take the practice in a new direction. Are they ready to restructure the way they currently do business? Do they have any fears?

If there are fears, such as tax reporting requirements, staffing issues, or technology requirements and liabilities, you will need to review these issues with them. We have addressed

most of them individually in this article. In addressing the payroll business as a possible benefit to the firm, everyone involved needs to have their fears put to rest. To calm fears, focus on the ultimate benefits to the firm. Doing this will build a foundation for a cooperative strategy and team effort on the firm's entry into the payroll business.

Initially, to begin building this foundation, it is important to review your firm's overall strategy and objectives and ask the questions:

- Will the payroll business help us better meet the firm's objectives?
- Will an accelerated payroll business set the stage for each individual to meet his/her goals with where the firm would be heading if payroll is one of its foundations?

In answering these questions, all partners and staff should understand that if the level of service and value to clients increases, it becomes a valuable tool to help build the firm. If the firm is building on its value to clients, and increases its profits, this will benefit all the partners and staff.

Why Would Payroll Build Value With Client

First, you must look at what will make your firm valuable to your clients. More and more businesses are looking to their accounting firm as a full service, one-stop-shop system. Obviously, you can only service this growing market need if you are indeed full-service, and that, of course, includes providing payroll services.

Next, you must consider that business owners expect their accountant to act as a part-time CFO to their business. Since payroll is typically the number one operating expense of the business, the business owner needs, and wants, your help in that area. Again, here is a way to capitalize on the opportunity by servicing a need.

A survey conducted by National Payment Corporation, one of the largest independent providers of electronic funds transfer servicing the accounting industry with payroll direct deposit products and services stated that, "Accounting firms that offer payroll and payroll direct deposit services to their small- and mid-sized clients can present themselves as more complete business partners and help clients avoid problems with payroll and taxes." When asked why clients use, or should use, accountants for payroll, 90% of respondents gave one or more of the following reasons:

- Tax laws and/or potential tax problems - 36%
- Client has no staff to do it or no staff capable of doing it - 36%
- Trust and personal relationship - 31%
- Accountants already have the financial data - 26%

Another full-scale study was conducted by an independent South Carolina market research firm to find out what business owners wanted from their accounting firms. They surveyed small- to medium-sized business owners in 10 separate markets across America. Their research revealed that business owners rely on their accountants to know all and do all when it comes to governmental filings, regulations affecting their taxes, **payroll**, and accounting principles. If their accountant does not provide payroll services, they still look to them for recommending another reliable source for payroll services. Smart, business-thinking accountants go where the money is and do the payroll.

Based on these findings, it makes good business sense for an accounting firm to be in the payroll business. In fact, this same research indicated that if business owners needed a new

accounting firm today, that 42% would be looking for an advanced accounting firm that could help them in almost every way (including payroll). All that is required is a successful collaboration from your partners and staff to make that happen!

Payroll as a Marketing Tool

Partners and staff need to know that being in the payroll business puts their firm in a much better position to build the other parts of the practice. As discussed in the initial section of this paper, servicing a business client's payroll can attract additional accounting business, financial planning, and other higher fee engagements. As a CPA from Rhode Island told us, "Due to payroll, we turned clients that started at \$200 to \$300 per month into \$20,000 per year clients."

A more specific example of this happened at the beginning of 2005. An accounting firm that had a payroll division set up had our firm field training a designated salesperson to consistently handle payroll appointments. Our marketing strategy at this firm was to meet with businesses concerning their payroll issues. If, during these meetings, there were issues that concerned accounting, we would then address those problems. We called on a construction firm doing under two million in yearly sales with eight employees and two owners. The reason we had the opportunity to talk to them was that they used a part-time employee that came in and handled the payroll for the last five years. This individual had just given her notice, so their main objective was to replace her. We cold-called this firm and gave them another option, which was to delegate the payroll to our firm. When we met with them, we initially discussed only payroll but within 30 minutes our conversation led into how they were running their business and how their current accountant was servicing them.

It must be pointed out to your partners that payroll is the only profit making marketing tool that the firm has. Once the payroll business in a firm meets its breakeven point based on production costs, it not only generates healthy margins but will put the firm in the position of generating thousands of dollars in additional fees for the other services that the firm offers.

Also, point out to your partners that payroll reduces attrition. Insurance companies have understood for years that when a particular customer has more than one line of insurance with the company, it increases the length of time that customer keeps all of the insurance policies in place. Payroll works the same way. Providing payroll services to your clients strongly cements all of the other lines of services that a client has with the firm, making it more difficult for them to move to another firm.

It's harder for a business to leave you if you have their payroll!

Partners need to know how payroll solidifies the entire firm's business and its dealings with clients in more ways than just having payroll be a good profit center. Successful teamwork on expanding the payroll business in your firm requires that everyone in your organization understands the benefits and advantages of payroll to the overall health of the firm.

What Are My Firm's Technology Requirements?

After making the decision to be involved in the payroll business, your firm must look at what it will use to produce the payroll. Your most important consideration should be a streamlined process. Utilizing current technology can be extremely helpful in streamlining processes, as well as offering your clients a variety of additional services.

Before selecting a particular technology, you need to think about the following:

- The types of clients you will be servicing—look for a system that meets clients' needs and requirements.
- The number of clients you expect to be handling in the next few years—give yourself the hardware you'll need to grow.
- The back-up system and disaster plan you will use.

As you build your payroll practice and implement technology to accommodate your clients' needs, keep in mind that, ultimately, your clients expect reliability, flexibility, and customer service.

Software

In the payroll business, efficiency spells integration. Payroll software that can be integrated with your write-up accounting software will save you time and money. Integration with your software simply allows the user to enter data into one part of the software system—for example, payroll information entered into the payroll software. This information is then automatically integrated into the general ledger part of the software where the payroll information must also be. The integration feature will then take the needed general ledger information and carry it over to the tax return part of the software system. This integration feature saves time since the data only needs to be entered once.

Flexibility is also important when considering payroll software. A flexible software product will greatly add to the different levels of clients that you will be able to handle. Large clients in particular tend to have more custom report requirements and need more flexibility in tracking benefits and other human resource items.

ASPs

The Internet is transforming the purchase, delivery, and use of software in general, but most especially payroll software. Many traditional stand-alone applications are now being offered over the Web as ASP applications. An ASP application is software that is provided and utilized over the Internet. This new software delivery paradigm offers tremendous benefits to accounting firms and payroll service bureaus by providing simplified deployment, seamless updates, and low startup and administration costs, while eliminating the need for hardware installation, software maintenance, and license management.

