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## PAYROLL SERVICES: A NEW WAY TO GROW

You already know that the tax and accounting profession is changing more quickly than ever. The payroll space is also evolving rapidly, becoming one of the fastest-growing opportunities in the profession. This is due to a variety of factors, including:

### FEWER BARRIERS TO ENTRY

Cloud-based software solutions have changed the rules in the payroll space, dramatically reducing the cost of entry and allowing even smaller accounting firms to compete with the large service bureaus.

Firms can now get professional-grade, production-oriented payroll software with an initial technology investment of as little as \$5,000 to \$10,000. With this level of investment, firms can offer service that rivals or even surpasses the big service bureaus. Perhaps even more importantly, they can often be profitable in their first year.

### NEW STAFFING OPTIONS

Cloud-based software has given firms new ways to meet the staffing demands of in-house payroll processing. Remote work arrangements and anytime-anywhere software have made it much easier to ensure that staff is available when needed.

### AN ESTABLISHED CLIENT BASE

When it comes to attracting payroll customers, accounting firms have an important advantage over service bureaus: An existing client base with deep, established relationships.

Many of your clients may have already expressed interest in payroll, and even the ones that haven't may be interested.

### A GROWING SEGMENT

In a profession that's becoming increasingly commoditized, payroll is a rare bright spot for small to mid-sized accounting firms. Demand for professional payroll services continues to grow for a variety of reasons, including:

- Increasing government regulation that makes payroll too complicated for many employers and contractors to process in-house.
- Poor customer service from many national and regional payroll service companies.
- Increasing productivity that has left many accounting firms with excess capacity. That capacity can often be put to use processing payroll.

### NEW OPPORTUNITIES IN TRADITIONAL AREAS

Just as your existing customer base is a source of new payroll clients, you can often cross-sell new payroll clients on your other tax and accounting services. Clients see real value in getting a wider variety of services under one roof, and offering a more complete suite of services will attract new prospects who might not have considered your firm before.

### STRONGER BUSINESSES

Payroll services offer a variety of unique advantages that can significantly improve your business. They include increased cross-selling opportunities, a more consistent flow of revenue from month to month, better utilization of your staff's work capacity, and improved cash flow.

A thriving payroll service can also increase the value of your business should you decide to sell or transition it in the future. Payroll services are traditionally sold at higher multiples than traditional accounting and tax services.

### STRONGER CLIENT RELATIONSHIPS

Payroll is a powerful tool for increasing client loyalty. It offers you a wide variety of opportunities to interact with customers and demonstrate your value. This makes it less likely that clients will look outside your firm, not just for payroll, but for other services as well.

And because of the complexity of payroll, clients tend to stick with the same payroll provider for a long time. When you bundle your payroll offerings with other services, client loyalty for those services tends to increase as well.





# ALIGNING YOUR FIRM FOR SUCCESS IN PAYROLL

## WHAT'S YOUR PAYROLL STRATEGY?

Nearly every firm that offers payroll has one goal in common: to be able to confidently offer comprehensive payroll services to any current or prospective client. But the strategies by which they achieve that goal can vary widely. Some firms choose to process every payroll in-house, some firms choose to outsource every payroll to an outside service, and many firms choose something in between.

When it comes to payroll strategy, most firms tend to fall into one of three broad categories:

### IN-HOUSE APPROACH

The majority of this guide is dedicated to in-house payroll processing. In-house processing affords firms the highest degree of control over the process and it can also be more profitable than other approaches if it's handled correctly. But it does require a high level of technical knowledge and at least one staff member who is dedicated to payroll full-time.

Firms that choose an in-house approach may still refer some payrolls to an outside service. For example, a few client payrolls may be too large or complex to be profitable. In these cases, an outside payroll partner enables the firm to provide payroll without processing it.

Firms may also have clients who want to process their own payroll. In these cases, hosted accounting software solutions can give clients the tools they need to process their own payroll in a way that's integrated with the firm.

### OUTSOURCED APPROACH

Firms in this category choose to outsource most of their payroll business to an outside service. This enables firms to benefit from the client loyalty and steady cash flow that come from offering payroll, without the staffing requirements or technical knowledge required to process it in-house. Outsourced payroll is also easier and faster to implement than in-house processing.

### HYBRID APPROACH

Many firms choose a hybrid approach, processing some payrolls in-house and outsourcing others to a payroll service. Often, they do this by creating a tightly defined business model, defining certain client types and sizes that they can efficiently process in-house. They then refer payrolls that don't fit this model to an outside payroll service.

This approach enables them to maximize profit on a client-by-client basis, tailor their payroll business to their desired staff size and goals, and confidently offer payroll services to every current and prospective client.

