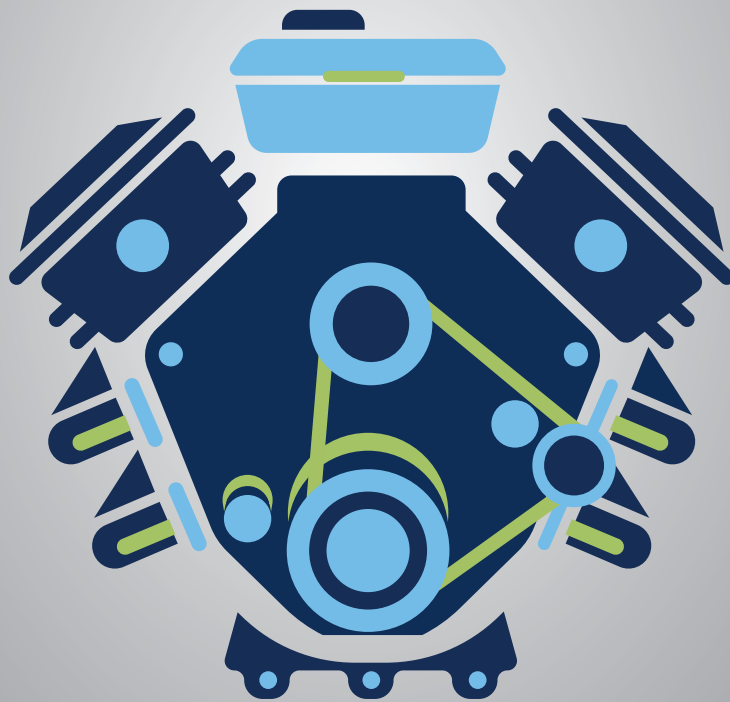


# ***The NEW Revenue Engine*** for Payroll Service Bureaus



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# Overview:

The payroll industry is changing. Quickly fading away are the days of payroll service bureaus simply processing checks and handling taxes. Today's leading payroll service bureaus are repositioning themselves as full-service outsourcing agencies assisting their clients with a variety of payroll and human capital management (HCM) services. This redefinition of the payroll service model opens new doors to larger revenue opportunities and higher customer retention. This white paper explores the shifts happening within the payroll industry and presents the latest data along with interviews of future-minded payroll business owners. Specifically, owners who shifted their legacy payroll software into new cloud-based integrated HCM platforms and discovered a new revenue engine to accelerate their business growth.

# The NEW Revenue Engine for Payroll Service Bureaus

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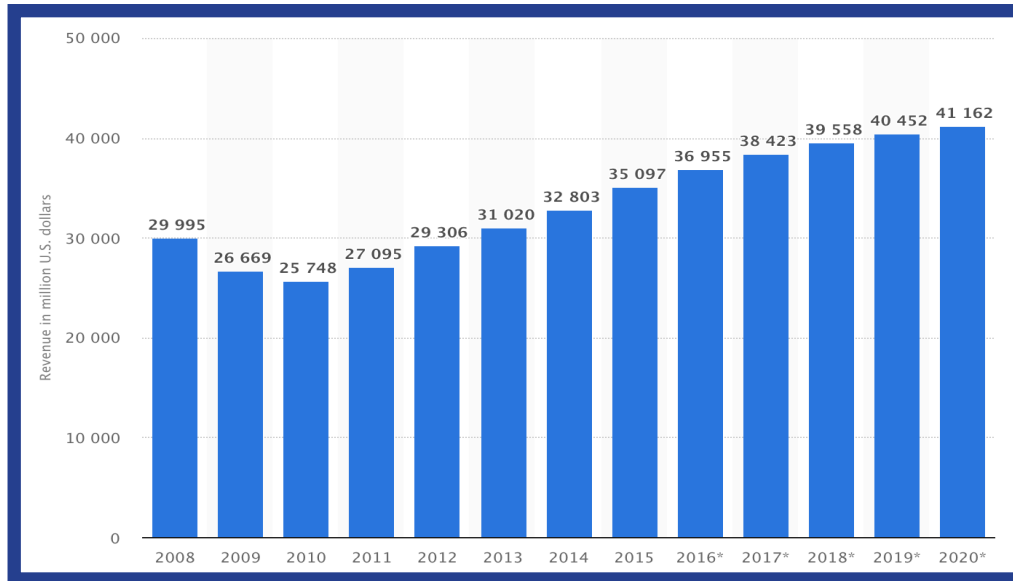
# Trends Driving Payroll Business Growth:

Two major trends today are driving the demand for basic payroll services, employment growth via an expanding economy and the long standing shift of businesses outsourcing non-core functions.