Security and bandwidth are important factors to think about when considering an ASP application. Securing data is a common concern when working over the Internet. Firewalls are one security measure that can protect your data from the very-public Internet. A firewall is a barrier that prevents unwanted outside access to your internal corporate network. Bandwidth refers to the speed in which your computer system connects to the Internet. In the payroll business, speed can dictate efficiency, which in turn can increase profits. A fast and persistent Internet connection is recommended for the maximum productivity. A qualified Internet technology consultant can

discuss with you the security and bandwidth options available, and what would make the most sense to meet your business objectives.

Hardware

Hardware needs to be built around the software that you utilize. Accordingly, software vendors provide specifications on the minimum hardware requirements for running their software. Minimum requirements however, do not necessarily allow you to achieve maximum performance from the software. Therefore, the rule of thumb for obtaining peak performance from your software is: don't skimp on hardware.

Because of the time- and data-sensitive nature of the payroll business, a fast, efficient, and reliable system is a must when processing payroll. Increasing memory to more than just a "sufficient" level can boost speed and productivity. Maintaining data on a network will reduce the risk of down time or data loss if a computer crashes. Also, make sure you implement proper backup and data storage procedures, including a disaster recovery plan, to further protect data and your payroll business. Consult with your Internet technology representative to design a system that will appropriately meet your needs.

Investing in your hardware will pay for itself.

What Are My Firm's Liabilities?

The reality of liabilities to an owner of a business that provides a service or product in any field of endeavor, like building homes, repairing automobiles, providing legal services, or processing a business payroll, is that yes, there is a risk. If your auto repair business doesn't do the job properly, what are the ramifications (liabilities)? If your lawyer doesn't provide adequate representation, what are your options? Does the lawyer have any responsibilities to you that could cause some liabilities to him or her? What responsibilities does an accounting firm have in providing adequate payroll processing to a business and what liabilities accompany these responsibilities? What are the liability concerns that an accounting firm needs to address? How can a payroll business within an accounting firm operate so that liability issues will not be a concern?

In reality, the liabilities for an accounting firm that provides payroll services are minimal. An accounting firm has the same liabilities as any other business that provides a service to a consumer. If a service is considered or perceived as substandard, the consumer has the option of switching providers. If you had your car serviced and you weren't satisfied with the results, you would probably go elsewhere. Or, if a service provider defrauded you in any way, you have legal solutions available to you. As long as your system for producing payroll is set up properly and works efficiently, your liability is minimal. Yes, there are times when sensitive due dates could have an impact on the accounting firm's relationship with the client, but that is why they hired you. The client has the confidence in your firm's ability to handle that for them—that is not a liability!

A recent national study revealed that one of the main reasons a business worked with a particular accounting firm was because the firm was experienced and knowledgeable. Who else but an accounting firm has more experience and knowledge regarding compliance due dates, required tax documents, and tax laws?

More than focusing on what general liabilities are assumed by providing payroll services, accountants need to pay attention to the liabilities they create for themselves through their

agreements with clients. For example, liability increases if you choose to, in your agreement with the client, impound payroll and tax funds.

Impounding

The impounding of payroll and tax funds is a decision that must be addressed by each accounting firm individually because an entirely different set of rules apply when a client puts you in charge of their money. Impounding involves holding a client's funds in an account owned by the accounting firm. This account is called the "impound account." From the impound account, the accountant pays the payroll and retains the payroll tax portion until the taxes are actually due. If the payroll taxes are due at the end of the quarter, then the accountant has the opportunity to yield interest on that account for one to 13 weeks.

When an accounting firm chooses to use impounding to pay the payroll and to remit the payroll taxes to the proper authorities, it assumes the liability of actually paying the payroll and taxes on time. This creates a "fiduciary responsibility" with ultimate personal responsibility on the owner and partners of the firm. This also removes any independence that the practitioner would have with any affairs related to that client.

Many firms operate their payroll business utilizing an impound account and consider it the correct mode of operation in running a payroll business while transforming it into a lucrative profit center. Even though the interest rates have plunged in recent years, reducing the effective interest rate on the interest earned, what is commonly called the "float," there is still a profit to be made in the very common practice of impounding. To make an educated decision on how they want to proceed with regards to impounding, accountants have to weigh their perception of the risk against the opportunity to gain interest on the impounded funds

By far, the least risk is taken by handling a client's payroll in the traditional way. That is, printing all of the checks for the client, payroll, and payroll tax payment checks. These checks are printed on check stock with all of the client's bank account information and the completed checks are then sent to the client for signature and disbursement. Paying the employees, as well as the payroll taxes, on time then becomes the client's responsibility. There are no legal responsibilities or liabilities for the accounting firm if either one or the other are not paid on time.

EFTPS

For the accountants that still want more control over the process but don't want to be responsible for the client's money, there is yet another option. Here the accountant simply directs the funds from the client's account to a clearinghouse, which is a banking organization that then forwards the correct funds to the proper governmental authorities. This is the IRS's EFTPS system. Using EFTPS software obtained from one of the regional clearinghouses, Anexsys or Bank of America, funds are automatically withdrawn from the client's account for the payment of payroll taxes.

The accounting firm gets the client to authorize a "Power of Attorney" form, which gives the accountant permission to communicate with the IRS about any of that clients' subsequent payroll issues, and then handles the transaction for the client. The accounting firm prepares, signs, and remits the payroll forms, like the 941, and then makes the payroll tax payments via the government EFTPS system. This is a clean way of handling the client's responsibilities (which they want you to do) and limits the firm's fiduciary responsibilities and liabilities. However, by taking more responsibility and the liability of actually holding, and then remitting, the tax money, more opportunities open up for the firm.

Direct Deposit

Some accounting firms might consider direct deposit to be an area of liability because of the responsibilities involved—however, it is minimal. All accounting firms that do payroll processing should offer the added service of direct deposit. Nowadays, business owners want it and expect a payroll service to provide it. It is just another way of leveling the playing field and being competitive.

The most optimum and effective way for a firm to handle direct deposit for their many clients is to have an outside provider, other than a bank, process the direct deposit file created during the payroll process. The problem with banks is that most will only process direct deposit for their own banking customers. This makes direct deposit cumbersome for payroll processors who handle many clients. Outside processing agents however, will handle the direct deposit for all of your payroll clients. Companies like Intercept Corp. in North Dakota, Electronic Banking System in New Jersey, and National Payment Corp. in Florida are all outside processing agents.

In summary, simply adapting the operating procedures of how the payroll business is handled within an accounting firm should reduce any liability concerns for owners or partners of the firm. The opportunities in the payroll business for an accounting firm far outweigh the potential liabilities associated with it.

