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Jul. 16, 2013

Signing a new client is one of the most exciting parts of running a payroll business. And when you're first starting out, it can be tempting to accept just about anyone who walks through the door. But I've learned over the years that it pays to be selective about which clients you choose to work with. Working with difficult clients, or those that don't fit your business model, can eat up a tremendous amount of time. A fraudulent client could even put you out of business.

You can protect yourself by asking a few questions and looking for red flags when you're considering new clients. Here are a few things I consider when I'm evaluating a potential new client.

Are they compatible with my business model?

Many payroll firms choose to specialize in a certain type of business, be it restaurants, construction companies, offices, whatever. It can be tough to say no to clients that don't fit your specialty, but it's usually a wise decision.

Are they the right size?

You'll also want to consider whether you can profitably handle the size of your potential new client. That 1,200-person payroll may be tempting, but if you're set up to handle smaller payrolls, it's usually wise to turn the business down or farm it out to a payroll processing service.

How often do they run payroll?

I've found that that the more often a client runs payroll, the better. Let's take a look

Monthly: Monthly payrolls can be more difficult. Their erratic workflow can be difficult for your staff, and of course your cash flow won't be as steady. Also, I've found that monthly clients often don't run consistently. So some months, you'll incur costs for maintaining the account, but won't receive any revenue. If you accept monthly clients, it's often a good idea to set a monthly minimum, or charge a base maintenance fee in addition to a per-payroll fee.

Quarterly: In my experience, quarterly clients aren't worth the trouble. They often don't run consistently and they wreak havoc with staffing and cash flow. Also, they often report "after the fact" manual checks when you're running your quarterly reports, causing extra work for you. Most months, you'll be maintaining their reporting but not receiving any revenue.

Red flags

1. **One-time or temporary clients:** These clients can have very large runs, but often only for a few months or less. In these cases, it's important to make sure that the setup costs you'll incur are worth it. It's also a good idea to get your processing fees up front and to charge for year-end W-2s while you're still running payrolls. And remember, if the client doesn't pay you for W-2s, you're not obligated to provide them.
2. **Businesses without a verifiable street address:** There are plenty of ways to verify an address these days; check with a local chamber of commerce, use an online mapping site, or just drive by. Never accept a client if you can't verify their address.
3. **Businesses run out of a home:** Be very careful with these and be sure that the amount of revenue you'll receive is worth the extra risk.
4. **Leads from online services:** These kinds of services can attract fraud. And since firms bid against each other, profit margins can be slim. If you accept these clients,

it's wise not to allow direct deposit for the first month, since you're on the hook

careful and cautious. Look carefully at documents that the client provides and don't accept starter checks as proofs. It's also a good idea to call the client's bank to verify their accounts.

Remember, payroll is a high-maintenance, long-term relationship. So it pays to be selective about who you choose to work with. The business you save may be your own.

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