

Payroll Is Ripe & Profitable For Accountants

Guest Opinion

By Don Uhl

Francis Bacon, the 16th Century English Philosopher, wrote that "A wise man will make more opportunities than he finds."

Hence, a wise accountant in the payroll business will make opportunities for his firm not to be found elsewhere. Opportunity, simply put, is "a chance for progress or advancement," and the payroll business provides both.



Accountants need to capitalize on the payroll opportunity that exists today. This article outlines exactly what the American payroll opportunity is all about, why it exists and the five keys for taking advantage of the payroll business.

The payroll business is one of the hottest businesses in America today! In the April 16, 2001, issue of Forbes magazine, it was quoted that the market for "integrated outsourcing" (of which payroll outsourcing is a major portion) is going crazy! This Forbes article went on to quote experts who predict that it will be a 15 billion-dollar market by 2005.

Accounting firms can position themselves as never before to take full advantage of this opportunity. Those who embrace an entrepreneurial mindset toward payroll, adopt the right systems and technology, and implement the right marketing strategies can exploit this immense payroll opportunity and greatly increase their profits and wealth.

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

If our focus is counting the beans and being what big business in America has programmed us to be — number crunchers — then the opportunity of the payroll business will pass by for many firms. For those accountants who recognize the vast potential of the payroll opportunity in America, I would like to give you five key reasons why the payroll business is ripe and extremely profitable for accounting firms. But first, let's look at the background of why payroll is such an opportunity.

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 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. 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 on the beans and the business, a jackpot opportunity can be had by starting and building a payroll department or by 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 (InFoUSA in Omaha, Nebraska), there are almost 10 million businesses in America with one to 100 employees. This is an accounting firm's primary market for payroll services. From my research, out of the potential base of 10 million businesses, ADP and Paychex only have approximately 850,000 of them as payroll clients. Other documentation indicates that other companies in America that provide payroll check-writing services have another 300,000 to 400,000 clients. This puts the existing business market that utilizes payroll services at, conservatively, under 1.3 million!

That leaves approximately eight to nine million potential payroll prospects who are not currently outsourcing their payroll. Good business sense tells us that an increasing number of these eight to nine million businesses will outsource their payroll in a continuous stream over the next 10 years.

Having been in the field and in the trenches for the last 10 years (five years on payroll) working with accounting firms to develop their practices, I have learned a tremendous amount about developing firm growth and have found where payroll processing fits in.

There are five key reasons why accountants should be in the payroll business, and many more reasons to learn how to dominate your market for payroll. Before we address these, however, we need to take one more look at what is happening with market potential.

I have found that not only are

there eight to nine million non-users of payroll services, which represent the most obvious targets, but also 1.2 to 1.3 million businesses that already outsource payroll. Defining it even further, what about the 850,000+ businesses that are using ADP or Paychex? Due to the vivid uniqueness of an accounting firm doing payroll vs. a "check and report-processing factory," this market is actually much more volatile than the untapped non-user market. These 1.2 to 1.3 million 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 to emphasize what their brand of payroll service can provide that others in their market cannot, and the sale is within reach.

Developing your individual brand awareness as the foundation is the answer to accounting firms hoping to harvest the payroll market. Integrating this basic premise into your unique company story is the key. That is the function of a properly devised marketing plan.

So what we have outside the walls of accounting firms across the country is one huge market that consists of two distinct market segments. The first market segment contains eight to nine million businesses, many of which each year 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 1.2 to 1.3 million businesses that are currently using a "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!

The Five Keys

Now let's look at the whys and hows of taking this payroll opportunity and transforming it into a profit-developing machine and a wealth creator. I have segmented these whys and hows into five key reasons an accounting firm should be in the payroll business, developed from my firm's work in the trenches for the last 10 years with accounting firms while targeting the small to medium-sized business market in America for their accounting business. These Five Keys take the seemingly mundane job of processing a business' payroll and transform it into exceptional profits. Payroll can actually be the reason that a business becomes a full service client of an accounting firm, and it can be a main marketing vehicle for

the accounting firm.

Key 1: Delegation of payroll begins the process of tapping the payroll opportunity and yields \$100+ an hour.