How Should I Staff For My Payroll Business?

Planning is everything. Your business plan should clearly define your goals, the types of clients that you want, and how you will service the client (i.e. have them use your remote entry software, Internet/web based entry, etc.). Staffing for your payroll practice will be dependant upon these factors. Proficiency and efficiency is the key to profitability; therefore, you'll want to take all of this into consideration when adding staff.

Technologies, and setting up a staffing plan, play a key role in operating a procedural system for payroll. Following that system produces maximum profits. The basics of this system are one individual servicing 100 to 130 clients, with an average employee size of 8 to 15. The fundamentals begin with your approach—you must work *on* the business, not *in* the business. Your job is to run the shop, not do all the work. This begins with standardization. Standardize everything—answering the phone, getting the right payroll information, and having a standardized assembly line for processing the work. This standardized system runs your payroll office. The payroll specialist you hire runs the system. This takes the stress off your other staff, your payroll specialist, and yes...you! Simply write the procedure system down, which sets up the standardization.

One individual will be able to produce a minimum of \$100 to \$150 per hour in gross profits or a gross profit of over \$3,000 weekly, or converted to monthly \$10,000 to \$15,000.

Another scenario might be that your firm works with clients who are utilizing your remote entry software. These clients typically employ 20 to 400 people. Your employees' role now becomes less of a data entry role and more of a verifier. They look for blatant mistakes, print reports, and package the payroll. You'll also want someone who can offer support on the software.

The efficiency here takes care of itself. A good payroll processor in this situation can handle 80 to 100 clients a week with average fees of \$50 to \$200 per pay period. Because this person is more knowledgeable in the software support area, the average wage will be \$15 to \$18 per hour. With an average small client at this level paying \$80 per pay period, a processor can generate \$8,000 a week in income. At \$18 an hour, your cost is approximately \$800. That comes to \$7,200, with a profit of 90%.

The Big Two require that their payroll processors churn and burn through 40 to 60 clients a day. That means they're generating payroll revenues of a minimum \$1,400 a day for the small \$35 per week client—and people wonder why they can't offer the customer service!

While building your payroll business, keep in mind that it takes a little training and time to get a payroll processor to this level. Consequently, you should take this into consideration when developing your plan. Depending on your level of new client acquisition, you should be prepared to hire a new staff member when a processor reaches 80% of capacity level. If you have a marketing staff in place and are adding clients more rapidly, you may want to consider hiring a new processor when you have reached 70% capacity.

Another consideration to factor in is the set-up procedure. You should consider instituting procedures into a set-up package that follows the flow of your software. For example, if your software needs both year-to-date and quarter-to-date information for quarterly and year-end filing requirements, it is important to know that the information given to the processor should be conducive to entry into the software. If your processor is given accurate and complete information, and the flow of entering this information is well organized, and you are working with efficient technology (both hardware and software) the average set-up time of a client with 20 employees should be approximately 20 minutes. The potential here is phenomenal, but planning your staff should be a key element to your overall business plan.

One important staffing decision is answering this question... "Am I recruiting, hiring, and training an outside salesperson or am I doing the marketing and sales functions myself?"

Your payroll division or firm needs someone to be out in front of businesses in your market every day and also working with—and “schmoozing”—existing clients.

How Do I Price Payroll Profitability?

Pricing your payroll service is one of the most important decisions you'll make. Somewhere between the floor and the ceiling, is the right price for your payroll service. But pricing is never "cut and dry." The Big Two prices fluctuate accordingly to what particular markets will bear. There are three factors to take into consideration:

1. What your competitors are asking for doing payroll
2. Your cost
3. Your client's perception of value

Think of your cost as the floor—you must set prices higher to cover costs or you will quickly go out of business. Think of customer-perceived value as the ceiling. This is the maximum that the client will pay for the perceived value of your payroll service. Analyzing the competition in your specific area is critical in your pricing decision process. Begin by doing market research to find out what your competitors are charging. Based on these findings, decide where your firm fits in. Do you want to be at the high end or somewhere in the middle price-wise? Also, the Big Two and some of their clones use the initial selling price as a weapon. There are actually three processes that they operate with. They have regular pricing—however, to get a client they initially cut that price by 30% to 50%. Then, over a period of nine to 12 months they raise the price a bit every 60 to 90 days until the price gets back to what they normally would charge. Then every six months to a year, the price inches up so that within two to three years, the client is paying a premium price.

Your market research will put you in a much better position to compete, and it will tell you where you need to be. Once you have determined how others are pricing payroll, you are ready to determine your "break-even point." By doing a "break-even" analysis, you'll know how much revenue is needed to cover costs. The objective of your payroll business plan is to have your designated payroll specialist produce a minimum of \$100 to \$150 of base fees each hour, while paying that individual \$12 to \$15 per hour. Average employee size of a client is 8 to 15. Your payroll specialist can process a minimum of four clients per hour and the revenue would be \$35 to \$55 for each payroll. This produces \$140 to \$220 gross or \$180 average revenue produced each hour. Benefits and payroll taxes, plus the base of \$15 per hour, should be under \$20 hourly so the profit per hour is \$160 or \$1,120 average daily profit revenues.

Additional factors to consider are fixed costs. The paper cost of checks average \$.05 each. Therefore, 30 checks at \$.05 each will have a fixed cost of \$1.50 per hour. Another fixed cost is for paper—the average payroll for 8 to 15 employees will involve 6 to 8 pages of reports. Your cost, including toner for these reports, will be less than \$2 total. Looking at the following example, your profit margin is:

Total Revenue:	\$180.00
<u>Expenses:</u>	
Labor:	\$20.00
Paper/Checks	<u>\$3.50</u>
Total Expense:	\$23.50
 Gross Profit	 \$156.50 per hour profit

The numbers above show us that the floor pricing can generate over 85% gross profit. And that's for basic payroll check processing only.

Additional Services

Additional services, such as direct deposit, check signing, and envelope stuffing are typically also charged to the client according to cost. If your bank charges, for example, \$10 for direct deposit, you would pass this cost on to your client. Check signing, if done properly with laser printed signatures, does not require any additional work once it's set up, but you may want to consider charging a set-up fee to cover your labor cost. Most companies charge \$.10 per envelope to stuff checks into envelopes.

Now, let's look at the ceiling. Remember that we don't want to be the lowest priced service, and by building value into our unique accountant payroll service, we can sometimes get close to the ceiling. If by calculating the ceiling price at a base of \$20 per hour, plus paper charges, adding other additional items doesn't normally affect your costs. It then becomes your decision to charge extras.

