

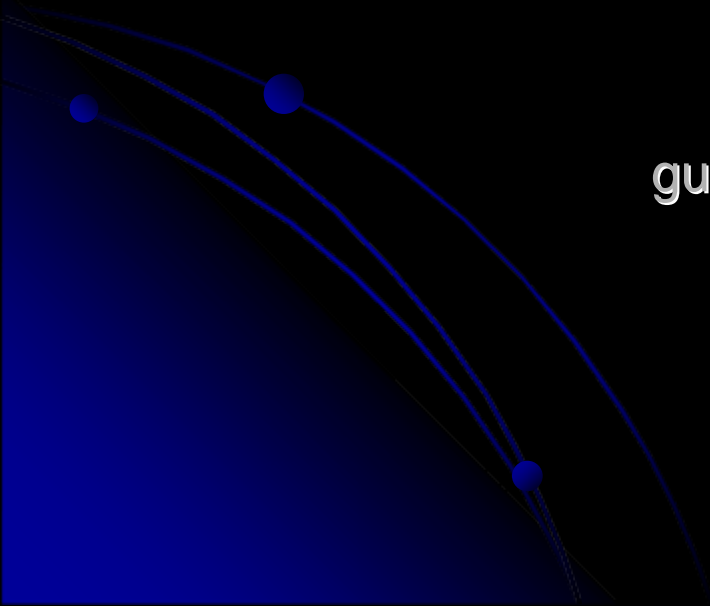
**Henshaw / Vierra Management Counsel, LLC**

**Presented at the IPPA Conference  
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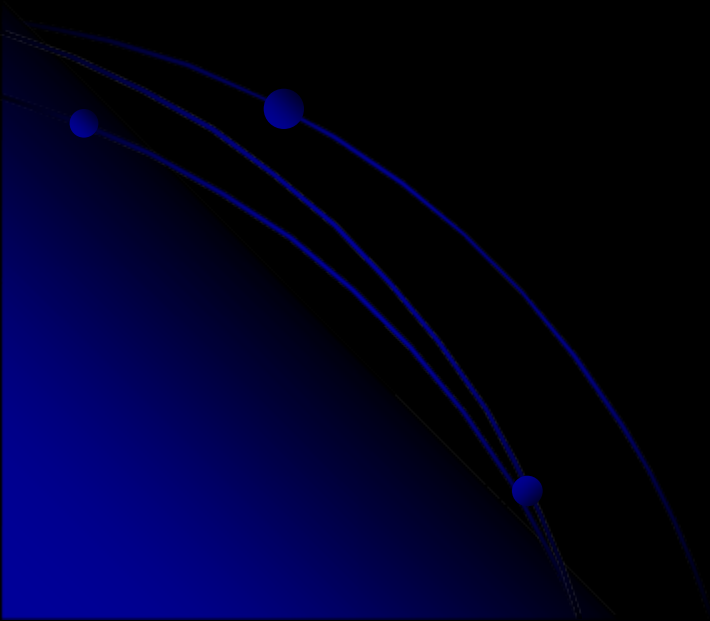
# Scoring Your Business

2007

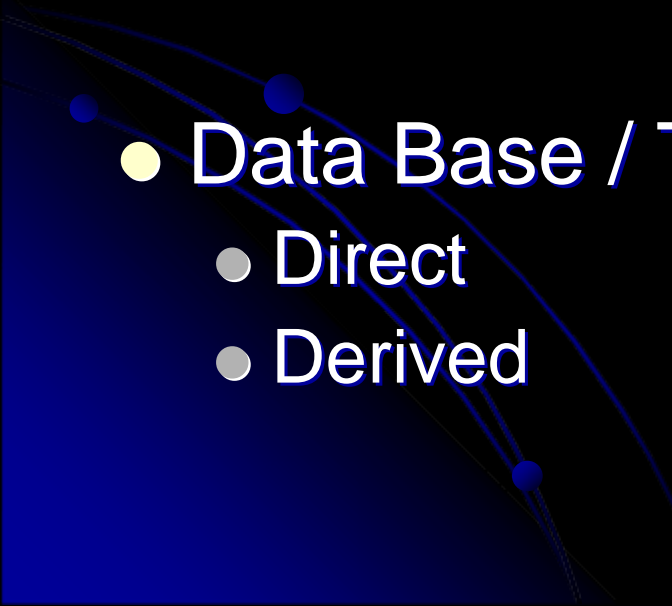


- Do we think, or do we know?

W. Edwards Deming



# Payroll Industry

- Data Driven
    - We know how the numbers work: customers beget transactions which beget cash-based click revenue
  - Data Base / Transactions / Software
    - Direct
    - Derived
- 

# Data Usage – a history (I hope)

- Simple statistical tools 2000 bc
  - Spreadsheets
- Statistical Software packages 1950's
  - Minitab
- Complex business intelligence suites 1980's
  - Business Objects
- Predictive industry applications 1980's
  - Fair Isaac
- Enterprise Decision Management 2006
  - Fair Isaac

# Data usage -- questions

- Access and Reporting

- What happened?
- Where exactly is the problem?
- What actions are needed?

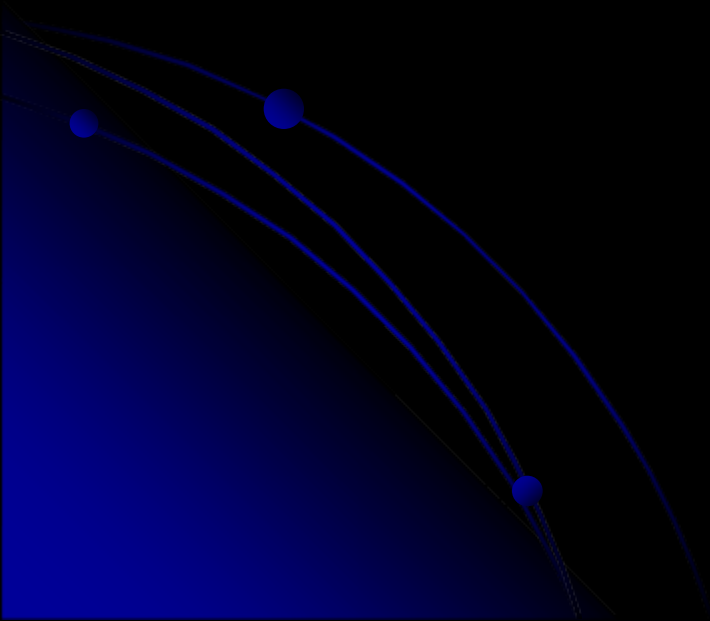
- Analytics

- Why is it happening?
- What will happen next?
- What's the best that can happen?