Payroll is extremely profitable even though, as an industry, we have been told that we can make more money elsewhere. Payroll, as a profit center for an accounting firm, yields hourly rates of \$100+ per hour! 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/hour with an average of \$15/hour. Production levels of an individual can and will produce \$10,000 to \$15,000 of recurring monthly billings every 30 days and be responsible for \$100,000+ 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 you have gone one client beyond that, the profits begin. In this 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.

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, which will yield \$10,000 to \$15,000 in recurring monthly billings each month. Once this process is at a breakeven, the real opportunities of payroll open up and can bring monetary value to the firm. When the system of payroll processing delegation is achieved, very little daily/weekly communication with the client is required of the accountant. The exception would be a higher-level discussion that would or might lead into or create 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 look at 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 on 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 a client of an accounting firm, the firm (as part of their policy and procedure) simply takes over the client's payroll. Over 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 stats of firms across the country where some did payroll in-house and others did not, the firms that handled payroll checkwriting for their clients consistently increased their gross revenues by 30% and above. It is only natural for business clients to have their own accounting firm handle the entire job. The firm just needs to take the payroll as part of their package of services, handle the entire job and increase revenues by over 30%!

A CPA office in Illinois told us this: "During 1998, you made us and other firms aware that payroll processing will create additional value within our firm. We listened and started a payroll practice in 1998. To date (July 17, 2000 — 18 months later), your program has generated \$8,464 of new monthly payroll billing, plus we sold the processing to some existing clients. We now have a payroll processing business that exceeds \$13,600 per month (\$163,200 in yearly billings) and is growing rapidly!" (As reported by Clay Hamlin, James Hamlin & Co., P.C.)

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

If your firm has a client who is already 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 checkwriting 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 checkwriting part of the payroll and pays the firm for it, either 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 checkwriting yields much higher profitability since the labor has already been accounted for. In either case, when a firm has a monthly accounting client plus their payroll checkwriting 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 yields thousands of dollars in other services provided to those same businesses. My experience with accounting firms and with marketing payroll services as a stand-alone product has shown that a natural phenomenon has occurred: More businesses want to talk about payroll than accounting. Not only is it 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 that your firm provides naturally flow out 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 could be realized. One accountant outside Columbus, Ohio, recently added another outside salesperson to handle payroll only. In the second month of marketing payroll fulltime, the sales person acquired 12 new clients for his firm for "payroll only," adding \$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 — 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, but it is an absolute door opener for the other ways accountants 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.

Countless businesses that are other firms' top-fee clients normally wouldn't talk to you about your services or invite you into their businesses. The reason: They already have an accounting firm. They feel that all firms are the same, or they feel they are not getting what they truly want, but changing seems too complicated for them. Payroll has proven to be one of the best ways to get an accounting firm in the door to see these larger businesses. Once your firm is in the door of these larger businesses helping them with a payroll issue, the door opens even more 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.

One example I can cite is a CPA firm that

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

The payroll business is one of the hottest businesses in America, and 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 of the accounting industry, 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 a business has. By offering and marketing payroll, an accounting firm not only provides a much needed service that produces substantial profits, but also opens up to businesses all the other profitable services that the firm provides.

Following, are the basic questions to address in order to truly take advantage of this opportunity.

- What are my firm's technology requirements?
- How do I convince my staff or my partners to follow me into the payroll business?
- 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.

Is your firm a practice that either doesn't provide a full payroll service or just does 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, you must first consider this: Do my partners and key staff agree? Are they going to want to go along with me?

If write-up and tax has been the mainstay of your practice, getting your partners and key staff to buy-in and to integrate payroll services may require some careful assessment of their readiness and willingness to switch gears and take the practice in a new direction. Are they ready to restructure their current system and way of doing 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 of the payroll business put to rest. Most of the time, focusing on the ultimate benefits to the firm in addition to giving an explanation to calm fears anyone might have will begin to build a foundation for a cooperative strategy and team effort on the firm's entry into the payroll business.