Research what pricing is in your area. Contact the Big Two for pricing information and consider your prices based on being somewhere in the middle or to the top of the pricing.

How Do I Deal With Scheduling For Payroll?

The payroll business is not unlike any other business where there is a product or service ordered by the customer. The provider of that product or service either makes the product or sets up the service to be provided, and then delivers or provides it to the customer. The payroll business is simply getting the base information, entering it into a payroll software input screen, pushing a button on the computer to run the necessary checks and reports, delivering the product, thereby providing the service to the end user.

The more efficient this process is for the end user, the more profitable it is for the accountant. That's the great news about the payroll business—the accountant doesn't need to re-invent the wheel. Systems are available for entrepreneurial accountants to set up and replicate in their offices. Doing so will provide a multitude of benefits to the accounting office that takes the time to properly set up the process in their firm.

One of the most vital steps is scheduling. Scheduling is simply following a calendar—noting when payroll information needs to be submitted, when clients need to receive the checks and reports, and when governmental reports and documents are due.

Set up a calendar that very strictly dictates when and how payroll information needs to be submitted and when clients will receive checks and reports. Set up a solid schedule that has some flexibility but won't reduce the efficiency of your payroll operation. Your scheduling system and the rules and guidelines that go with it, dictate the efficiency of your payroll operation. Efficiency turns into profit! If you allow the client to dictate how they want to do it, you limit the potential profit. We recommend that you set up a "bucket" system to collect the client's information. Bring it down to a minimum number of "buckets." Most clients will do what you say. There are very reasonably priced software packages that can do the job for you, or it can be arranged on a manual

calendar. On this calendar, specify the due dates of the individual businesses needing their payroll, and when the governmental documents must be produced and are due.

The critical part of this bucket system of scheduling is how and when the payroll data is received by the accountant's office staff. Faxing or emailing is the preferred method since it provides a written record of the payroll information written by the client or their employee. Let's face it, mistakes happen, and in payroll the goal needs to be as close to 100% mistake-free as an office can get. If a mistake is made calculating and reporting the number of hours worked, it is better that the mistake is on the client's side. When faxing in payroll, the information needs to be on a pre-printed sheet that the accounting firm provides and the client uses. **NO EXCEPTIONS!** The accounting firm needs to enforce this simple process in order to educate, and then discipline the client to do it the way the accounting firm wants it. Reporting via email is acceptable, as well. Again, the firm provides the form on a spreadsheet. Faxing or emailing the information must be on the time schedule that the firm sets up. Again, **NO EXCEPTIONS.**

Additionally, recent technology advancements in some payroll software allows clients the flexibility to complete timesheets remotely and submit them via the accountant's website. This method is extra efficient for clients as well as accountants since it eliminates the need for any re-keying of payroll data and allows 24/7 convenience.

We recommend very strongly that this bucket system give the clients four choices of reporting payroll—weekly, bi-weekly, semi-monthly, and monthly. Set up your preprinted sheets in these four formats. Allow a minimum of three days, with a standard of four days. Clients will have checks and reports received by delivery or direct deposit on the fourth day. Take note that direct deposit requires a two-day minimum, by bank regulations.

Calling in the payroll is not recommended because it could turn the entire schedule into mayhem. For a business that might have used the Big Two or any other clones, this conversion from a call-in mode of reporting to a send-in system could occasionally be a difficult one. However, explain to new clients that this is *your system*. Make sure they know the extra value and added dimension of having an accounting firm as their payroll service provider, which gives them the ability to get their questions answered over the telephone any time. This should more than outweigh the fax-in vs. call-in method of payroll information.

Another caution is to **NOT** have the client mail time cards to your office. This creates the situation of your office having to calculate the hours worked, which opens up the possibility of mistakes. At a minimum, get a time sheet from them with the hours already figured out.

When scheduling, your accounting firm must also consider time constraints. If a client has a Tuesday payroll, faxing in on Monday could cause a problem. Occasionally, a client may try to put your office in this situation. **DON'T LET THAT HAPPEN!** Put a reasonable schedule together that accommodates a particular client's situation but doesn't put your office into too tight of a situation.

The optimum schedule is for a client's payroll to end on Saturday, and to get paid the following Friday. This allows the payroll information to be faxed to your office on Monday, then run on Tuesday, then mailed back to the client on Tuesday or Wednesday.

If there are union rules that need to be adhered to, this also may cause a problem. The “Big Two” cannot be flexible in their dealings with their clients and your office can, however, don’t overstep that flexibility and create a problem for yourself. This situation can be avoided if there are some scheduling guidelines, even with unions. Many times, union rules dictate that if payroll ends on Thursday, then checks are due Friday the next day by noon. Don’t stretch yourself like this! There may be situations like this where it makes more business sense to walk away from the business. Union payrolls can be very profitable; however, don’t go way outside your own schedule. Be flexible, but firm. Keep in mind that your accounting firm as a “local firm” can be much more flexible than the Big Two, so there is opportunity.

If possible, ask to see the union agreement and specifically look for when the pay period ends and when the pay has to be to the workers. Call the union hall to verify what is in the contract. Many unions are flexible also and will bend. Some may just want their members paid every week, which works well with your schedule.

Bottom line for scheduling is to set it up with a solid structure that has some flexibility but won’t reduce the efficiency of your operations. In payroll, scheduling, and the rules and guidelines that go with it, dictate the efficiency. Efficiency turns into profit.

How Can I Professionally Market My Unique Brand of Payroll Services and Compete on Value Rather Than Price Only?

The most important part of your payroll business plan is to determine how you can professionally market your unique brand of payroll services. You must understand that your business reality is having a full business plan for your payroll services. High technology, a staff and system to delegate the work to, properly pricing payroll for profitably, and a very efficient system of delivering payroll to businesses, is all *worthless* (in regards to producing maximum profits) unless you have an operating business plan to consistently market payroll. This process begins with understanding your competition in the payroll business and establishing a strategy to outmaneuver them through differentiation. What you do is establish your *own* differentiation strategy!

A great example of this type of strategy is in the fast food business—Burger King® vs. McDonalds®. In real life, Burger King has always competed very successfully against McDonalds with the business strategy of “flame broiled.” This phenomenal differentiation strategy has always kept Burger King very strong while competing with McDonalds across the country. In the payroll business, the Big Two have always established their own business plan by establishing their name recognition, their credibility, and their history. How are you planning on establishing your business plan to market your credibility, your history, and your name recognition? The key here is to fully understand that when an accounting professional processes a client’s payroll, the service is a different brand of payroll services then would be provided by ADP, Paychex, or any of their clones.