## WHAT'S YOUR STRATEGY?

Does your firm fit one of the categories above? If you're not sure, we've created a payroll strategy tool that may help you determine the payroll strategy and level of involvement that's right for your firm. You'll find it, along with a variety of other helpful resources, at [CS.ThomsonReuters.com/PayrollCentral](https://www.cs.thomsonreuters.com/payrollcentral).



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## TECHNOLOGY COMPONENTS: SOFTWARE & HARDWARE

In the past, firms that were new to payroll selected a software solution first, then made a heavy investment in hardware to meet the requirements of that software. Although this is still sometimes the case, there are far fewer concerns with hardware today than in the past. This is largely because hosted software solutions and cloud-based delivery have reduced the hardware footprint needed to support payroll services.

### WHY THE CLOUD IS MORE THAN JUST HYPE.

Cloud-based payroll systems enable you to begin offering payroll with a smaller initial investment in hardware; in fact, your current hardware and network may be more than adequate to support cloud-based payroll software. The cloud also eliminates a variety of indirect costs, including software updates and other IT maintenance.

### CLIENT PORTALS

Any payroll system you consider should offer client portals for payroll time collection and payroll delivery. Portals are an exciting new option for small to mid-sized accounting firms that can improve the accuracy of your data entry, elevate client service, and ultimately increase margins.

### OTHER CRITICAL SOFTWARE FEATURES:

Today's solutions must have some flexibility to operate in both a PC and iOS (or Apple®) environment. Hand-held and tablet products are going to continue to be an important component for software solutions not only for the firms, but also for clients and the clients' employees.

As a final note, it's important to base your software selection on real-world capabilities, not just a name. The rules have changed in the software space, and the companies that were at the top of the list 10 years ago may not have what it takes to compete in today's environment.



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## STAFFING FOR PAYROLL SERVICES

Choosing the right staff and deploying it properly is absolutely critical to your payroll offering. There are a variety of important roles to consider, including:

**Bookkeeping Staff** – At firms that are new to payroll, it's common to assign the bookkeeping staff to payroll services. This can be a good way to operate, particularly in the early stages. But as your payroll business grows, you may want to consider transferring some or all of the business to one or more payroll specialists.

**Payroll Specialist** – Payroll specialists provide a strong backbone for your payroll clients. Some firms assign each client to a specific payroll specialist, who will be their primary point of contact, while others distribute payroll workload on an ad-hoc basis as it comes in.

Obviously, an understanding of payroll and payroll taxes is an important trait to look for in a payroll specialist. But there are also other, less obvious factors to consider. Do they have good customer service skills and a desire to handle that part of the business? Are they good at math? Do they have the skills to manage their time and cope with the constant deadlines of the payroll business? Payroll requires far more customer interaction than most other accounting services, so these are all important questions to ask.

**Managers** – As you grow, you'll need to consider the roles of managers in your firm. Remember, the best technician does not always make the best manager. The management position can be a challenging one to fill, but the right one can greatly improve your chances of success.

**Special Scheduling Considerations** – Payroll is time-sensitive. It has frequent deadlines and requires in-depth government reporting. You need a diverse and qualified staff, not only to meet the expectations of the client, but also to meet the complicated scheduling requirements of a payroll business.

The level of staffing required can vary widely, even from one week to the next. So it's important to find a staff that can stay flexible and adapt to the fluid nature of the payroll business.

### BETTER STAFF, BETTER RESULTS

A qualified staff member can often manage as many as 80 payroll clients, while the best staff members can manage 100-120 clients or more. With this in mind, it's easy to see how finding the best staff members can have a strong impact on profitability.

## KNOW YOUR CUSTOMER: WHAT DOES A PAYROLL CLIENT LOOK LIKE?

Before you enter the payroll business, it's important to create a profile of the type of clients you prefer to serve. You can then gear your services to these clients, and possibly refer the small number of clients who do not fit the profile to an outside service—preferably a trusted partner who supports and understands your company and will not compete with it.

It's often useful to group potential payroll clients by size, according to the number of employees they have. This scale may be a useful guide:

**SMALL** - Less than 25 employees

**MEDIUM** - 25 to 50 employees

**LARGE** - More than 50 employees

Serving clients of similar size can help streamline your processes and drive overall efficiency. With that in mind, what's your firm's sweet spot? It's important to recognize it and allocate your resources accordingly.



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## MARKETING AND BRANDING PAYROLL SERVICES

Those of us in the tax and accounting profession aren't always comfortable or skilled with marketing and branding. But they are far too powerful to ignore. Taking the time to arm yourself with the right marketing and branding tools will give you the greatest opportunity for success.