To begin building this foundation, it is initially important to review your firm's overall strategy and objectives and ask the following 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 with payroll as one of the foundations? In answering these questions, all partners and staff should understand that if the level of service and value to the clients increases then it becomes a valuable tool to help build the firm. If the firm is building on its value to clients and increases its profits, all the partners and staff should benefit.

Why Would Payroll Build Value With Clients?

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. Obviously, you can only service this growing market need if you are, indeed, full-service, and that 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 EFT 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 percent 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, and 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 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, 42 percent 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!"

It must be pointed out to the partners that payroll is the only profit-making marketing tool that the firm has. Once the payroll business in a firm meets its breakeven 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. For years, insurance companies have understood 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 the insurances in place. Payroll works the same way. Providing payroll services to your clients strongly cements all the other lines of services that a client does with the firm, making it more difficult for them to move to another firm. The bottom line is this: 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. A system that meets what you anticipate your client's needs and requirements to be will be imperative.
- The number of clients you expect to be handling in one, two or three 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 what your clients expect from you is reliability, flexibility and customer service.

Software

In the payroll business, efficiency spells integration. Payroll software that can be integrated with your write-up software will save you time and money. Integration in your software simply allows the user to enter data into one part of the software system (i.e., payroll information entered into the payroll software). This information is then automatically integrated into the GL, where the payroll information is. Integration will then also take the needed GL information and carry it over to the tax return part of the software system. An integration feature in related software saves time since the data only needs to be entered once, and then it is integrated into the other parts of the software where it is also needed.

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 often have more custom reporting requirements and need flexibility in tracking benefits and other human resource items.

ASPs

The Internet is transforming the purchase, delivery and use of software in general, but especially with payroll software. Many traditional stand-alone applications are now being offered over the Internet as Application Service Providers (ASPs). An ASP defines 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. 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 IT 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 programs. Minimum requirements, however, do not necessarily allow

you to achieve maximum performance out of the software. Therefore, the rule of thumb for obtaining peak performance from your software is this: 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 IT 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, like building homes, repairing automobiles, providing legal services or processing a business payroll, is that there are risks. 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 and insulate themselves from? 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 probably would go elsewhere next time. Or if a service provider defrauded you in any way, you have legal solutions available. 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 the liabilities that are assumed by providing payroll services in general though, 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 applies 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, the accounting firm assumes the liability of actually paying the payroll and paying the taxes on time. This creates a "fiduciary responsibility" with ultimate personal responsibility of the owner and partners of the firm. This also gives away 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 interest rates have plunged in recent years, reducing the effective interest rate on the interest earned (commonly called the "float"), a profit can still be made in the very common practice of impounding. Accountants have to weigh their perception of the risk against the opportunity to gain interest on the impounded funds to make an educated decision on how they want to proceed with regards to impounding. By far, the least risk is taken by handling a client's payroll in the traditional way. That is, printing all checks for the client, payroll and payroll tax payment checks. These checks are printed on check stock with all the client's bank account information, and the completed checks are then sent to the client for signature and disbursement. Paying the employees on time, as well as the payroll taxes, 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 accountants who 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 and 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 client's 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 opportunity then opens up for the firm.

Direct Deposit

Some accounting firms might consider direct deposit to be an area of liability because of the responsibilities involved, but it is minimal. All

accounting firms that do payroll processing should offer the added service of direct deposit. These days, business owners want direct deposit 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 of this service, 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 your payroll clients. Companies like Intercept Corp., Electronic Banking Systems, and National Payment Corp. are all outside processing agents.

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, 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 depend on these factors. Proficiency and efficiency are key to profitability, therefore you'll want to take all of these into consideration when adding staff.

Technology plays a key part in the staffing matters of a payroll practice. If you are more traditional with average-sized clients of 10 to 20 employees who fax in their payroll, one payroll processor should be able to handle 70 to 90 of these clients in a 40-hour week. This size client is typically paying an average of \$40 to \$60 per pay period. These numbers tell us that a typical processor can generate over \$4,000 in payroll revenues a week. At an average wage of \$12 per hour, your cost is a mere \$480 per week, or \$538 when you add payroll taxes. This means a gross profit to you of over \$3,400! That's a gross profit of over 85 percent!