Differentiation is the Key

Build this into credibility, your history, and your name recognition

You as an Accountant Professional

Locally owned small business

ADP/Paychex – the BIG TWO

Corporate conglomerate with a local representative

Staff Personnel and Level of Expertise

Your office consists of payroll tax specialists and accounting professionals that can answer questions specific to payroll and IRS issues. View payroll as selling services and professional guidance, which translates into a value-added service.

Their offices consist of data entry clerks. Most questions beyond, “What are 941’s?” cannot be answered and are referred back to the client’s accountant.

Reliability

Your office is reliable because you are local and you work at providing a quality service to your community. You have set-up a superior customer service system, which supplies a personal service strategy.

Even though the Big Two may strive for reliability, because of their size and having 400,000 to 500,000 clients each, things constantly slip through the cracks.

Flexibility

Your office can be more flexible in its dealings with clients because of the size of your operation. Specific flexibilities include call-in or fax-in of payroll data, delivery, changes and adjustments, customized reports, etc.

Cannot be flexible at all due to having 400,000 to 500,000 clients. If a client misses getting payroll delivery, what happens? If a client misses calling in their payroll, what happens? If a client has a special need, what happens? How flexible can they be with their clients

Customer Service

Customer service is a combination of attention to a client and having the client have a favorable experience with your firm. Your office’s level of customer service is extremely high because you are a professional accounting firm, plus you’re a local business doing business where you live.

Again, due to size and number of clients the Big Two cannot give the same level of service that a local firm can give, even though they try! Size does matter! In this case, the larger the size, the more they have to work on customer service and the more likely something slips through the cracks.

These differences, as well as others, put the type of payroll service that an accounting professional can provide on a completely different level. Thus, differentiation! This is where marketing begins! Marketing, by definition, is putting a strategy together that differentiates your product or service from other firms. Putting that strategy into a message and communicating it to the marketplace is the first step in creating interest in the market about the uniqueness of your services. This puts you into a position of downplaying price—presenting your value-added service, as opposed to completely selling on price.

A recent national survey, completed by an independent research firm, revealed that when businesses were asked about price in regards to an accounting firm doing either accounting or payroll, or both, price was a low item. The survey was done in 10 different markets across the country, from the Northeast to the Midwest to California. When asked, “What was the main reason you have the firm you have doing the work?” 4.8% said that it was because their fees are low. Later in the survey, they were asked another question, “What do you look for in a good service?” The answer was that 3.8% looked for low/affordable fees. Of these two questions, the last item out of five answers was always price and fees!

It is extremely easy to come up with a differentiation strategy for a payroll business. The Big Two and their clones have done well for themselves using their size to convince businesses, including accountants, that they are the logical choice when it comes to payroll. But in doing so, they have put themselves in a position of not being able to compete against a locally/regionally owned accounting firm. Because of their size, it is hard for the Big Two to compete in the areas of flexibility, customer service, reliability, and level of expertise.

Aggressively market your differentiation and your superior services—be pro-active, not re-active! Just having payroll to offer and just doing it, is not enough to build an incredible payroll profit center. Market your payroll division through a credible business plan.

Establishing Your Company Story

The first step in marketing payroll is to identify your differences and put them into a unique company story to be delivered to the businesses in your market. In marketing any product or service, it must be determined what the market thinks of the product or service and then position your product/service to either compliment that mindset or do just the opposite of what the market expects, so as to differentiate yourself.

Let's face it, many business owners think all payroll companies provide the same basic service: computerized checks, reports, and delivery. Accordingly, they also think that payroll is a direct expense to their business. So the train of thought goes...that if all payroll companies do basically the same thing and payroll is a direct expense, then price is the key item in selecting a payroll provider. Based on this mindset of the payroll market, if we market our payroll services like all other payroll companies, then we will be perceived like all others and become a commodity. If business owners view payroll processing services as a commodity and also as an expense, then this strengthens the motive for a lower price.

You need to rise above this in marketing the payroll services of your accounting firm. You will have a better chance of capturing more of your market if you differentiate your firm and your services from those of your competition.

Your differentiation begins with your creditability and name recognition. The Big Two will always tell people who they are, their long history, and their national visibility. Consider the credibility and name recognition of a local accounting firm. You are a locally owned part of the business community that may have been servicing local clients for years! Your name might not be recognized in a community 1,000 miles away, but your firm is very much involved with the community where your payroll prospects live and do business. It's hard for a national conglomerate to provide hometown appeal and comfort like you can, especially once businesses realize they might just be one out of 500,000 clients.

Another major area of differentiation is to use the market's mindset toward price as a way to position the higher value service you provide. Differentiate yourself on expertise in the areas such as payroll taxes, payroll audits, deduction issues, compliance issues, wage and hour laws, workman's compensation...whatever. Do you have people in your office that can help clients in these areas? I'm sure you do!

Acknowledge your assets. The Big Two generally have data clerks working with clients. These data clerks are limited in answering client questions. This is a tremendous issue for differentiation. Again, here's an area where an accounting firm wins hands-down when in competition with a service bureau. Businesses like to know professionals are doing their work. An accounting firm's office staff is composed of professionals who have the ability to answer clients' questions. If the staff doesn't know the answer, someone in the office will! This raises the value of the service tremendously for the business owner. It allows an accounting firm to present their unique value-added service with guidance and advice (being able to answer questions) vs. competing solely on price.

It reminds me of the prospect that was asked:

“If you were flying from New York to Los Angeles and you had a choice of economy or coach vs. flying first class and it didn’t cost you any more either way, which would you choose?”

Accountants bring so much more to the table for payroll clients and normally don’t charge more. For your clients, it’s like flying first class for the same cost!

Develop your message: Locally/regionally owned business; reliable; flexible; customer service oriented; high levels of expertise that can give payroll clients the guidance they need. Take who you are as an accounting firm and capitalize on your inherent value. The beauty for your payroll client is that they get more value than they would from the Big Two; the beauty for you is that there’s no cost to being who you are. Now go and market your unique company story!

The Marketing Plan to Get My Unique Message Out

Now that we’ve established your unique message, how do we get that message out to the businesses in your market? It has always been known that someone might have the best mousetrap, but if it is kept behind closed doors, no one buys it and no one benefits from it. The same goes for your unique brand of payroll services if they’re kept behind closed doors. Hundreds, if not thousands, of businesses stand to benefit from it, plus your firm and its stockholders can handsomely profit from it as well. The key here is marketing your message.