### BRANDING YOUR PAYROLL SERVICE

Once your payroll service gets off the ground, you may want to consider branding it separately from your other accounting services. This can do a lot to increase awareness of your payroll services in the market, to increase your perceived level of expertise, and to gain visibility with a larger audience.

### SELLING YOUR PAYROLL SERVICE

First, the good news: it's much easier to sell payroll services than tax and accounting services. Businesses that want to change their payroll provider generally do so quickly, and the transition process can happen quickly as well. But when you begin selling your payroll service, it's important to recognize that you're selling to two very distinct audiences: current clients and prospects.

### TAKEAWAYS

**Marketing** – Savvy marketing will generate a pipeline of leads, which your sales department can then turn into new clients.

**Sales** – Payroll is a valuable tool for winning new clients. But you'll need to make sure your sales and marketing staff has the tools they need to sell it. You might even consider taking on an employee who's dedicated solely to new client acquisition.



## MARKETING TO CURRENT CLIENTS

Your current clients are your best marketing prospects when it comes to payroll. You already have relationships with them, you know how they work, and you're familiar with their needs. When marketing your payroll services to them, it's important to find out how they're currently handling their payroll needs. Some use national firms like Paychex and ADP, while others use regional payroll firms and still others handle their own payroll.

Make sure your marketing efforts take into account your clients' past experiences with payroll, and the way they prefer to work. A combination of three to four of the following approaches is generally effective:

- Tax season appointments and annual tax planning meetings in the summer and fall. Simply mention that your firm offers a streamlined, customer-focused payroll service system that can help make them more successful.
- Client education programs that include client emails and blogs or newsletters.
- Staff education – programs to ensure your staff understands your goals and help offer the opportunity when they recognize it.

The business environment is changing and all businesses are becoming more diverse in their offerings. Protect your clients—if you're not serving them and adding value to your service, somebody else will.

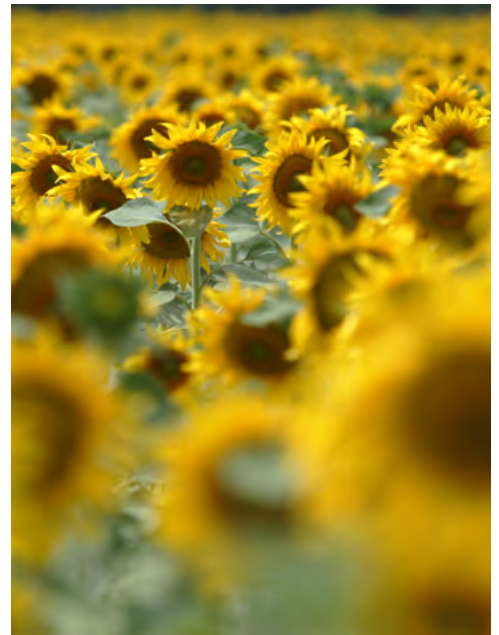
## MARKETING TO NEW PROSPECTS

To really take your payroll business to the next level, you will need to branch out to new prospects. And that requires a sales and marketing program and specific staff members tasked with that role.

Some additional areas to consider relating to sales and marketing as you contemplate the opportunity include:

- Taking advantage of current staff who have the skills to manage the sales and marketing process.
- Hiring and managing a sales person to facilitate your program.
- Telemarketing programs; these can be internal or external. The key is finding one that fits with your goals.
- Canvassing – introducing your business to other businesses in the community.
- Referral partner programs that involve strategic alliances with other service professionals.
- Internet and web-based programs.
- Chambers and civic groups.

As you analyze how you're going to tackle the sales component of your firm, realize that marketing is different from sales. Marketing is the means by which you fill your pipeline with leads that turn into prospects. Sales is turning those prospects into clients. Some people are good at both, while others tend to be better in one area or the other.



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## ANCILLARY SERVICES

While the actual payroll processing is likely to be your biggest source of revenue, payroll can provide a number of ancillary income streams as well. They include:

- Time clock solutions
- Background and drug testing
- Workers' compensation insurance
- Pay cards
- Human resources services

These services might start as nominal revenue generators, but over time they can grow into a significant income stream for the payroll division and boost profits. They also offer possible areas of specialization that can help to differentiate your firm.

## PRICING STRUCTURE: BUNDLED OR UNBUNDLED?

### BUNDLED

Bundled pricing provides clients with a single, flat fee for all the services they receive from you. This makes it easier for clients to budget and more difficult for them to haggle with you over individual services. Bundling can be an effective sales tool when you're trying to get a new payroll business off the ground. Price is often the chief concern when you're speaking with prospective clients, and it is often advantageous for you to try to refocus the conversation on other attributes of your services like efficiency and customer service. Bundled pricing can do this by offering a simple pricing structure that limits discussion about the prices of individual components.