Another scenario might be that you work with clients who are utilizing your remote entry software. These clients are typically 20 to 400 employees in size. 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 in your firm who can offer your clients support on the software. The efficiency here takes care of itself. A good payroll processor in this situation can take on 80 to 100 of these clients a week at 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's a profit of over \$7,200, with a profit of 90 percent.

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 percent 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 percent capacity.

Other considerations include the setup procedure. You should consider instituting procedures into a setup 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 good, efficient technology (both hardware and software), the average setup 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.

How Do I Price Payroll Profitably?

Pricing your payroll service is one of the most important decisions you'll make. There are two factors to take into consideration — your cost and your client's perception of value.

Think of the cost as the floor. You must set prices above the floor to cover costs or you will quickly go out of business. Think of customer perceived value as the ceiling. This is the maximum the client will pay for the perceived value of your payroll service. Consider your market and determine "what the market will bear."

Somewhere between the floor and the ceiling is the right price for your payroll service, but pricing is never "cut and dry." Analyzing the competition in your specific area is critical in your decision making process.

The first step is to determine your "break-even point." By doing a "break-even" analysis, you'll know what revenue is needed to cover costs. As an example, if your labor costs are \$15 per hour, you must consider how many checks your payroll processor can handle in one hour, and then add in your fixed costs. These might include your paper costs for checks, toner, etc. If we assume that a payroll processor can process, on average, 80 clients with 15 employees average in a 40-hour week, that is 30 checks per hour. If you are paying \$15 per hour in labor and charging \$2.50 per check with a base of \$17, you'll generate \$109 per hour in revenue or \$94 per hour in gross profit.

The next factor to consider is your 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 for reports. The average payroll for 15 employees will involve six to eight pages of reports. Your cost, including toner for these reports, will be less than \$2 total for the reports.

Looking at the following example, your profit margin at \$2.50 per check is:

Total Revenue: \$109

Expenses:

Labor: \$15.00

Paper/Checks: \$3.50

Total Expense: \$18.50

Gross Profit: \$90.50 per hour profit

The numbers above show us that the floor pricing can generate over 80 percent 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 you \$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 \$0.10 per envelope to stuff checks in envelopes.

Now, let's look at the ceiling. Remember that we don't want to be the lowest-priced service, and by building value in our unique accountant payroll service, we can sometimes get close to the ceiling. If by calculating the ceiling price at a base of \$20 with \$3 per check and the same production level as the earlier example, your profit margin increases even more. An example:

Total Revenue: \$130

Expenses:

Labor: \$15.00

Paper/Checks \$3.50

Total Expenses \$18.50

Net Profit \$111.50 per hour profit

Research the pricing in your area, and consider basing your prices on being somewhere "in the middle!"

How Do I Deal With Scheduling For Payroll?

The payroll business is not unlike any other business where there is a product or service that is 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 and delivering the product and providing the service to the end user.

The more efficiently that this process is provided to the end user, the more profitable for the accountant. That's the great news about the payroll business! An accountant doesn't need to re-invent the wheel. Systems are available that entrepreneurial accountants can use to set up and replicate in their offices. Doing so will provide a multitude of benefits to the accounting office that takes the proper steps.

One of the vital steps is scheduling. Scheduling is simply following a calendar very strictly on when and how payroll information needs to be submitted, when clients need to receive the checks and reports and when the governmental reports and documents are needed based on when they are due.

Simply set up a daily calendar for which payrolls need to be reported on a specific day. There are very reasonably priced software packages that can do the job for you or you can simply set up your schedules on a manual calendar. On this calendar, you should also specify the due dates for the individual businesses needing their payroll, the dates governmental documents must be produced and when they are due.

Critical for this scheduling is how and when the payroll data is received by the accountant's office staff. Faxing or e-mailing are preferred methods since they provide a record of the payroll information as submitted by the client. Let's face it, mistakes happen. And in payroll, the goal needs to be as close to 100 percent error free as an office can get. If a mistake is made on calculating and reporting the number of hours worked, it is better that the mistake be on the client's side. When faxing in payroll, the information needs to be on a pre-printed sheet that the accounting firm provides. If e-mailing, the firm can provide the client an Excel-type spreadsheet. The accounting firm needs to enforce this simple process in order to educate and then disci-

pline the client to do it the way the accounting firm wants it. Faxing or e-mailing the information must be on the time schedule that the firm sets up. Additionally, recent technology advancements in some payroll software allow clients the flexibility to complete timesheets remotely and submit them via the accountant's web site. 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.