- Competing on Analytics Thomas H. Davenport/Jeanne G. Harris Harvard Business School Press

It's the Data, s-----d

with apologies to Bill Clinton

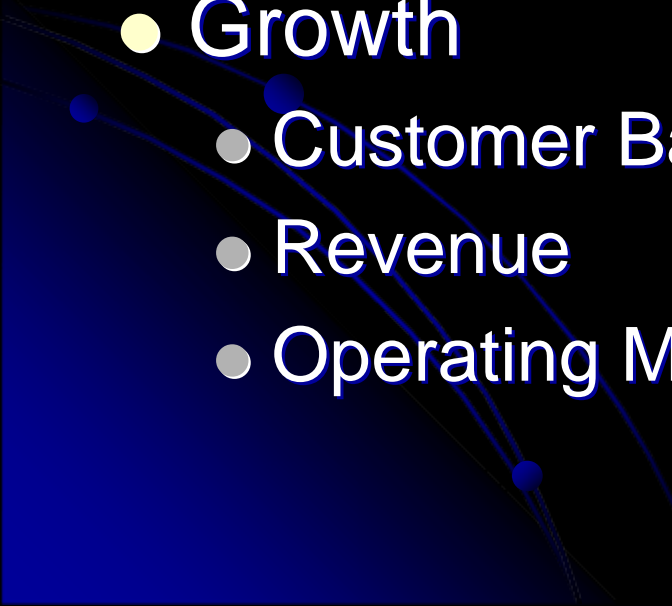


- Where the competition uses data to make better decisions in payroll:
  - **Profit** optimization/building operating margin
  - Not enough in **pricing**
  - **Attributes** of optimal target customer
  - Managing customer **risk**
  - Managing customer **attrition**
  - Hiring and retaining best **employees**

# IPPA Survey 2007

- Once again you have some peer group data
- Let's use the data in the survey and at your company to score your business and build operating margin
- During this presentation I want you to ask yourself, "Where do I stand, *what do I know I know* about my customer base; am I using the data I have to build my business and help my customer?"

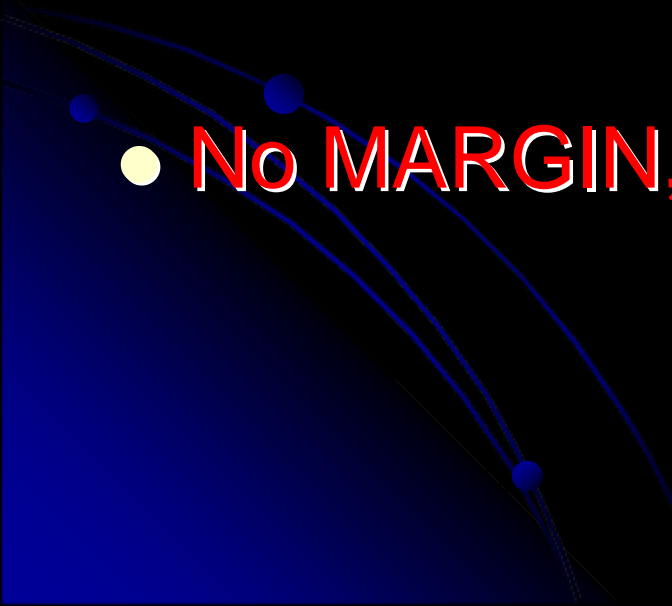
# Your Goals and Objectives

- Operating Margins
  - Total Rate of Return
    - Annual Pre-tax Contribution
    - Market Value of Customer Base
  - Growth
    - Customer Base
    - Revenue
    - Operating Margin
- 

# Finding the Direct Data

- Not a Quicken canned set of numbers in a format built for a manufacturing company, this is a service business! Reorganize your information to better look at your business.
- Mandatory Tools:
  - Income Statement
  - Cash Flow Statement
  - Variance Analysis

# What's an Operating Margin?

- Simply put:
  - For most of you your mission is to build a competitive and profitable bureau
  - **No MARGIN, no mission**
- 


# What is an Operating Margin?

- In Payroll it's: **20 to 30**
  - Revenues *All customer related revenues*
  - Less Operating Expenses (IT, production, banking, distribution) **20**
  - Less Customer Service Expense (salaries) **30**
  - Less Sales and Marketing Expense **10**
  - Less General & Administrative Expense **20**
- Why, because the industry says so

# 10 Things to Count Every Day

- Status of the Work Force
- Yesterday's Numbers
  - Customers Processed vs Plan
    - Projected Customers Not Processed and Status
  - Cash Collected vs Projection
    - Receivables
    - Fiduciary Deposits
  - Closed Accounts
  - Account Recon Status
- Today's Numbers
  - Projected Customers to be Processed
  - New Accounts Status

# Things to Count at Quarter End

- Status of the Work Force
  - Special Items
  - At Quarter End
    - Account Recon Status
    - Date Account Statements sent to Customers
    - Date Tax Returns Delivered to Customers
- 

# Let's Play with Numbers

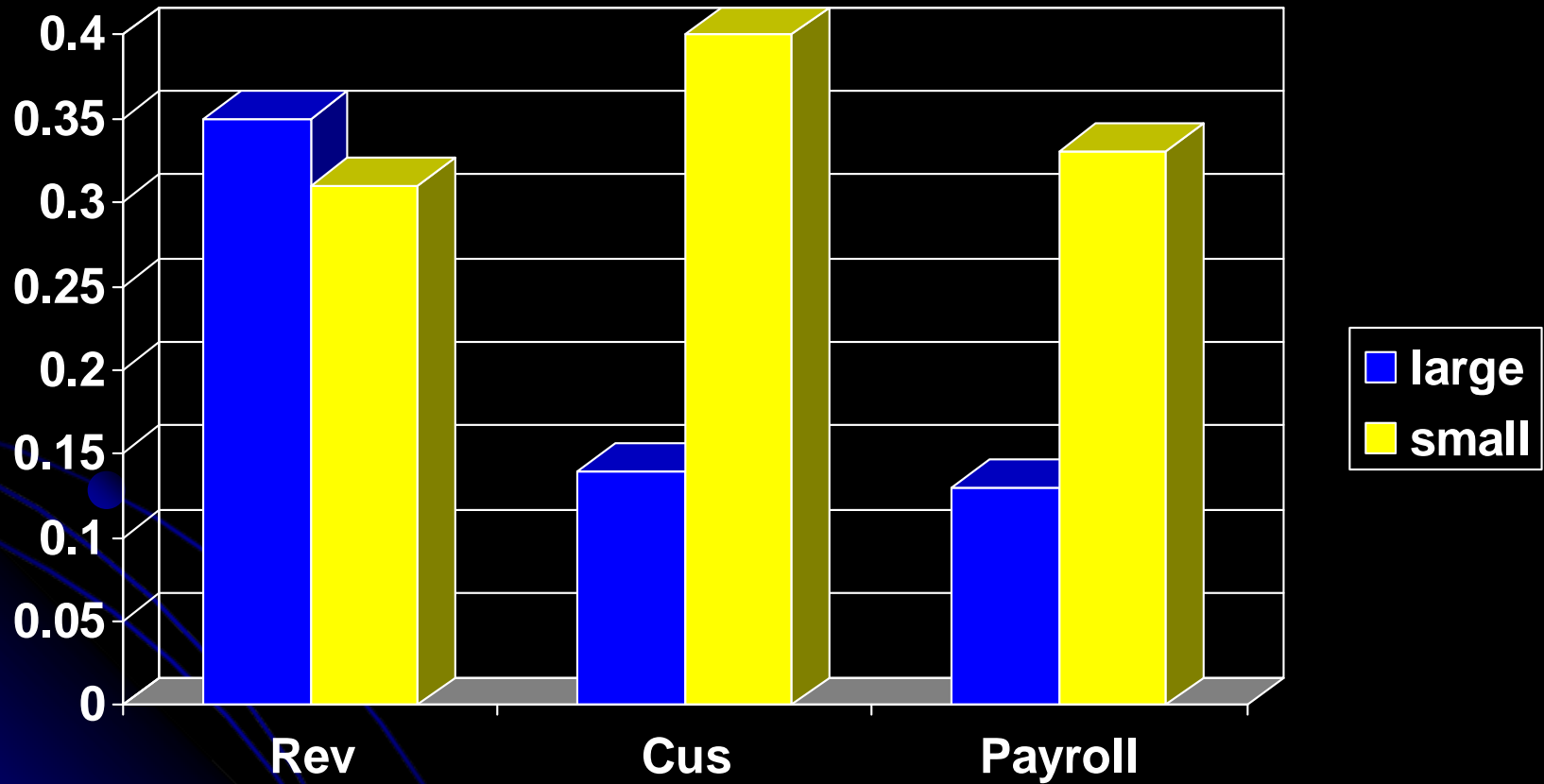
- **The survey said that in Larger Bureaus**

