

# Payroll Tribune

Volume 2, Issue 5

December 2005

## Focus On Your Target Market

I hope that by now your thoughts have moved from completing your 2006 Business Plan to getting ready for year-end.

Your **Customer Service staff** is getting year-end service packages ready to send with important information to help customers check their employee files to help with year-end wage and benefit reports. They are mailing year-end schedules out to customers so that they know when they should have information checked and ready. They are calling your customers to thank them for their business this year and checking to see if there are any questions they may have, just in case they do (and just in case the competition is working them over!)

The **Sales Team** has already been in the market for a month, talking to prospects about their needs and your services. You and they are focusing on the competitions' offerings and you are modifying your tactics to get more market share.

If you are not thanking your customers for their business, and your sales staff is fighting off the competition from every side, it might be time to think again about the kind of customers you want and where you are most likely to find them.

In the payroll business we all talk about "target markets". We know that one very large and leading competitor targets three general markets, and another targets two. Why do they bother? Why should you? Why not just run the ads and answer the phone? **You target your market for two reasons: to increase revenues and to decrease expenses. If you do it well, you may even improve customer service!**

Your target market drives your Business Plan. It defines the organization. It helps you build sales volumes and set prices; the keys to revenue. It focuses your sales and marketing efforts and budgets. **Simple, moderate, and complex customers** have different needs, and require different marketing approaches.

What does any customer want from a payroll service bureau? In general they want a service which is fast, accurate, and reliable. The complexity of their requirements has been used to segment markets and define the products and services bureaus have offered their customers: simple, moderate, and complex. The degree of complexity is driven by the amount of data required and how it is used. Lots of employees can mean lots of data but may or may not mean more complexity. Sometimes a small number of employees with lots of data and complex reporting requirements add to complexity. There are many variations which a bureau can tailor to their market by targeting prospects.

It is difficult for a smaller service bureau to be all things to all people. They just do not have the resources to provide a wide service offering to the whole market. I believe however, without a doubt, that a smaller service bureau can compete very effectively in at least one of any of the three market segments. And they do. A focus on simple clients means a focus on fast, low or no labor intensive, standardized payroll services. Price, speed, ease of use are what the customer is looking for. The employees of a bureau focusing on this target are trained to handle high volumes of customers, and do not have in-depth specialized knowledge of systems, software, or various related payroll services. A focus on highly complex customers who have multiple uses for employee payroll data requires a staff with a broader knowledge of operating systems, custom report building and maintenance, network administration, in-depth knowledge of various benefits and their administration. Using a technical staff to service simple customers is inefficient. Using a poorly trained staff to manage complex customer

## Target Market (Continued)

requirements is an accident waiting to happen. When we speak to payroll groups, we talk about sales quotas and staffing ratios as effective numbers to help bureau manage their Income Statement and their operations. Those ratios vary by the complexity of the target market. Here is something you can test, or we can help you test, or we can help you test. [Look at your current customer base](#). Determine the following: actual sales volume per sales rep, number of payrolls you ran each month in the last quarter, the average number of employees per customer, and the number of custom reports you ran by customer in the last three months. But before you do this, write down what you think they are first. Then compare. If you are like a majority of your peers, you will find a difference between your perception and the reality of your actual customer base. By closing that difference, you will improve your customer service and make more profits.

## VALUATION

Historically, the owners of independent payroll service bureaus go to their buyer to determine the value of their company when they want to sell! That has always struck me as a unique way to do business.

This unique approach has come about because the large players in the market use acquisition of smaller bureaus as a way to build market share. They therefore value these small bureaus, not for their contribution to earnings, but for their contribution to their share of the market. That means they apply their target customer attributes to the sellers' base, and their conversion ratios to their payout offers. And, since they are always in the market, under their terms, the smaller bureau sellers seem to accept these terms, with little negotiations.

This process of valuation has had some strong points in that these qualified buyers understand the business, and pay cash. The process has led to some weak points in that some owners run their companies badly, but since the deals are structured as a purchase of assets, the buyers generally do not care about past bureau operating practices.

[But things might be changing](#). More and different buyers are coming into the market to purchase smaller bureaus. They are going to compete with the "regular" buyers, but their valuation methods will be different. They are not just looking at buying assets to build market share. They are looking at the bottom line of the bureau.

We think that bureaus which run their businesses efficiently and effectively will be able to get better prices in a market which puts value on predictable revenue growth and operating margins, than in a market where value is defined by revenue and customer conversion ratios. We think that owners need to pay more attention to the track record of their company, their ability to produce consistent growth in market share, and in their net operating margin to be the winners as these new buyers join the marketplace.

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We have moved. Our new address is 1460 Maria Lane, Suite 290 Walnut Creek, CA 94596

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We work with our clients to help them understand their business better. We have always worked to help our clients improve their operations, financial planning, and monitoring processes. We work to help them build a company with a track record which we think will add value to them as owners.

We know that better management helps owners enhance the value of their company by building revenues and improving profitability. We help our clients realize that value by helping them to best prepare their company for sale, helping them to structure a fair deal, and helping them close their transaction. We also work with them to think through transitions of ownership in family owned businesses and/or assist company owners in acquiring additional payroll businesses.

If we can help you improve your operations, build your financial planning capability, and help you realize the value of your company, call or e-mail us. Join over 25 other service bureau owners who have already made the decision to let us help them understand their business better.