It's often wise to use bundling as a tool for attracting new clients, then unbundle services later once the client has seen the value of your services.

### UNBUNDLED

A variety of studies in payroll and other industries have shown that unbundled pricing can increase revenue by 20-50% compared to bundled pricing. Payroll offers a variety of billable services beyond check writing that can be valuable revenue sources when unbundled.

Positioning unbundled fees that were previously bundled can be a challenge, but clients are often surprisingly receptive to it when it's presented properly. The key is to be organized, efficient, and educated, and to commit to a direction once you've chosen it.

Whichever model you choose, it's important to do fee reviews on a regular basis, and to raise fees when possible. It's also important to prepare a budget and closely track revenue and expenditures related to your payroll business. You must price for profitability. Seeking consultation that can help direct you on payroll pricing is also an option.

It's true that pricing for profitability may cause the most price-sensitive prospect to look elsewhere, but that's not necessarily a bad thing. Weeding these clients out will allow you to serve other, more profitable clients instead. If you are confident in your pricing, it will greatly increase your chances of success and land you better clients.

## IS IT BILLABLE?

Don't forget to evaluate any additional services you begin to provide for your clients as your relationship progresses. Should you be billing for those services? For example, workers' compensation audits and report generation for unemployment claims are two extras that payroll services often provide as a "favor" to clients, but in fact should be billable.

Other services for which it often makes sense to collect additional revenue include:

**Quarterly Processing** – Regardless of the decision to bundle or unbundle fees, you should consider charging for quarterly processing. This process is time consuming and important. It is an easy way to show the client the work required to accurately report the quarterly payroll taxes for the cost of the process. Additionally, many clients require additional state and local agency reporting. These are reporting requirements that take time, education, and effort.

**Annual Reporting** – Similar to quarterly processing, the annual year end reporting requirements of W-2s and 1099s are generally additional, billable services. These are additional opportunities to produce information that is valuable and appreciated.

**Other** – There are a variety of other billable items that are directly related to the payroll processing function. They include:

- Electronic copies of historical records
- Compliance posters
- Retirement plan reconciliation
- New hire reporting



## RISKS IN PAYROLL SERVICES

**Problem clients** – Just like your other business areas, it's important to be selective about the clients you choose to work with. Often, the warning signs of a problem client are apparent from the first meeting. For example, if a client haggles over every detail or is chronically late providing information, they may cost you money in the long run. Learning to weed out difficult clients at the beginning of the process can save a lot of concern in the future.

**Banking** – Payroll services often require direct deposit of employee paychecks. That most often requires an ACH account with a bank or an ACH service to provide direct deposit services. Consider a bank or service that gives you the best risk mitigation to keep an efficient operation.

**Tax Payments** – You can reduce the risk of a late or incorrect tax payment by keeping your systems and software working efficiently. It is worth noting that if your systems and software are not well designed and managed, late or missed tax payments can cause not only concern but steep penalties and interest from government agencies.



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### PRE-LAUNCH CHECKLIST

- Commit yourself
- Educate staff and consider hiring needs
- Consider branding and marketing
- Select, test, and implement your software systems
- Operationally document systems and processes
- Document sales and marketing systems and processes
- Arm your firm with proper support systems 
  - Banks
  - Human resources
  - Time clock
  - Pay cards
  - Work compensation options
  - 401K providers
- Establish internal service roles
- Evaluate marketing options
- Invest time and resources in sales
- Invest time and resources in operations during growth
- Consider office dynamics
- Upgrade office space and any equipment

## COMMIT TO SUCCESS

To make payroll a viable option, you'll need to assess your current skills and time obligations along with those of your staff. It is possible to experiment with the concept of providing payroll services without completely committing. But if your goal is to be successful and grow your payroll business, an all-out commitment is much more effective. When you are committed, day-to-day challenges become less discouraging and your focus is on long-term goals for your employees, your business, and yourself. This leads to a more enjoyable journey to success and greater satisfaction once you achieve it.



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**This payroll guide was prepared with assistance from Jim Paille and R. Sean Manning.**



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In 2008, Sean Manning created Payroll Vault as a separate service division based in Littleton, Colorado. Since then, it has grown from 90 payroll clients to over 250.

Sean believes that payroll services represent one of the most important growth opportunities in the tax and accounting profession, and is committed to sharing what he has learned with other tax and accounting professionals.