Marketing your message begins by establishing a marketing plan. This plan will outline what you are trying to accomplish and how you are going to go about it. Begin by defining the objectives of your marketing plan. In doing this, ask yourself, “What do I want to accomplish with my marketing, plus how do I want to grow and by how much?” Setting goals for your payroll marketing is of foremost importance to the success of your marketing efforts. You cannot reasonably expect growth unless you create a plan and actively follow that plan. This part of the plan is extremely important because it dictates how many bonofide appointments with prospects you will need for your organization to acquire the amount of payroll business you want. Work the math backwards to create the model for your plan.

The average payroll client in the market we are targeting will yield average yearly revenues of \$1,200 to \$1,800. Let’s use as an example an average of \$1,500 yearly revenues per client and a goal of \$150,000 of new payroll business for the next year. That would be approximately 100 new payroll clients. For this example, let’s assume that out of 12 months, only 11 months are productive. Using an 11-month average would mean acquiring nine new payroll clients each month. The average close rate on solicited payroll presentations would be one-out-of-three to one-out-of-five, so the number of presentations required would be 300 to 500. The math tells us we need approximately 400 presentations over the year or 36 each month or nine per week to achieve our goal of \$150,000 of new payroll business. The investment that would be required to produce these presentations would be figured by factoring in cancellation rates, cost of appointments, list costs, etc. The system to produce these appointments and presentations would be a separate part of a marketing plan.

An additional consideration in your marketing plan would be whether a principal of the firm will be handling the presentations or whether the firm was to recruit and train a payroll salesperson (we'll talk about recruiting a salesperson later).

Passive and Active Marketing

Another component of your marketing plan is to determine which businesses could possibly use your payroll services. These are primarily businesses that have one to 100 employees and we'll label these as suspects. They are SUSPECTS because we aren't sure if they have the desire to outsource their payroll. But as payroll laws keep getting more complicated, it is probable that more of these businesses will come to the realization that they need help with their payroll. To reach these companies, use very organized target marketing approaches.

Both passive and active marketing approaches get your unique message out to the market and get results. Your goal is to convert suspects in your market area into prospects and then into bonofide face-to-face appointments. In order to effectively do this on a regular basis, there needs to be a blend of both active and passive marketing.

Passive marketing is using a "shotgun approach" to target the suspects while active marketing is a "rifle approach" to get your message to the market. Examples of a "shotgun approach" would be to use direct mail and/or print advertising. A "rifle approach" would be using a direct telephone call or a face-to-face/door-to-door contact. A "rifle approach" would also be combining a direct mail campaign AND a face-to-face contact using a direct telephone call or door-to-door contact.

Passive marketing would be yellow page-type advertising; various print advertising, and even direct mail. The yellow pages will give your firm some exposure and add to your credibility, but don't depend on responses from them for the majority of your business. Yellow pages normally produce a minimal response. If they do well for you, consider it a bonus. On the other hand, being in the yellow pages gives your firm a certain credibility in your market, so you must be in the yellow pages for your plan to have the maximum impact. Keep in mind, too, that yellow pages respondents are many times more price conscious. Bottom-line, yellow pages are a must, but more is needed.

Print advertising, like newspaper, magazines etc., will be good for exposure of your payroll service but will not be responsible for the mass majority of your business. Consider any print ads as a way to get your name known for being a payroll provider in your market and as a way of building your credibility through name awareness.

Another part of your marketing plan is to create a simple brochure designed to visually communicate your unique payroll service. If this brochure will be used as part of your direct mail campaign, attach or include a payroll mailer with the brochure that can be returned to you by the suspect if they are interested. Send out the piece to a select target three to four times per year. Use a give-away in your mailer, like one or two week's payroll, or no set-up fee, etc., and after about a week, follow-up with a direct telephone call.

Direct mail pieces are inherently passive marketing tools. However, when paired with a telephone or face-to-face follow-up, they quickly become active marketing techniques.

The bottom-line objective of your marketing plan is to be able to acquire as many face-to-face meetings with business owners about your payroll service as possible. Your firm's plan should include a combination of methods to get your unique message out about your payroll service to the businesses in your market. A good plan would include a small yellow pages ad, a direct mail campaign conducted three to four times per year, and an active campaign that successfully contacts 100 to 200 suspects directly per week, either by phone or door to door. The most critical part of this plan is direct contact each and every week, month after month, year after year, with businesses that have employees. The key to the best results is to have continual marketing activity reinforced by passive marketing.

Accounting firms just getting started should market to their own clients first. This way the firm can perfect their message with a few clients. Firms that are just starting up can also use their built in market (their clients) as a training forum for their processing-staff members to perfect the production processes.

Once you move out to the larger, suspect market, you need to continuously "farm" the market, planting "seeds" of information about your firm and services. The "seeds" are your firm's unique messages. The results of farming will naturally place suspects in one of three groups.

The first group is that the majority of the recipients of the mailer, the phone call or the face-to-face contact will instantaneously decide that this is not for them and say no. A much smaller portion of these suspects, the second group, will express interest by saying "yes" and agree to a face-to-face appointment with your firm. The third group will say no but their no is a "just not right now" kind of no that keeps the door open for you—it's not that outsourcing their payroll to you is never going happen, just that the timing was off. This third group is the group you need to stay in touch with.

The psychology of farming is that your firm is the premier payroll provider in your market and you will be there when either their current payroll provider drops the ball, or their in-house effort to do their own payroll becomes too tedious, expensive, etc. Your farming message is that your accounting firm has been in the community for years taking care of your clients and will be there in the future to help them when they need it. The key is to stay in contact! Keep detailed records of your contact with them using a database management system like ACT or Goldmine. This activity will fill your firm's pipeline with prospects that may become a new payroll client next week, next month, next quarter, or next year. The philosophy of farming is that "Never is forever for NOW!" Effective farming of the market will increase the results of your marketing plan by 30%.

Along with these active and passive segments of your total marketing plan, you should also promote and ask for referrals for your payroll business through networking designed to inform and communicate your uniqueness. Great sources are the Chamber of Commerce, bankers in your area, church organizations (private church schools and churches are great payroll clients themselves), civic organizations, and don't forget lead clubs. Lead clubs are groups of business people that get

together each week to socialize and exchange information on services and products that their clients or contacts might be interested in. They usually have only one type of profession represented in any lead club organization. You would attend every week as the only accountant payroll service in that lead club with the opportunity to network and exchange leads with other business owners in other industries.

