

# Payroll Tribune

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## On Growth and Planning

The payroll business is one with two seasons: the calm from late Spring to early Fall, and the Other One! The calendar shows that Summer is ending and early Fall is just around the corner. This is a time to think about 2007, what it will bring, and how you should prepare to take advantage of the opportunities which will arise.

The economy is expected to maintain its current 3%+ growth rate, capital will be available for you and your customers to support capital investment and growth. I have seen industry forecasts for the payroll business to have revenue growth north of 18% in 2007 and more than 13% over the next five years. That is an opportunity for healthy growth for independent payroll providers. What will your competitors be doing? What should you be doing?

Readers of this paper know from my history that I think that payroll is about data even more than it is about pay checks; and that the effective competitors in the future will be those that provide a safe and secure operating environment for their customers and, can also provide their customers and their customers' employees with additional human resource management and financial services. The basic payroll service package (paychecks, summary reports, and quarterly tax returns) is not dead. Millions of small companies need this service and a bureau can provide it. There is fierce price competition in this market segment. But personal service can still trump internet providers and lost leader offering from some banks and insurance companies.

If you are a company competing in the small, simple customer segment, your plan for 2007 should include a program to get to key levels where economies of scale can help you maximize your operating margin. What does that mean? It means that if you are serving less than 600 customers, target 600 customers. If you have between 600 and 1,200 customers, target 1,200 customers. You can go to our website ([www.henshawvierra.com](http://www.henshawvierra.com)) and use our "Tool" to determine the number of employees you will need to provide good service to your customer base.

Larger service bureaus should plan on offering more services to their customers, based on the data they collect. Tax services, direct deposit, time and attendance services are generally offered by most bureaus. A growing majority are offering debit cards, pre-employment screening, benefits administration, workers' compensation services, and human resource services. Many of these services are being offered to customers' employees in a self service mode.

These services are adding important incremental income to service bureaus, but not without a cost. Most of these services are offered through payroll service bureaus by outside vendors. I think that is reasonable because: like payroll, each service requires economies to lower marginal costs, and each service requires levels of expertise from employees which are more easily attracted to larger scale companies.

If your plans for 2007 include expanding your service offering, and I believe they must, and that includes outsourcing to product vendors, how do you select a vendor? Very carefully! Price is a consideration, but a longer term partnership needs more than price. You are giving someone access to your customers. Use vendors with a strong reputation for great customer service and complete integrity.

Finally, you can not plan for growth without a formal budget and without measuring your performance against that budget every month. September and October are the months for planning. November and December are the months for preparing your staff and your customers' staff for year-end! We have a basic budget format at our website – Growing by the Numbers – which has the key line items and ratios you should use to build an effective budget. In planning, focus on workflow and process review which can help you use your staff most effectively. Don't just "throw people" at growth. That practice will result in poor operating margins. The business consumes computers, servers, and other IT resources. In 2007 you will need to plan for conversions to Vista! That will be fun! Again, don't just "throw IT capacity" at growth.

Plan for growth. Look at new services to expand your service offering. Work with vendors who share your vision and values. Create a budget, and use it.

## SAS 70

We were again reminded this summer that payroll service bureaus work with key personal data on behalf of customers and their employees which must be safeguarded, and with fiduciary deposits which must be safely and accurately managed. Customers, as well as banks, are demanding better controls over their data and funds. They are being more closely regulated, and they are going down stream to their clients and service providers and demanding more proof that controls and sound processes are in place.

Readers have heard me talk about this for years. In this issue I have asked Rhonda Champion ([rchampion@cpspayroll.com](mailto:rchampion@cpspayroll.com)), a CPA and bureau operator, and her associate, Tom Hawkins ([thawkins@rushcpa.com](mailto:thawkins@rushcpa.com)), to comment on their views on SAS 70. I hope you find their point of view helpful:

Many of you have considered having a SAS 70 audit and have wondered if there are any real benefits that justify the cost of the audit.

Service bureaus can receive significant value from having a SAS 70 engagement performed. The following are just a few examples of the potential benefits a service bureau may experience:

A SAS 70 engagement allows a company to have its control policies and procedures evaluated and tested (in the case of a Type II engagement) by an independent party, demonstrating to customers a commitment to sound internal controls and assurance that adequate internal controls and safeguards exist over customer information and related business processes.

A SAS 70 report can differentiate a company from its competitors by demonstrating the establishment of effectively designed control objectives and control activities, particularly when the company competes with other service bureaus that tend to maintain poor control environments.

A SAS 70 report is one of the best ways for a service bureau to externally communicate information about its controls and is often accepted by third parties such as customers' external auditors, and regulatory auditors, mitigating the strain on internal resources by eliminating multiple visits from user auditors.

If properly designed, a SAS 70 engagement can provide benefits similar to an internal audit function to companies that do not currently have an internal audit department. Very often this process results in the identification of opportunities for improvements in many operational areas.

A SAS 70 report can only be issued by an independent certified public accountant (CPA) or firm. Licensed public accounting firms are required to follow specific guidance to planning, execution and supervision of the audit procedures and the reporting results of the audit. These guidelines are particularly important if a service bureau customer's auditors plan to rely on the results of the service bureau's auditor's tests of operating effectiveness.

## Henshaw/Vierra Management Counsel, LLC

Henshaw/Vierra was founded to help the owners of family held companies and their managers build value.

We work with owners and their key staff to: develop a business plan; evaluate and, if required, change operating systems; organize system conversions; and define the control environment within the service bureau.

We work with owners to: develop plans for succession, and represent owners in growing and/or selling their company.

**We can help you manage a better, more profitable bureau.**

Contact us at 510 749-3225 or by email: [guy@henshawvierra.com](mailto:guy@henshawvierra.com) or [les@henshawvierra.com](mailto:les@henshawvierra.com)

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