- You grew Revenues 35%
- While growing the customer base 14%
- And growing operating margin 13%

- **The “industry” says to build margin**

- Grow Revenues 15%
- Grow Customer Base 13%
- Grow Operating Margin 20%

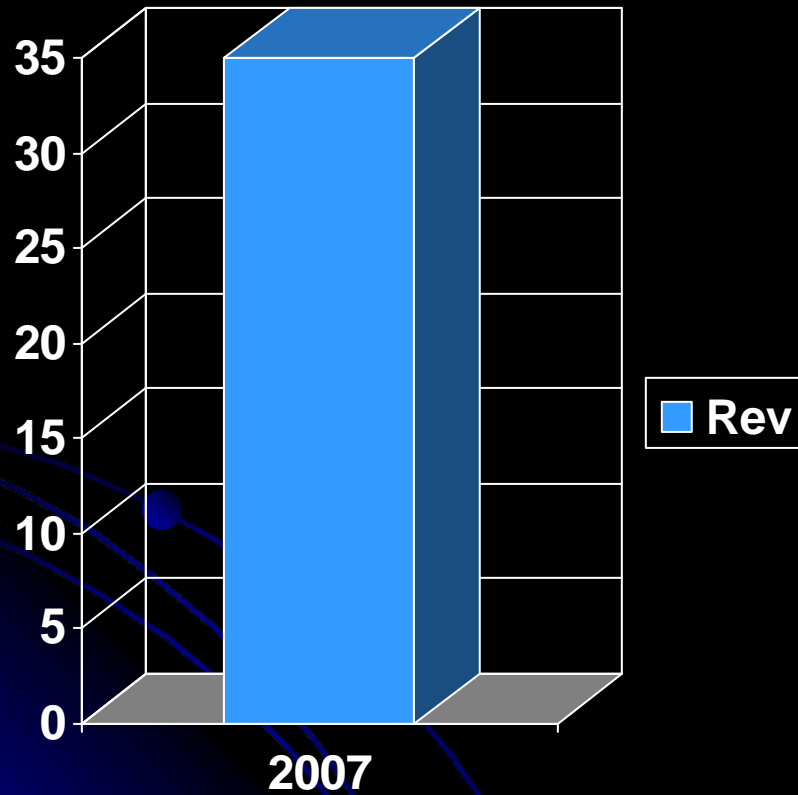
# Trend Compare



# Compare: Bureau Trend vs. “Industry”

- Revenues
  - Disproportionate Effect of Interest Income and 1099 and W-2 Income
- Customer Base
  - Similar, if you stick to your target market
- Operating Margin
  - Economies of Scale
  - Focus on Target Market

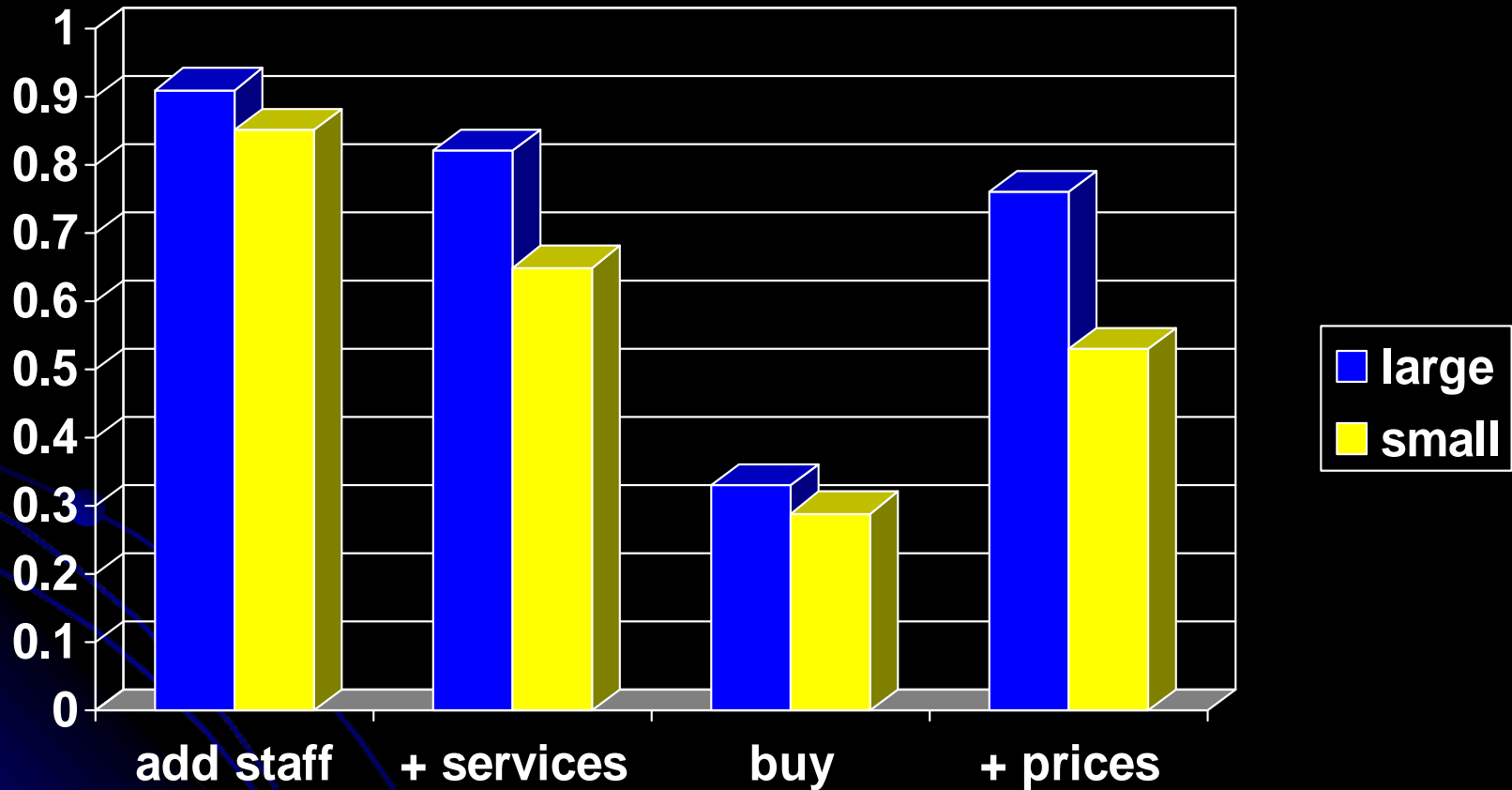
# Grow Revenues



● Grow Revenues 35%

# How Do You Plan to Grow Revenues

## 35%?



# Grow Revenues

- Part of Operating Margin Goals Will Come from new Revenues
- Survey respondents said that they would **increase revenues** by:
  - **Adding Staff** (must add productive capacity)
    - Qualifying and hiring effective Sales Staff, get them up to quota -- fast
    - Manage other staff against productivity benchmarks
  - **Adding Services**
    - Need to know that they have a 15% operating margin or more