Professional Salespeople

Proper active marketing takes a dedicated staff member(s) to make regular direct contact with suspects. These staff members would make telephone calls and face-to-face contact with businesses that do not currently know about your firm, plus follow-up on the recipients of the mailers. We don't recommend that you use a telemarketer—use a professional inside salesperson. Pay them well with a highly competitive hourly rate, or salary, while also tying them into a percentage of the sale. The added credibility that this type individual would bring to the table, and your firm, is worth the added investment.

Some firms have a partner or principal to handle some of the marketing activities and to make presentations of their firm's payroll services. However, payroll is the type of sale that can be handled by someone from outside the firm—someone who could come in and be the main salesperson for payroll. In this case, there must be some additional guidelines that an accounting firm must consider.

Recruiting and hiring an outside payroll salesperson works if your objectives are high, you hire correctly, you properly train the individual, and you have the ability to manage this person. If you only want a small amount of payroll growth, it is recommended that the owner/manager perform all marketing and selling duties. If you also want to have slower growth over a longer period of time, we recommend that you increase your skills in marketing and professional selling and acquire all of your new clients yourself. However, if your objective is to build your payroll business quicker or you feel that your skills are better suited to the technical and management issues instead of public relations and one-on-one selling, then we recommend you make plans to acquire a qualified outside payroll salesperson.

It is difficult to turn managers of an accounting or payroll firm, or its owners, into salespeople unless they have the background and experience as a journeyman salesperson. It is many times more advantageous to transform a journeyman salesperson into the type of professional needed to market and sell payroll services for an accounting firm. The main reason is that accounting firm managers and owners, many times, see things in either black or white, period! Salespeople, on the other hand, see things in shades of gray. This allows them to be more empathetic, flexible, and ultimately more adept at turning cold suspects and prospects into profitable clients.

Also, accounting professionals running the firm cannot do everything. If you can delegate and manage the processing, such as data entry, check processing, and report completion, why not the actual marketing and selling? This allows you to *focus on what you as an accounting professional do best*, which is taking care of the technical concerns and management of client services while someone else handles the payroll client acquisition process. It also gives you a structure in your firm that positions you for continual growth.

Occasionally, an owner with a small firm will seek a partner because they realize that they cannot do everything. Taking on a partner fills the void if they are on vacation or sick, or just want time for other things. Hiring a salesperson would also fill this void. The only difference would be that this person is an employee, not a partner. It would allow the owner or partner to not only focus on more important issues in the firm, but also to have the opportunity to have free time while the salesperson is spending 40 to 55 hours per week seeing new prospects, bringing in additional cash flow, and penetrating your market.

The duties of the salesperson include being the first contact with all prospects, determining whether the prospect is what your firm wants, using *professional selling techniques* to acquire the prospect as a client, and then helping with limited start-up servicing of that client. They also have a multitude of other duties, such as public relations, lead and appointment procurement, and management of your payroll marketing department.

There are advantages to having a professional salesperson. But there are some cautions, too. Choosing the right individual with an appropriate background in sales can dictate success or failure. I think you'll agree that you wouldn't want your services sold like used cars, would you? The person should have the skills to perform the rest of their duties, beyond selling, as well.

Hiring a payroll salesperson can make the difference in your marketing results! However, even though it is more effective for a salesperson to market and sell a payroll firms' services, there looms a big dilemma. Hiring, training, motivating, and managing processing or clerical help is one story. But when you hire a salesperson, you cannot handle this staff person the same way as you would other personnel in a payroll firm. Bringing sales-type people into your payroll business says that you've made the decision to grow and presents both long-term consequences and challenges for you and your accounting firm.

Meeting the Challenges of a Salesperson

There are four major challenges you face when you hire a salesperson. They are:

1. The procedures and tactics to find and recruit an outside salesperson.
2. Making sure he or she has enough time to succeed.
3. Managing and training the salesperson.
4. Continual motivation of the salesperson.

The Recruiting Challenge

The first challenge is the procedure and tactics to find and recruit this individual. The methodology of this task is quite different from hiring processing or clerical staff.

It goes without saying that an individual who is hired to sell payroll for your firm must be professional, sales-experienced, have some business savvy, and be a team player. In addition, though, there are some cardinal rules to follow in your search for this potential profit-generating individual.

- Don't hire friends or family—it makes it more difficult to manage them.
- There are different kinds of sales work. Direct type selling to business owners is a different kind of sale. Look for someone who has had the right kind of sales experience related to what they will be doing for your firm.
- Recruit someone that has persuasive skills, not just personality. Eighty percent of the individuals that have chosen sales as their profession are order-takers (i.e.: mediocre salespeople) and they think people will just buy because of their personality. These order-taking individuals will talk a good story but will not be that profitable for your firm.
- Do not hire an ex-payroll firm manager to sell your services unless they have been, and are, a journeyman-type salesperson. There are exceptions to this rule but it is the best bet so that you can get the best sales effort from your new payroll salesperson. One reason is that these types of sales people know too much and will normally give the store away before the sale is closed. This gives the prospect all the answers, which lowers the motivation for the prospect to become a client.
- Look for someone who has had sales jobs that are largely commission based. The best salespeople in the nation make their money on commissions. Offer a small base salary, plus commission, with no limit to what they can make by producing profit for your company.
- Structure your salesperson recruiting campaign around direct, face-to-face interviews, not collecting resumes. Resumes just relate experience. Sales skills are people skills and can't be determined by a resume. Meet with people face-to-face and when you meet a sales recruit, ask yourself, "Would I buy from this person?"

The Time Challenge

When you hire a salesperson, you're making an investment and you have a right to expect a return on your investment in a reasonable amount of time. The time allowed for this varies by what type of businesses your firm targets. Companies with one to 100 employees normally can be sold in one day to one month. This is a short sales cycle. However, even while targeting businesses that have a short sales cycle, you need to give new salespeople time to adjust to the culture of your accounting firm and the payroll business. Let them learn some basic technical aspects of your business and develop a sales base and pipeline. You can't expect them to start making good sales, with healthy margins, as soon as they walk through your door. Additionally, you won't be able to judge their performance objectively if you're counting on their first few months' sales to pay rent, staff salaries, and your salary. After five to eight months, the cash flow required to cover their salary, bonuses and commissions however, should be covered out of the new business cash flow.

Assume that the salesperson costs you \$47,000 per year in salary, commissions, bonuses and benefits, plus another \$5,500 in other expenses (telephone, office supplies, etc.). Let's assume also that your average gross margin after sales and processing costs is 35%. Let us go back to our marketing plan example where we established a goal of \$150,000 in yearly payroll business. Your salesperson would need to bring in a minimum of \$150,000 in annualized sales at 35% margin ($\$150,000 \times 35\% = \$52,500$) to cover what you've spent on them in the first year. The second year is where you begin to gain substantial profitability from the business that a salesperson brings in.