The U.S. Department of Labor reports total employment has increased over the past year by an average of 196,000 jobs per month. The most recently released data for August 2018 confirms this trend with an estimated growth of 200,000 new jobs. Economists expect growing employment to continue through 2020.

This consistent monthly job growth drives opportunities for payroll service bureau revenue growth. In addition, today approximately 6,000 payroll service bureaus operate nationwide servicing U.S. businesses. However, the opportunity to service companies with less than 50 employees still remains significantly underpenetrated. In fact, economic statistics firm Statista forecasts revenue of payroll services in the United States to jump over \$41 million in the next 2 years alone.

## Payroll Industry Revenue Potential



In a prior Apex HCM white paper, “5 Key Considerations When Purchasing Payroll Software,” many payroll service bureau owners shared why they recently converted to new cloud-based payroll software integrated with HCM functionality. A multitude of reasons drove their decisions to change software including 24/7 access via internet for clients and the payroll business, mobile access, more robust security, business continuity and disaster recovery, and greater online functionality for their clients. Plus, new factors like Millennial and Generation Z entering the workforce and demanding convenient and real-time access to information and systems. These employee demands push their employers which, in turn, are pushing their payroll service providers.

# Capitalizing on the Trends to Generate Revenue:

Payroll industry research identifies several trends leading the pack and generating incremental revenue for future minded payroll service bureaus:

**Mobile Everything:** Unrelenting demand by employers and employees to access information and services via smartphones is creating new revenue opportunities for payroll service bureaus. To serve this demand, payroll service bureaus leveraging cloud-based modern payroll systems can charge fees for these services in keeping with pricing practices of the national payroll providers. Not offering mobile access risks client retention and certainly leaves money on the table. Mobile technology is also creating opportunities within HR such as time and attendance. Employers and employees want mobile access to clock in and out of work and to request time off, rapidly making this process the new normal. Having the ability to offer these mobile solutions provides another great add on revenue generator for payroll businesses. Service bureaus looking to grow their businesses and capitalize on the shift to mobile platforms in these market trends should investigate payroll software with integrated mobile applications.



# #2

**Employee Financial Services:** The mobile payments trend continues to bring organizations and consumers closer to a world in which the majority of financial transactions may be conducted via mobile devices. The Millennial workforce and incoming Generation Z use payment apps like Venmo to instantly pass funds to friends, family and others. “Instant” isn’t a novel construct anymore, it’s the expectation. According to the Federal Reserve, as a growing segment of consumers now bank almost exclusively using their mobile devices, and with the increasing adoption of mobile payments, mobile wallets and apps, businesses may soon face changing the way they deliver payroll and provide benefits. (Federal Reserve, 2016) Pay cards create another opportunity for payroll service bureaus to provide a value added product to their offering which increases win rates for new business, increases retention for existing clients and provides additional revenue.

**“Instant” isn’t a novel construct anymore, it’s the expectation.**

The opportunity extends beyond payment options. For example, employers and employees are also demanding integrated 401(k) plans. Cloud-based payroll HCM platforms enable employers to easily set-up and administer retirement plans because payroll data updates automatically each pay period. This service increases employee retention for clients and provides a tax savings to the employer and employee. Best of all for the payroll service bureau, an incremental per pay period data access fee is charged to the client for the service.



Hiring and Onboarding Services: Given the growing pressure to acquire and retain talent in a low unemployment environment, HR executives currently using antiquated systems will be challenged to create a stable flow of new applicant hires, and onboarding that staff. Hence, forward-thinking business owners are seeking alternative cloud-based options to optimize a more seamless HR processes.

#3

#4

More Revenue Generating Opportunities: Generating additional revenue through ancillary services provides an immediate positive impact to the bottom line. Payroll service bureaus maximizing their HCM capabilities within their client base and new logo sales, can generate an additional \$5 to \$10 per employee per month, beyond traditional payroll service fees. A midsize payroll service bureau, offering ancillary services, should be generating 20-30% incremental revenue per month as a benchmark.