# Grow Revenues

- **Increasing Prices**

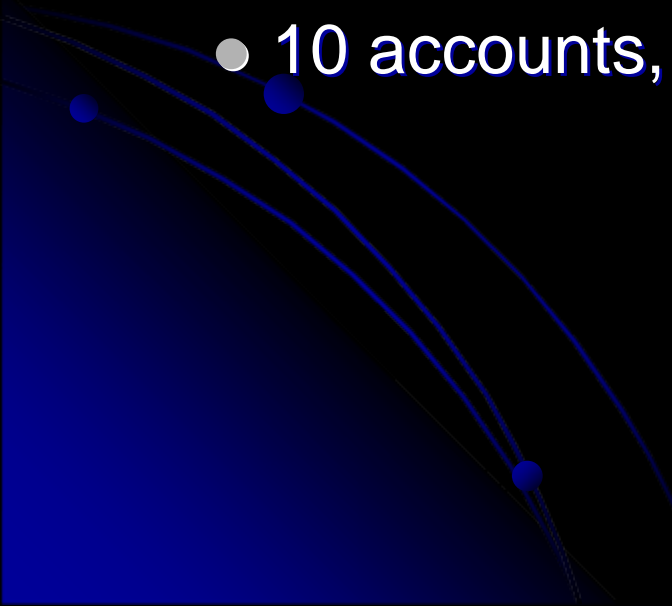
- Survey says that you will only increase price 3%, about the level of inflation

- **Buying a Customer Base**

- Fit Target Market
- Conversion Costs

# Benchmarks – Key Staff

- **Sales**

- Attributes of an effective sales person for your target customer in your market
  - 10 accounts, \$1,300/mo, \$150,000/yr
- 

# Benchmarks – Key Staff

- **CSR's**

- Screen for attributes of employees who can achieve these levels of productivity