Calling in the payroll is not recommended because it could turn the entire schedule into mayhem. For a business that might have used a call-in mode, this conversion 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 that gives them the ability to get their questions answered over the telephone any time. This should more that outweigh the fax-in vs. call-in of payroll information.

Another caution is not to have a client mail time cards into 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 hours already figured.

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 in too tight of a situation.

The optimum schedule would be that a client's payroll ends on Saturday and is paid the following Friday. This allows the payroll info to be sent to your office on Monday, run on Tuesday and then mailed back to the client on Tuesday or Wednesday.

If there are union rules to which you need to adhere, this also may cause a problem. Some payroll service providers cannot be flexible at all in their dealings with their clients, and your office can. However, don't over-extend 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, but don't go way outside your schedule. Be flexible but firm.

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

The 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, and efficiency turns into profit.

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

Now that everything else is in place, your last consideration is to determine how you can professionally market your unique brand of payroll ser-

VICES. The key here is to fully understand and then believe that when an accounting professional processes a client's payroll, the service that is provided is a different brand of payroll services than what would be provided by ADP, Paychex, etc. This involves understanding your competition in the payroll business and establishing a strategy to outmaneuver them through differentiation. Begin by exploring all the areas where your accounting firm is different than one of these payroll service bureaus.

These differences put the type of payroll service that an accounting professional can provide on a completely different level. This is where marketing begins! Marketing, by definition, is putting a strategy together that differentiates your product or service from any other firm's. Putting that strategy into a message and communicating it to the marketplace is the first step in eliciting interest in the market about the uniqueness of your services.

It is extremely easy to come up with a differentiation strategy for a payroll business. The larger payroll service bureaus 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 them to compete in the areas of flexibility, customer service, reliability and level of expertise.

Establishing Your Company Story

The first step in marketing payroll is to identify these 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 key in selecting a payroll provider. Based on this mindset of the payroll market, if you market your payroll services like all other payroll companies then you will be perceived like all others and become a commodity. If business owners view payroll processing service as a commodity and also as an expense, then this all strengthens the motive for 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 credibility and name recognition. 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 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, etc. Do you have people in your office that can help clients in these areas? I'm sure you do!

Acknowledge your assets. Larger service bureaus generally have data clerks working with clients. These data clerks are limited in qualifications and in their ability to answer a client's 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 consists of professionals that 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) available vs. competing solely on price.

Think of it this way: 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 brings so much more to the table for payroll clients and normally don't charge any 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; 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 Your 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 so, ask yourself this: What do I want to accomplish with my marketing, 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 bonafide 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 would be handling the presentations or whether the firm would be recruiting and training a payroll salesperson, which is discussed later.

Passive & Active Marketing

Another component of your marketing plan is to determine the businesses that 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 targeted 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 bonafide face-to-face appointments. In order to do this effectively on a regular basis, you need to blend 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. 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, yellow pages give 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 extremely price conscious. Yellow pages are a must, but you need to do more.

Print advertising, like newspaper, magazines etc. will be good for exposure of your payroll service but also 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 is

to 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 when there is interest. 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 setup, 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 using a combination of methods to get your unique message about your payroll service to businesses in your market. A good plan should include a small yellow pages ad, a direct mail campaign 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 and year after year, with businesses that have employees. The key to the best results is to have a continual active 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 among a few clients with whom you feel comfortable. Firms that are just starting 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 — the majority — consists of those recipients of the mailer, the phone call or the face-to-face contact who 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" which keeps the door open for you. It isn't that outsourcing their payroll to you is not ever going happen, it's just that the timing is 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 for years in the future to help them when they need the help. The key is to stay in contact! Keep detailed records of your contacts with them using a database management system. 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. Effective farming of the market will increase the results of your marketing plan by 30 percent.