The key to profitability in training an outside salesperson for your firm is management and that individual's longevity. The most profitable firms are able to manage and motivate their salesperson (so that they stay three to 10 years).

The Training Challenge

Training the salesperson is the third challenge. Many firms don't understand that the challenge of training a salesperson goes beyond giving them a manual to study, an explanation of what we expect in regards to paperwork, fees, office procedures, etc., and then putting them out in the market to sell, sell, sell!

There are a few reasons why that won't work. To begin with, salespeople that have never sold payroll before need to understand payroll is difficult to sell if it is sold on price. Payroll needs to be sold with a consultative approach. They need to understand what constitutes a good new client, what technical knowledge they need to know to be able to understand payroll, and what rules your firm operates under, in general. Not fully understanding the workings of the payroll business may lead to frustration, which will show through constant complaining about being unappreciated and underpaid.

Education and training are the solution. You need a process to teach new salespeople all about your business and how to present the uniqueness of what you do. In this way, they can proficiently and effectively perform their job to produce profitability for your payroll business. There are four levels in the education and training cycle for a new salesperson in the payroll business:

1. **Knowledge**—Knowledge about the mindset your firm must have to be successful. Knowledge of what you sell and provide to the business community. Knowledge is the most proven way to approach the selling of payroll services. Begin with some of the basic technical issues of payroll and build on them.
2. **Using the Knowledge**—Knowledge without action is worthless, so the second level is to show the new salesperson how to use the knowledge out in the marketplace. What accomplishes this is field training with an experienced payroll salesperson, to demonstrate how to sell payroll, how to ask the questions, etc.
3. **Experience**—The third level is getting the salesperson out in the field to gain some experience. This is the "Just Do It" part of the learning curve. This takes knowledge and transforms it into a skill. Skill is learned, but is not learned overnight. Management needs to be patient and also must monitor the activities of the salesperson so that the learning curve goes up steadily.
4. **Continual Reinforcement**—Level four is reinforcement and continuing education. The most successful large companies in our country dedicate a certain budget to the continual retraining of their salespeople. Why? Their investment in their marketing and selling effort and salespeople is an investment toward their future profitability. Plus, investing in a salesperson's continual education serves as reinforcement for them. Reinforcement, many times, makes the difference between mediocrity and stellar performances.

Overall, the investment in proper training of a salesperson is often one of the best investments an accounting professional can make in their payroll business.

Also, don't forget that part of the training process also involves educating them on your firm's objectives, goals for gross margins, as well as sales, and getting them involved with the tracking of how they are doing. If available, they also need to have some benchmarks so they can compete with what other people are achieving in their position. Good salespeople normally love to compete.

Most salespeople think that because they are experienced in selling that they can sell anything, including payroll services. They think, "Just give me a prospect and I'll use my smile, my personality, and my persuasive skills to bring in business." Maybe in some businesses you could do this, but not the payroll business! The payroll business has too many technical, professional, and competitive issues. They'll experience too many diverse situations regarding the actual businesses they are calling on. Unfortunately, even with the proper training, some salespeople won't make it in our business because they can't, or won't, adapt or are resistant to learning. But this is the gamble we must take with any new employee of our firm, isn't it? However, when we recruit a salesperson, we are not hiring a production person. We are hiring an employee that directly brings in profitability to the firm. It's worth the investment to properly train salespeople so that we can increase the odds that they will succeed and produce profitability.

The Motivation Challenge

The fourth major challenge is keeping salespeople focused and motivated. Compensation is not the only way to motivate a payroll salesperson. In fact, money has proven not to be the number one motivator of salespeople. Yes, salespeople thrive on the instant gratification of a job well done (closing a sale). However, we need to recognize that most salespeople, because of the nature of what they must do, have high egos and self-esteem. How else can they deal with the rejection that permeates their chosen profession? Effective communication is one of the best ways to manage a salesperson. Communicate your appreciation when they do a good job. Be willing to educate them on how to become better in the business and voice your concerns when they do something that does not benefit the firm's overall profitability or their well-being. Most important, constantly communicate the firm's overall plan and objectives. Communication breeds team spirit.

One of the best vehicles to effective communication is to have a regularly scheduled payroll marketing meeting each week. No other work in your firm is more important than the hour per week you spend in managing and cultivating the future profitability of your firm. This mandatory weekly meeting also is one of the best ways to monitor the activities of success of your salesperson.

Monitoring is the second most effective way to manage salespeople. Monitoring is laying out your firm's objectives to your salesperson and monitoring how they are doing in helping the firm achieve them. Having your goals on paper and communicating them to the salesperson is the first step in monitoring. The second step is inspecting the results and the routine of the salesperson to make sure they are on track. Monitor their numbers (calls, presentations, sales, etc.), plus the quality of what they're saying to prospects. Monitor the quality of the new payroll business they're bringing in and their effectiveness in managing their time. Based on your monitoring, the communication part of your management kicks in again. If they're doing a nice job, tell them, and

praise them. If they're off track, let them know. If they've really made a blunder or mistake, communicate that to them, as well.

You can develop any salesperson into a true payroll sales professional by handling the four main challenges we just discussed.

- Follow the right procedures and use the right tactics in finding and recruiting this special individual.
- Give them enough time to succeed.
- Provide the right kind of training.
- Keep them focused and motivated.

Two final hints in being successful at finding, recruiting, and keeping a payroll salesperson for your accounting firm...

Once you have begun the process, *follow the course*. Don't get off track and go in different directions. Also, we recommend that you may want to *seek professional counsel* in this entire process. It would shorten your learning curve and also produce results quicker.

Summary

So there you have it, an outline of what needs to be done to capitalize on the Great American Payroll Opportunity. Payroll is a profitable business for accountants to be in, as well as an excellent avenue to overall firm growth. Plus, payroll is one of the most powerful marketing tools a firm can have. A wise man once said, "Progress always involves risk but you can't steal second base with your foot on first." So what are you waiting for? Now is the time to act!

No matter where your firm is in the payroll business, you can follow this expose and work on developing your firm's master plan for payroll. The payroll business for an accounting firm is a vein of pure gold. Do what you need to do, and the Great American Payroll Opportunity will be yours!

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Don Uhl is President of Don Uhl & Associates, Inc. His team of professional trainers and coaches help accounting firms nationwide build their firms and is the only practice development firm specializing in development of payroll departments.