- Call/Fax 210

- PC/Remote 140

- New Accounts

- Call/Fax 20

- PC/Remote 10

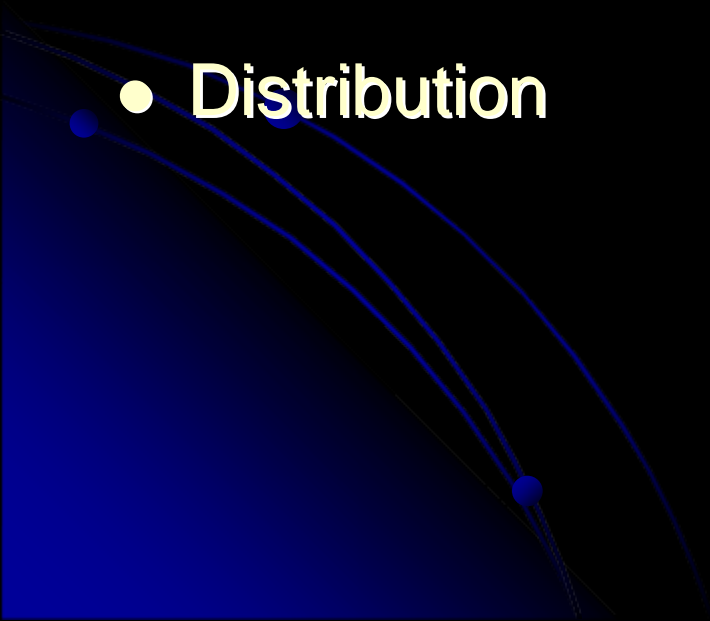
# Benchmarks – Key Staff

- Tax

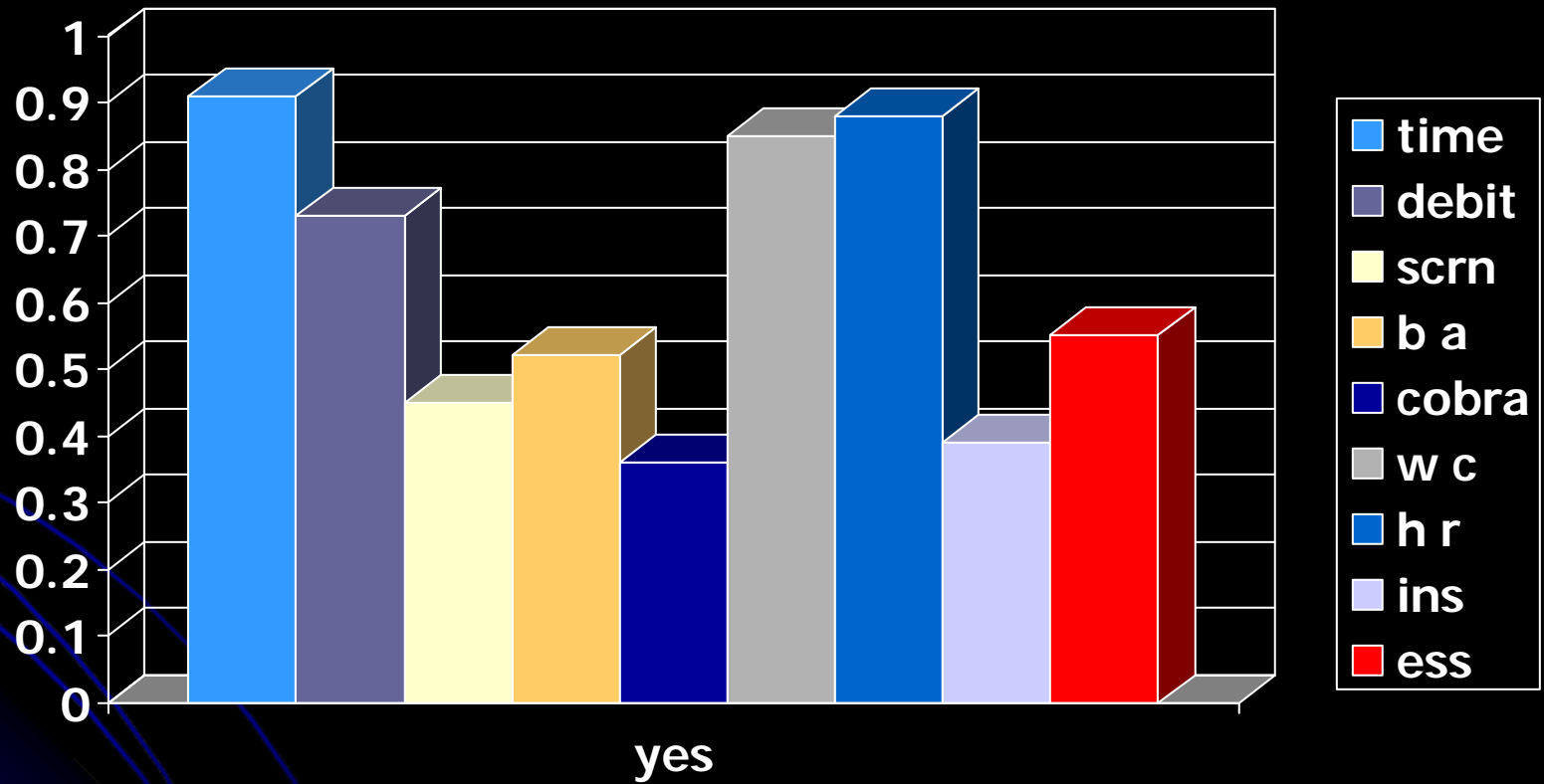
400

- Distribution

550

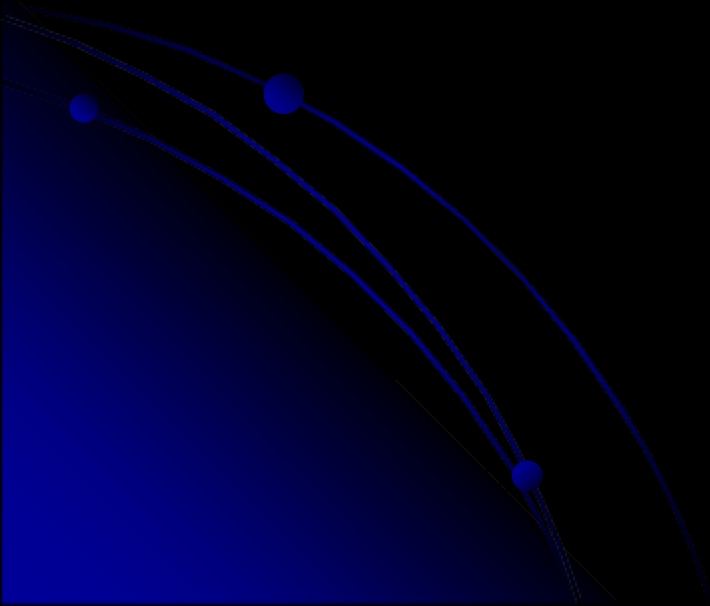


# Grow Revenues -- Add Services



# Grow Revenues -- Add Services

- Most of these services are provided with or through partners



# Why **should** we add the services we add?

- Key cross sell **core** services – **high margin business based on scale**
  - Payroll
  - Tax Returns
  - Tax Service -- trade off: costs, risks, product margins, interest income
  - Time & Attendance
  - New Hire Reporting
  - HR services
  - Employee Self Serve

# Why **should** we add the services we add?

- **Related** service – best with partners -- can you get click revenue from the data base? Often get “Royalty” payments – **less than 15% margins from a customer relationship. If you offer these services you need to be super efficient to drive costs out.**
  - Tax Service
  - Debit Cards/OBC/Direct Deposit
  - Affinity Credit Cards
  - Insurance – life, credit, investments, workers comp
  - Benefits Administration

# So....


- Increasing revenue by adding new services and products will build revenues if they have superior margins
- Adding staff, adds to costs. Staff must operate at high levels of efficiency to justify the increase in costs.

# Grow the Customer Base

- Grow the Base 14%




# Growing the Customer Base

- Part of the Increase in Operating Margins will come from Increasing the Customer Base
- 

# Growing the Customer Base

- The Survey indicates a growth target of 14%
- The Survey also indicates an attrition rate of 10 to 15%
- Together bureaus are looking for a 20% to 25% change in their customer base during the year.

# Growing the Customer Base

- **New Account acquisition is expensive**
    - Defined target matching reduces attrition
  - New Account breakeven comes in 15 to 18 months
- 

# Growing the Customer Base

What are you doing to gain and maintain your customer base?

- Target market, defined attributes (what are the attributes of a good customer who stays, what are the attributes of a customer who leaves before break-even)
  - Improve the effectiveness of marketing efforts
  - Minimize attrition
  - Increase Operating Margins

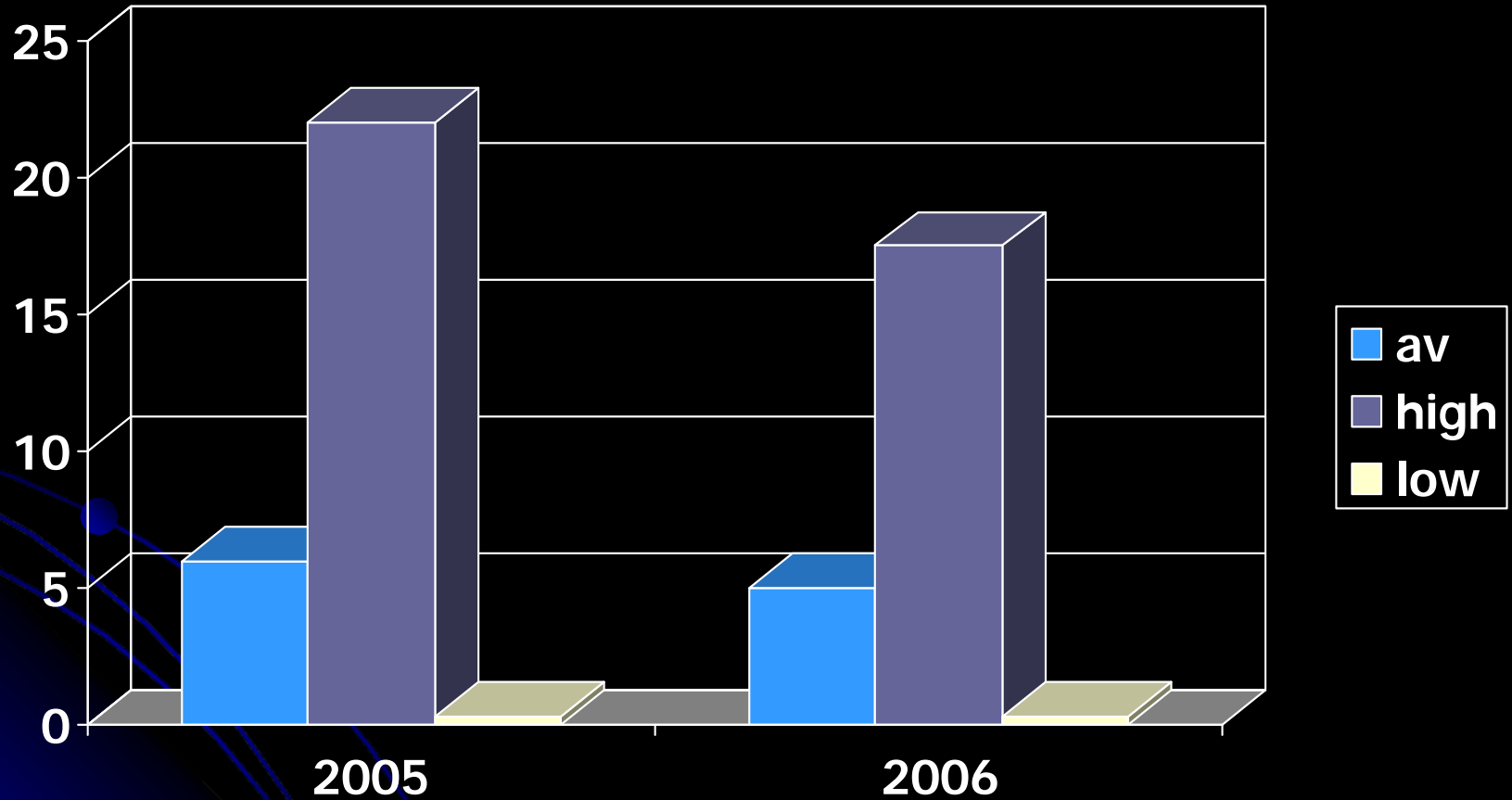
# Growing the Customer Base

- If New Account acquisition is expensive
  - Attrition is more expensive
- 

# Attrition

- Survey Peers have **6% on average**
- **Cost:** Cost of Closing the Account, Cost of New Account to Replace It, Cost of Lost Revenue Until Replacement
  - Example: 1,000 customers, lose 150, annual cost @ 30% of annual revenue is \$114,000 this year
- **Impact of Attrition**
  - Revenue Variance
  - Changes in Costs
    - Staffing
    - Sales and Marketing