# Ancillary Product Offerings to Fuel Your Revenue Engine:

1. Workers' Compensation Insurance
2. Time and Attendance
3. HR Support Desk
4. Hiring/Applicant Tracking
5. ACA Compliance
6. 401(k)
7. Labor Posters
8. PayCards

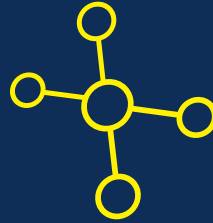
## EARNINGS POTENTIAL with ancillary service offerings



# Success Stories from Payroll Bureau Operators:

Much of the evidence supporting the thesis of revenue generating opportunities for payroll service bureaus stems from industry and government research. However *more* importantly, are the true operating experiences of Apex HCM payroll service bureaus that evolved their once payroll-only businesses to now provide of a broad range of HCM services. The following are a few such stories from the Apex HCM customer community.

Paul St. Martin is the owner of One Check HCM in Massachusetts. Paul attributed part of his growth from 350 to 1,400 clients to switching from a legacy payroll software to Apex's robust HCM software platform, which provides scalability and a full suite of HCM capabilities. "I wanted to offer add-on services like HR back-office and benefits, because payroll is more than just processing and printing checks," states Paul. An all-in-one platform enabled One Check HCM to deliver more value to their clients, support new client additions, increase client retention and expand the existing client base. Paul continued by stating "Apex HCM allowed us to compete with the bigger guys. About 75% of our new clients converted over from larger firms, and we can service their needs thanks to a feature-rich platform design."



Access to a large partner network with a broad range of offerings across the solution's spectrum, allows for more ways to beat the competition. Keeping highly rated and well-known partners in a company's arsenal provides the ability to offer a more tailored solution to clients and prospects. In addition to broadening the service offering, partnerships drive a positive increase in the bottom line by increasing revenue per client and higher retention rates.





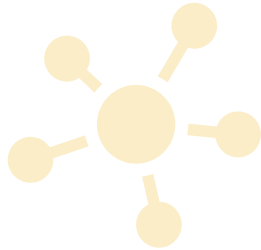
“**Powerful. Easy. Integrated** ... that’s what we wanted to provide our clients,” begins Frank Plum, partner of Workplace HCM. In addition to partnering with Apex, an industry leading payroll software partner, Frank decided to take a different approach to the traditional sales pitch of providing payroll only. “**Our success early on was learning how to capitalize on all the ancillary HCM services Apex offers.** We packaged our platform, upfront, as a full suite option for customers. This allows us to compete as a better product from the get-go, offering all their HCM needs on one cloud-based single sign-on platform.” Today, 85% of Workplace HCM customers utilize the Apex HCM employer on the mobile-based cloud platform to manage their payroll.



Frank offers some advice for payroll service bureaus looking to expand their breadth of services and grow revenue, “because the Apex platform goes from one feature into the other, it makes it that much easier to package and sell together. Also, encourage your clients to process online as well - really take advantage of the powerful, capable, cloud software. Think about it, the more time you’re not processing, the more you’re selling. And, the more you sell, well...we all do payroll, we know what that means!”

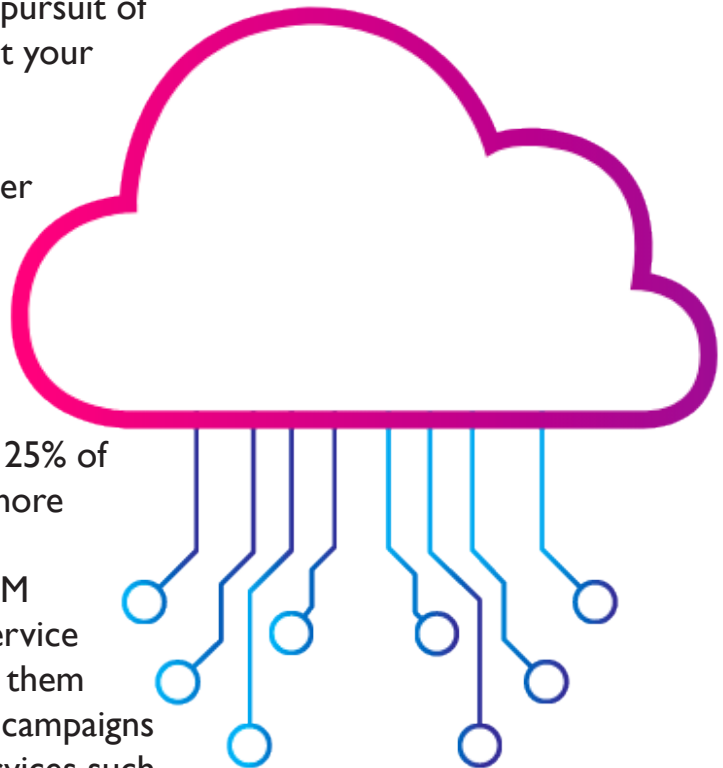
## How to Realize the Opportunity:


Realizing the revenue opportunity, actually generating more income each month, comes down to two key components. First, use a modern, cloud-based, integrated payroll and HCM platform. For example, Apex HCM. Without an easy to operate, easy to adopt, powerful suite of HCM services at the tip of your fingers, the revenue opportunities presented in this paper will not materialize. Second, HCM services must be introduced, marketed and sold to the payroll bureau's customer base. Without proactive sales and marketing, revenue generation will not materialize.



**Integrated Platform:** The best advice on how to select the right payroll and HCM platform for your business can be found in our 2018 white paper, “5 Key Considerations When Purchasing Payroll Software.” This buyer’s guide covers the key areas that will drive success or frustration in your pursuit of modern technology to support your revenue generation goals.

**Sales & Marketing:** In order for employers to adopt additional services, the payroll service bureau must actively market those services. Recent research by Apex HCM shows fewer than 25% of payroll service bureaus offer more than just simple payroll processing services. Apex HCM actively participates with its service bureau customer base to help them create and execute marketing campaigns to introduce various HCM services such as workers’ compensation insurance, ACA compliance, time & attendance, hiring services, HR compliance services, 401(k) plans, and many other programs. Many payroll service bureaus resist “selling” these services to their client base. The service bureau often fears clients will react negatively and don’t like “being sold to.” However, research and anecdotal feedback from Apex customers reveals a different story. Proactively informing clients and offering HCM services actually increases customer satisfaction and customer retention.





Customer Satisfaction: small business clients appreciate their payroll service bureau introducing them to cost effective and simple to implement solutions to their HR challenges and employee requests. For example, 86% of businesses under 100 employees do not offer a 401(k) plan. The reason being is small business owners believe offering such a plan would be too complex and too expensive. Few business owners think to seek 401(k) help from their payroll provider, but hundreds of payroll service bureaus today are helping their clients' setup and manage 401(k) plans. This is only one example of HCM services driving customer satisfaction.

Customer Retention: payroll service bureaus that only provide payroll processing stand at extreme risk of client defection to a competitor with a broader service offering. Customer retention and the number of ancillary products adopted are directly correlated.

# Getting Started:

The case for shifting from a traditional payroll-only service business to a payroll and HCM service makes perfect sense from a financial perspective. The payroll industry is transitioning business models and your business should not be left behind and unable to compete. If you are ready to take advantage of these growing industry trends, the following the steps provide a simple and low-risk path toward implementing the new payroll revenue engine. But, such a change does require you to make a big decision in the strategic direction of your service bureau. If you have not yet made the decision and might be struggling in the decision making process, please refer to our recent white paper, “How to Make Big Business Decisions.”

**Step 1:** Use a cloud-based payroll and HCM platform. If you are already using an HCM integrated cloud-based system, fantastic, you’re ready to start introducing new services. If you are not running your payroll business from a modern platform, consider switching as soon as possible. Generating ancillary revenue becomes exceedingly cumbersome and less profitable when operating from a non-integrated and local or server based system. If you need to make this technology change, please read our white paper “5 Key Considerations When Evaluating Payroll Software.”





**Step 2:** Once you've implemented the technology, start with services offering the most significant revenue with the least sales and marketing work on your part. Many payroll service bureaus begin with workers' compensation insurance. Employers often don't know their payroll service provider can save them money on workers' compensation insurance and also that they can switch insurance providers. Informing clients of the pay-as-you-go option is not "hard selling" but rather a tremendous service, which saves the client time and money. Plus, by using your integrated payroll and HCM platform, the insurance and premium administration is automatically sent to the insurance company based on actual payroll dollars versus making monthly estimated payments. Workers' compensation insurance via pay-as-you-go provides businesses with a very convenient solution to help manage cash flow and provides an additional revenue channel for the payroll service bureau.