Along with these active and passive segments of your total marketing plan, also promote and ask for referrals for your payroll business through networking designed to inform and communicate your uniqueness. Great sources for referrals 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 in which their clients or contacts might be interested. 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 and face-to-face contact with businesses that do not currently know about your firm, plus follow-up with 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.

In some firms, a partner or principal handles some of the marketing activities and makes presentations of their firm's payroll services. However, payroll is the type of sale that an accounting firm could employ someone from outside the firm to come in and be the main salesperson for. In this case, an accounting firm must consider some additional guidelines.

Recruiting and hiring an outside payroll salesperson works if your objectives are high, if you hire correctly, if you can properly train the individual and if you have the ability to manage this person. If you only want a small amount of payroll growth, we recommend 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 your new clients yourself. However, if your objective is to build your payroll business more rapidly or if 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 see things many times 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 the management and servicing of the client while someone that works for you goes through 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 they cannot do

everything. Taking on a partner fills the void if you 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 focus on more important issues in the firm as well as free up 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 the following: He is the first contact with all prospects; he will determine whether the prospect is what your firm wants; he will use professional selling techniques to acquire the prospect as a client and then help with limited start-up servicing of that client. A salesperson has a multitude of other duties as well, such as public relations, lead and appointment procurement, and management of your payroll marketing department.

Having a professional salesperson has its advantages, 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 don't want your services sold like used cars. The salesperson should also have the skills to perform the rest of their duties beyond selling.

Hiring a payroll salesperson can make the difference in your marketing results! While it is more effective for a salesperson to market and sell a payroll firm's services, you're also faced with a dilemma. Hiring, training, motivating and managing processing and 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 business of payroll 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:

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. Continually motivating 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 than 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, 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 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 with persuasive skills, not just personality. Eighty percent of the individuals that have chosen sales as their profession are order-takers (i.e., a nice person who thinks 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 experience as a jour-

neyman-type salesperson. There are exceptions to this rule, but it is the best bet in order to get the best sales effort from your new payroll salesperson. One reason is that these type people know too much and normally will 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 were 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 these 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. How much time varies by what type of businesses your firm targets. Companies with one to 100 employees normally can be sold in within a 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 our 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 anywhere from 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 with an explanation of what is expected 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 who 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. A salesperson needs to understand what constitutes a good new client, what technicalities must be known in order to understand payroll and what may be the rules that your firm operates under with its business 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 is the only solution. You need a process to teach new salespeople 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. The education and training cycle for a new salesperson in the payroll business involves four cycles:

1. Knowledge — Knowledge about the mindset you must have to be successful. Knowledge of what your firm sells and provides 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 the knowledge and transforms it into a skill. Skill is learned, but it 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 large successful 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 towards their future profitability. Plus, investing in a salesperson's continual education serves as reinforcement for the salesperson as well. Many times, reinforcement makes the difference between mediocre and stellar performances. Overall, the investment in the proper training of a salesperson is many times one of the best investments accounting professionals can make in their payroll business.

Also, don't forget that part of the training process also involves educating the salesperson about your firm's objectives, goals for gross margins, as well as

sales. It also includes getting them involved in tracking their own progress. If available, they also need to have some benchmarks in order to 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 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 can do this but not in 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 on which they are calling. Unfortunately, even with the proper training, some salespeople won't make it in our business because they can't or won't adapt or because they are resistant to learning. But this is the gamble we must take with any new employee of our firm isn't it? 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 in order to 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, you 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 most effective 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 be communicating the firm's overall plan and objectives. Communication breeds team spirit.

One of the best vehicles for 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 is also one of the best ways to monitor the activities and 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 helping to achieve those objectives. Having your goals on paper and communicating them to the salesperson is the first step in monitoring. The second step is to inspect 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, tell them that also. 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 above. Let's review:

- 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.

Here are two last hints for successfully 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. We also recommend that you seek professional counsel in this entire process. It will shorten your learning curve and also produce results more quickly.

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 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! ■

Don Uhl is President of Don Uhl & Associates, Inc. (800-618-9342; www.afdcenter.com). His team of professional trainers and coaches help accounting firms nationwide build their firms and specialize in development of payroll departments.