# Large Bureau Attrition Rate



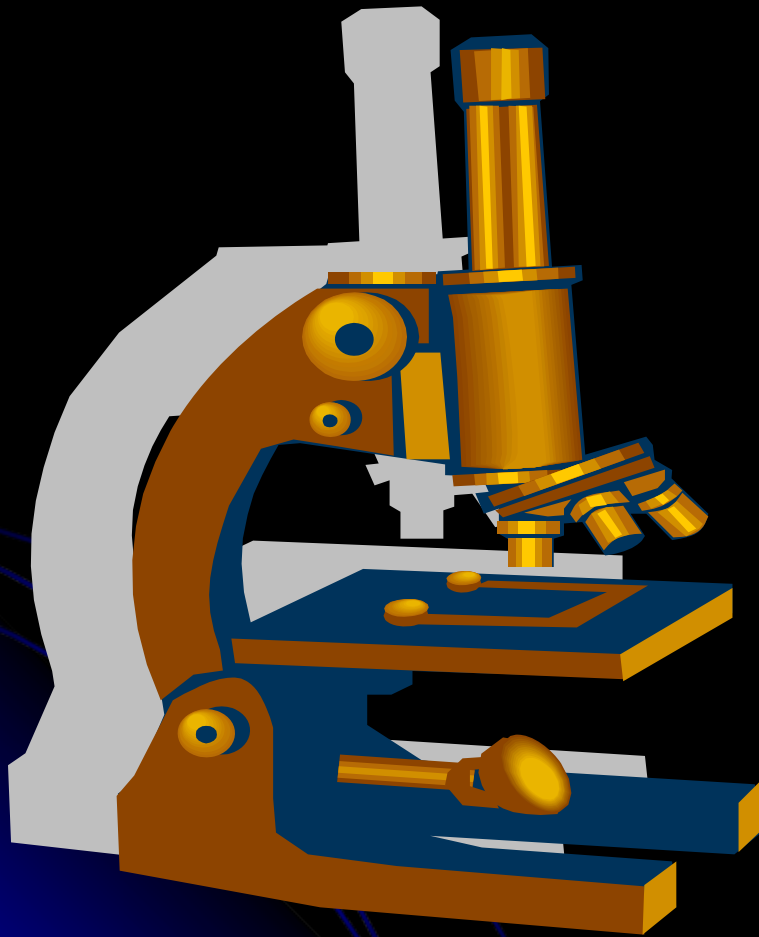
# Attrition

- Learn from your **Attrition**
  - What are the characteristics of firms which attrite?
  - Can you screen current accounts for those characteristics?
  - Can you screen new accounts?
  - Can you change your environment to effect attrition?
  - Should you change your pricing for firms which show strong characteristics to attrite?

# So....

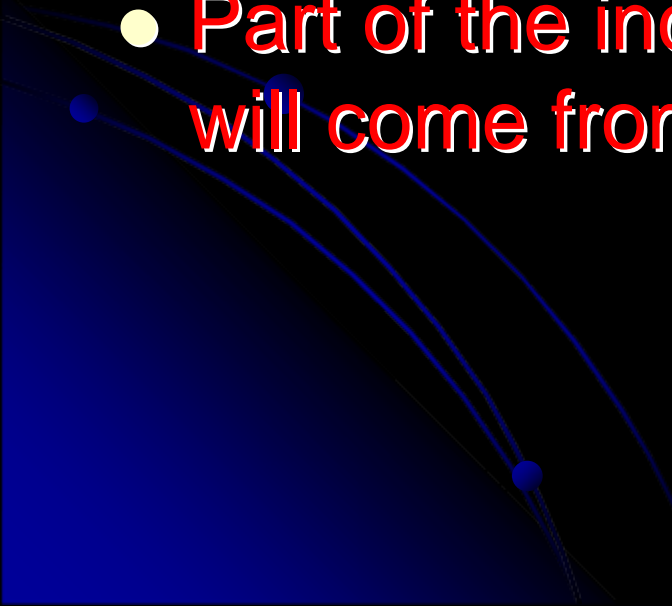
- Increasing revenues by increasing the volume of customers is key, but they must be the right customers
- Attrition is a large factor in payroll. It is expensive. It grows with the size of the bureau. It can be controlled with better data and strong analytics.

# Control Expenses



- Less than 10% called for cutting costs

# Control Expenses

- Organize your Income Statement to track costs better
  - Part of the increase in Operating Margins will come from focused cost controls:
- 

# Control Expenses

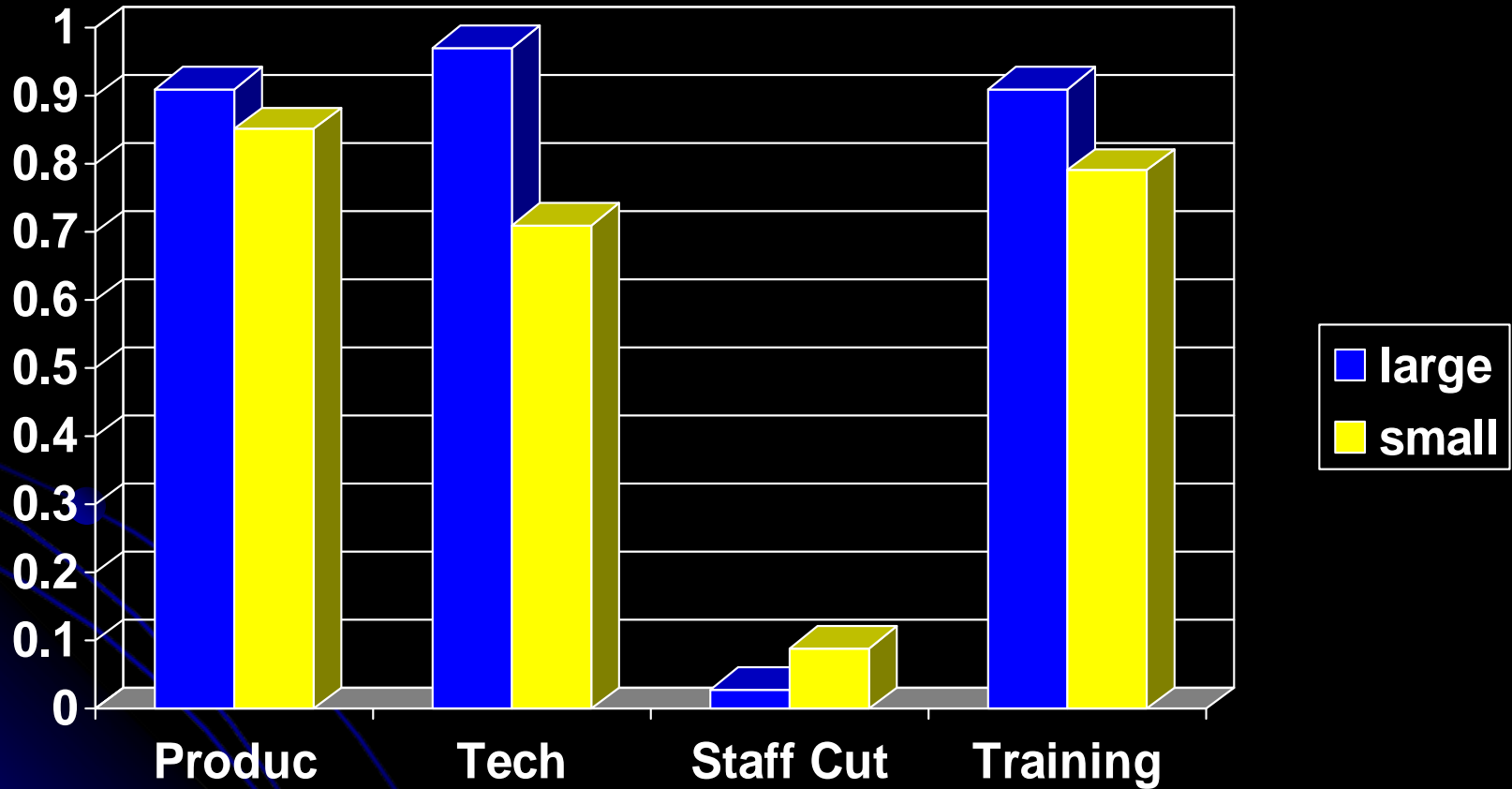
- **Operating Expenses** 20
  - Productivity
  - Technology
- **Customer Service Expenses** 30
  - Technology
  - Training
- **Sales and marketing Expenses** 10
- **General & Administrative Expenses** 20