**Step 3:** Hiring and applicant tracking services is another common starting point for payroll service bureaus beginning to offer HCM. The Bureau of Labor Statistics noted in August 2018, U.S. economic growth created the highest rate of unfilled job openings in small businesses in nearly 50 years. Employers need help in the hiring process. Hiring services and applicant tracking, integrated within their payroll platform provides a tremendous client value and significant revenue opportunity for the payroll service bureau. Once the client hires a candidate, they will have to on-board the new hire. The use of employee onboarding technology is another great upsell opportunity.

**Step 4:** Create a formal marketing plan to consistently market ancillary products and services to your client base. A formal plan allows you to keep your clients informed of products and services available to them and also minimizes the competition's ability to win your clients for services they perceive you do not offer. If creating a marketing plan feels overwhelming, don't fear, your Apex HCM Account Manager can provide assistance with a plan, materials and copy to implement a successful program.

Of course, this revenue does not happen overnight as it takes time to introduce new services and for customers to decide and adopt those services. Many service bureaus interested in aggressively driving adoption will utilize “opt-out” marketing programs to immediately gain success. An “opt-out” approach automatically enrolls customers into the ancillary service and provides a method for the customer to easily “opt-out” if they wish to not participate. Best practice for “opt-out” enrollment is to offer a free trial period, typically 30-90 days, and a very simple, easy, opt-out process. Opt-out enrollment is most successful for services with low monthly fees and high customer value.

# How Much Revenue Can I Generate?

A payroll service bureau that aggressively introduces a broad range of new technology and HCM services can generate \$5-\$10 per month per employee in additional revenue. While the answer certainly depends on the breadth of services the payroll bureau chooses to offer, the size of the client base, the price mark-up level, and degree of marketing effort devoted to introducing those services to the client base. For a midsize payroll service bureau, this can easily translate to an additional 20-30% of high margin revenue.

As the old advertising disclaimer goes, “your mileage may vary.” The conditions causing the variance in your revenue generation largely lies at the foot of the payroll service provider. Informing and selling clients of these services does take real work, real programs, and most often real people dedicated to the effort. While cloud-based payroll HCM technology can facilitate the logistics, you will need dedicated people to create the communication and marketing programs, as well as working with customers to answer questions and requests. The additional revenue generation is certainly attractive but it does come with associated costs as well. However, the revenue opportunity far outweighs the expenses and will profitably grow your business.



# What's Next for Our Industry?

Gartner research analysts predict that by 2019 half of all major companies and retailers in the US will redesign their online sites to accommodate voice searches and voice navigation. By 2020 spending on AI devices will drastically outspend traditional mobile apps and by 2021 all passwords will be obsolete with the advent of biological locks (i.e. face ID, thumbprint scanning, etc.). By 2022 semi-autonomous vehicles will rule the road and by 2025 you'll finally have your robot Rosie standard with every home purchase. Ok, we made that last one up. But for the other data points, it shows just how quickly the tech field has advanced and will continue to change our everyday lives. Similarly, technology continues to change the payroll industry and create new revenue opportunities!

Jeffrey Brown, Principal for Human Capital division at Ernst & Young wrote, "Digital and social disruption are fundamentally transforming all aspects of a company's business. Traditional payroll service and delivery is no exception: increased legislation and the accelerated advancements of digital technology are among the most strident forces propelling organizations to reimagine their payroll operations."

Mr. Brown's prediction begs the question, "What will be your response? Will you ignore and avoid these growing tech trends affecting the payroll industry? Or will you embrace these trends and leverage the opportunity to create new competitive advantages and new streams revenue for your payroll business?"

## About Us:

Apex HCM provides a state-of-the-art software platform allowing our clients to take full advantage of the benefits of cloud computing technology. We help organizations escape the bindings of traditional software, including the hidden costs of protracted implementations, disaster recovery, data security, software upgrades, and everyday IT needs.

Apex HCM is a market leader in licensing cloud-based payroll, benefits and HR technology. Over 300 payroll service firms nationally use Apex's technology as the core of their business foundation. Our highly customizable and comprehensive suite of products and services include payroll & tax, time & attendance, benefits enrollment, ACA, human resources, mobile apps, reports & analytics, employee onboarding, applicant tracking, and other business management tools normally reserved for large enterprises. Apex HCM's cutting edge cloud-based software allows its customers to effectively compete feature-for-feature with larger established firms while dramatically improving their workforce productivity. For more information, please visit [www.apexhcm.com](http://www.apexhcm.com) or call 877-750-APEX (2739).

