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I left my job working on the Space Shuttle Program for BFGoodrich a few months after the Challenger disaster, eventually ending up as a technical writer and network engineer for an advertising agency out of Cleveland. Networking an ugly mix of Macs, IBM PCs, an AS400 mini-mainframe, Lanier word processors and other devices was fun and challenging, but what really intrigued me was how thoroughly the technology was disrupting the whole production system for advertising. One afternoon, sharing lunch with the two typesetters who made the text for the ads, I asked them what they planned to do for a living the following year, when typesetters were obsolete.

They were aghast. Surely I did not understand that they were highly paid professionals.

Or that the text was as important to an ad as the illustrations. Or that no matter what happened in the world of advertising, they believed typesetting would be a critical skill. I did understand what they said. I just didn't believe it. The matter was moot, as by the following year they were both gone — replaced by fonts generated on a PC. Typesetters went the way of telephone switchboard operators, telegraph agents and carnival barkers.

Which brings me to the subject of accountants who offer payroll services. I've done a number of payroll reviews over the past few years, sifting through the software, the services, the online sites and the growing trend of these vendors partnering with accountants. I know that payroll is a booming service area, that the software makes it easy to do, and that most business owners would rather chew off an arm than have to suffer through another cycle of payroll checks and taxes. I know that payroll services can be high-value and high-margin services for an accounting firm. I understand. I just don't believe it will stay that way.

Payroll isn't rocket science. And somewhere in the convergence of better

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For accounting firms that have taken the plunge, or are planning to, the cautious approach calls for three measures:

- **Don't bet the farm on payroll.** The future is uncertain for most ventures, and for this one in particular. I see the future falling to several strong companies (think ADP, Intuit, Thomson Tax & Accounting, Paychex and PayCycle) that will make their money from dominant market share and low costs. There just isn't room for a middleman, or for a niche play.
- **Keep your costs in line.** Sure you can bill \$100 for \$10 worth of a clerk's time and pocket the profit. But when your client does the math, how much damage will that do to your credibility as a trusted business advisor? If it is an inexpensive service, make it so for your clients, as well.
- **Look at the bigger picture.** While I am very cautious about payroll services in and of themselves, there is a larger play to be made in the human resources management area. Long a distant cousin of accounting services, this could be the next big thing for accounting firms.

For companies that are doing well with payroll services, there is no indication that this will stop in the near term. Likewise for companies contemplating a move into this area. But the long term is another matter altogether, and it will likely require a different strategy.

**Executive Editor Note:**

While I agree with many of columnist McClure's assertions, I think it appropriate to explain the market landscape in small and

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products and services that are transforming the traditional payroll preparation

process. Portals, specialized client and employee "views," and individually segmented workflow processes have made payroll profitable again.

I believe smart firms will continue to be attracted to this niche.

Time  
will tell.

~~ Gregory L. LaFollette, CPA.CITP

Technology

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