# Private Equity



- The ways to build value
  - Cut Expenses to the bone
  - Sell businesses which under perform
  - Leverage the Balance Sheet
  - Pull down cash balances
  - Sell what's left

# Survey Respondents said that they would control expenses by:



# So....

- Improving margin through cost controls is mandatory
- Passion for Productivity
  - Policies, Process, Procedures
  - Technology
  - Mandatory that you know the data
  - Monitor Results
- Discipline

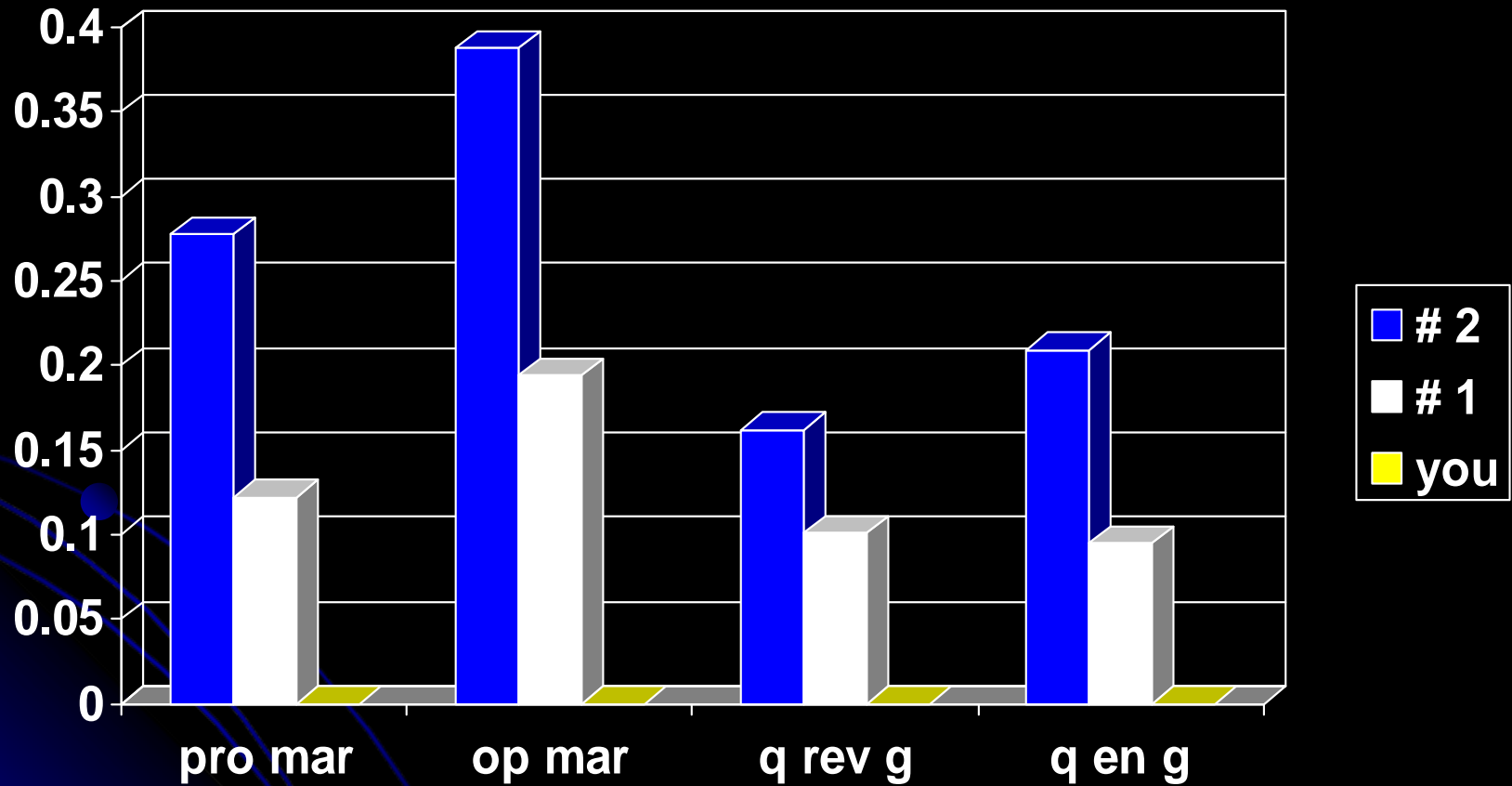
# What was Your Operating Margin in 2006?

	Small	Large
● <10%	21	24
● 11 to 20%	9	18
● <b>21 to 30%</b>	<b>21</b>	<b>18</b>
● >31%	6	18
● Failed to State	43	22


# What was Your Operating Margin in 2006?

- We know you need at least the following to meet and exceed industry benchmarks:
  - Size
  - Economies of Scale
  - Productivity
  - High Margin Services
  - Discipline -- customer base, costs, productivity

# Key Financial Ratios



# Good ways to keep margins **low**

- Don't track volumes and rates
  - Don't build to scale
  - Maintain Inefficiencies
  - Adopt the “if the phone rings, answer it” marketing plan
- 

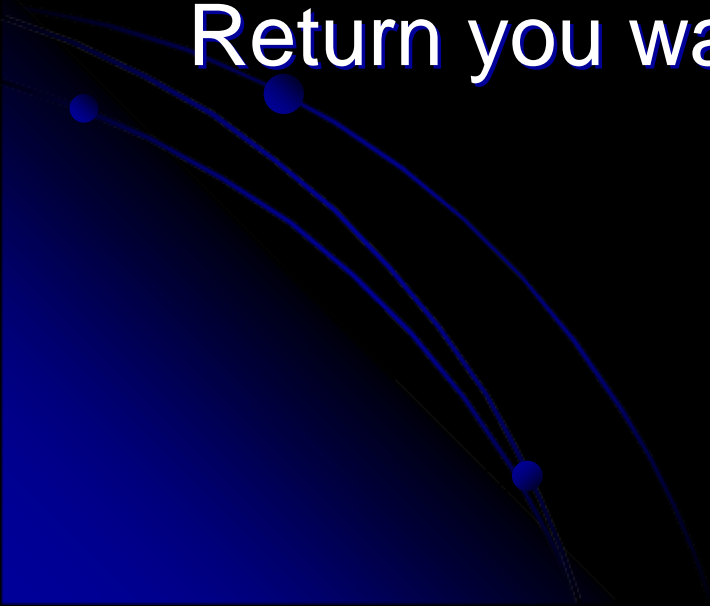
# So.... How Do I Really Improve Operating Margin?

