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FIRM MANAGEMENT

Tapping into a Raging Payroll Revenue Stream

How one CPA turned the 'headache' of payroll into a highly profitable service by building the right model

R. Sean Manning, CPA • Jul. 18, 2013



Payroll isn't what is used to be. For years, accounting professionals labeled payroll as the hassle-ridden stepchild of services—considering it to be highly complex and lacking in profit potential. How things have changed!

While payroll may have been a headache service to some degree in the past, today's advanced cloud technologies support payroll processing that is efficient and simple—and best of all highly profitable! In fact, payroll services represent one of the most important growth opportunities in the tax and accounting profession; that is, if the *right* model is adopted.

While web-based technologies make offering payroll much more efficient, technology alone is not the answer to building a successful payroll business. Firm owners must adopt a sound business model—one that considers all aspects of supporting payroll—including developing a streamlined technology solution set, building the proper staff and client base, marketing and branding, and pricing. When all of these areas are considered, only then can firms expect to make payroll a successful service offering.

The Opportunity at Hand

The profession continues to change rapidly, and the payroll space is evolving as well—emerging as one of the most lucrative opportunities. This is due to a variety of factors. Consider each:

- *Fewer Barriers to Entry*—Cloud applications have leveled the playing field, drastically reducing the cost of entry and allowing smaller firms to provide the same level of service as large firms. Professional-grade payroll software is available at a fraction of the cost it used to be, meaning that firms can get up and running without a big up-front investment and can often be profitable in the first year.
- *Established Client Base*—Accounting firms have a major advantage in attracting new payroll clients because they already have an established client base. Existing clients represent a rich 'prospect' pool because there is already an established, trusted relationship developed.
- *A Growing Segment*—In a profession where many services are falling in price and becoming increasingly commoditized, payroll is a rare bright spot for small to mid-sized accounting firms. In fact, projected payroll service revenues for 2013 are over 200% greater than payroll service revenues reported in 2009.
- *'Sticky' Service that Supports Stronger Client Relationships*—Payroll is considered a 'sticky' service. Many clients view payroll as complex and cumbersome, so once they've established a relationship with a firm, they are far less likely to leave than

the average tax or accounting client. Also, because the payroll process is highly collaborative, client relationships naturally grow stronger over time.

The opportunity is there. Payroll promises a dedicated revenue stream and another way to bring clients closer and reinforce loyalty.

Build the *Right* Model

Offering payroll can be pain-free and profitable if founded upon a sound model. Firm leaders must consider all aspects of running a lucrative payroll business. The following are the core elements of a successful payroll business model.

Adopting Advanced Technologies

The days of making a hefty up-front software investment are over. Cloud solutions are far more inexpensive. Even better, because solutions are in the cloud, it enables firms to build a completely digital payroll process and collaborate with clients in real-time. When building the right technology system, firms must consider:

- **Web-based Payroll Software**—to support seamless import of client data into the firm. This supports an end-to-end paperless payroll process.
- **Client Portals**—to support real-time entry of payroll data on the client's end and online delivery of documents on the firm's end. Portals will also improve the accuracy of data (by eliminating manual re-entry) and ultimately increase margins.
- **Flexibility**—to support both PC and iOS environments and enable clients to access data and documents any time, anywhere, and from the device of their choice (e.g., smartphone and tablets).

Building Proper Staff

Staffing can be one of the most challenging aspects of starting a new payroll service. However, if you get the right people on the bus, in the right seats, you will better position yourself for success. Consider the necessary staffing roles:

- **Bookkeeping Staff**—Experienced bookkeepers are good candidates to effectively handle payroll work, at least in the initial phases of launch. As the business grows, consider transferring work to dedicated payroll specialists.
- **Payroll Specialists**—It's good practice to assign each client to a specific payroll specialist who will serve as the primary point of contact. Staff should have a good

- knowledge of payroll and payroll taxes, but should also be client-oriented, as they will work with clients on a regular basis throughout the life of each payroll period.
- **Managers**—As the practice grows, consider assigning managers to oversee the entire department. These folks should be more than payroll ‘technicians.’ They should also have the capability to run a department and motivate staff.

Identifying the Right Client Type

It’s critical to know your ideal client. That is, the type of client that you want to serve. From there, build your services to meet the needs of your client base. Consider such aspects as size: Small – less than 50 employees; Medium – 50-250 employees, or Large – 250 + employees. With about 80-90% of clients falling into the “Small” category, this is likely a good group to capture.

Marketing and Branding

When building a business, any business, you can’t overlook the importance of marketing and branding. It’s recommended to brand payroll as a completely separate service. This allows you to broaden the scope of sales opportunities by not being tied to tax and accounting. Many businesses view payroll as a separate service from tax and accounting and will often seek vendors that specialize in only payroll. Also give ample attention to marketing. Build an arsenal of professional-grade marketing materials and dedicate resources to build the sales pipeline.

Implementing the Right Pricing Model

In terms of pricing, there are two sound models that firms can adopt: bundled and unbundled. Bundled pricing tends to be very attractive to clients in that they know exactly what they will pay on a monthly basis. However, unbundled pricing has also shown to increase revenue by as much as 20-50% compared to bundled pricing. Payroll offers a variety of billable services beyond check writing that can be very valuable revenue sources when unbundled. Whichever model is implemented, it’s important to do price reviews on a regular basis, and to raise prices when appropriate.

Final Thoughts...

Payroll is no longer the hassle-ridden stepchild of firm services. Payroll represents a highly lucrative opportunity that delivers long-term sustainability if implemented properly. Payroll not only offers a sound revenue stream, but is also a collaborative-

based service that strengthens the client-accountant relationship. With the right model in place, building a payroll business can be an enjoyable, profitable journey.

For a detailed look at building a payroll business and expanded descriptions of each model element, please download the white paper—[*Payroll Services: A New Way to Grow*](#).

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