- **Keep Score**
- Build and Use a Real Budget
- Increase Profitable Revenue Lines
- Decrease or Stop Marginal Revenue Lines
- Increase the Targeted Customer Base
- Measure Contributions from Technology
- Use Benchmarks for Productivity
- **Keep Score**

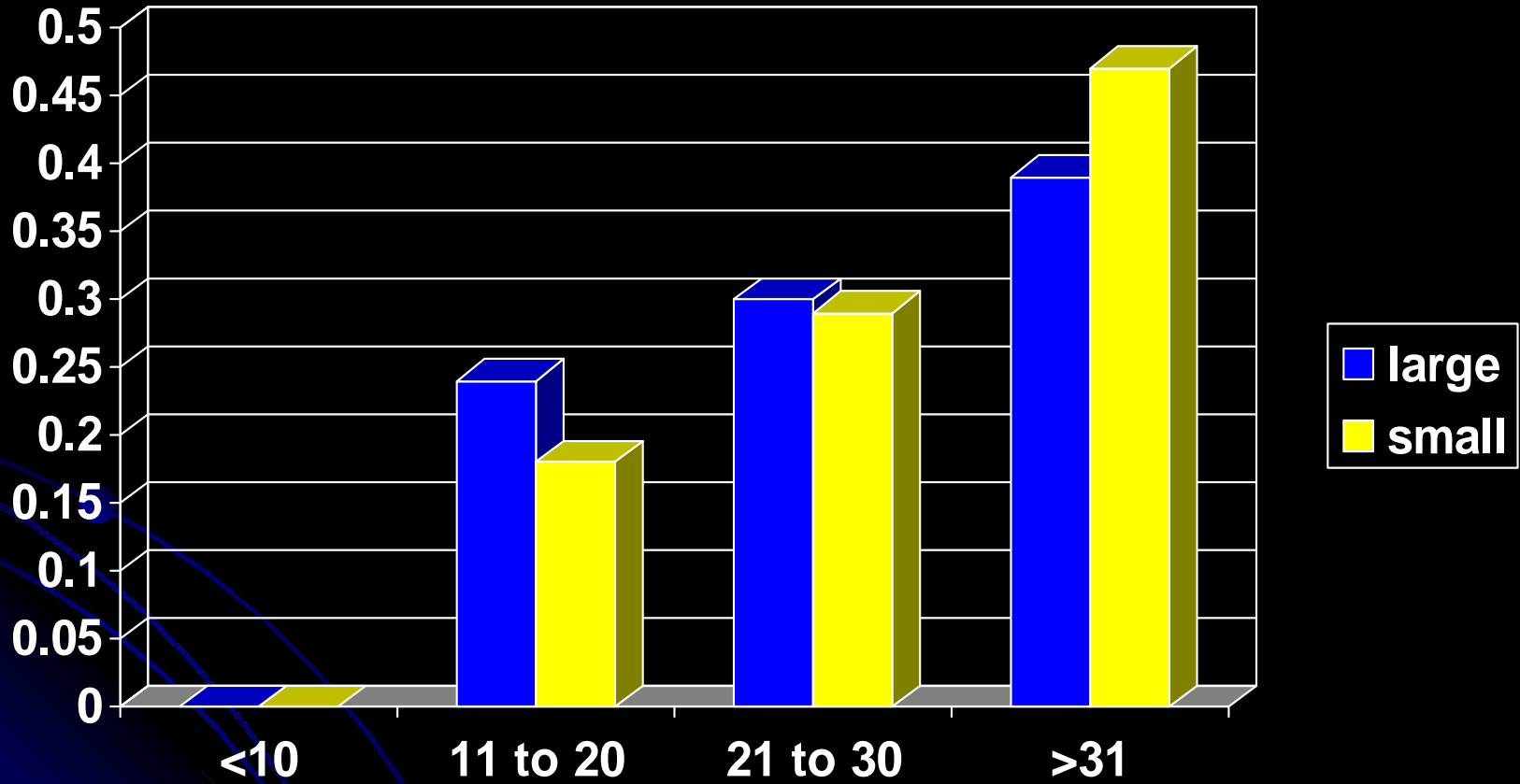
# What Can Get You More Margin?

- Leadership
- Relentless tracking of volumes, rates, changes in trends
- Economies of Scale
- Fast, Accurate, Reliable Operating Systems
- Training for customers, staff, and sales
- Focus on target market

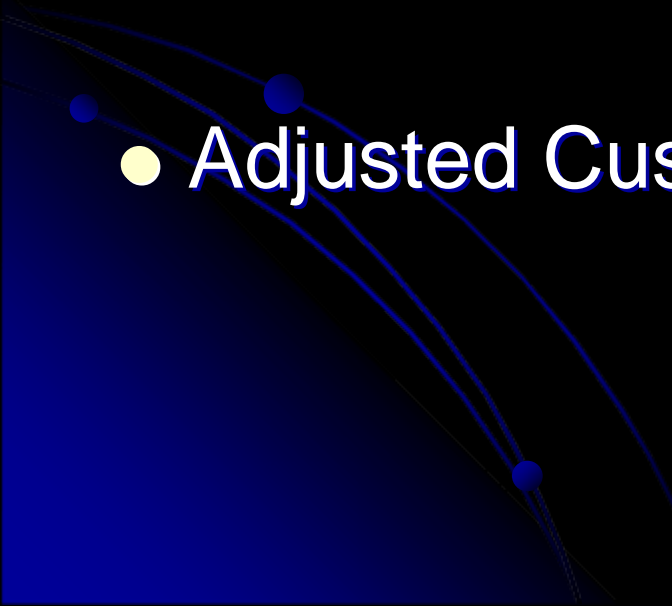
# Why Margin Matters?

- It is mandatory in getting you the Total Return you want from the Business
- 

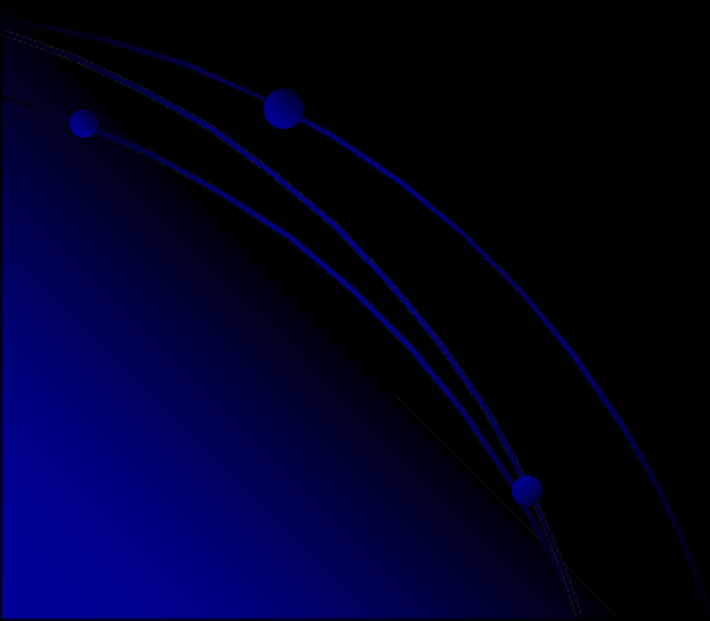
# Objective: Total Return



# Total Rate of Return

- Annual Operating Margin – pre-distributions, pre-tax
  - Net Free Cash Flow
  - Adjusted Customer Revenues
- 

- In God we trust, all others bring data



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