



Payroll as a Profit Center: Why Accountants Should Leverage the Power of a Payroll Business

*And How Generational Perspectives Can
Influence Your Approach to Business Growth*



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Introduction

Successful accounting professionals – CPAs, enrolled agents, tax preparers, and bookkeepers – have keen business instincts. They consistently focus on opportunities that can expand their business, increase revenue, and influence their future. A payroll business is one such opportunity. At its core, it provides a source of recurring revenue that not only enables reliable and predictable cash flow throughout the year, but also – perhaps, more importantly – *increases the frequency of client interactions and communication* beyond tax preparation periods.

In fact, one of the most compelling reasons to offer payroll is because it helps strengthen client relationships. As payroll becomes more complicated because of legislative and rule changes, clients naturally feel more secure when their accountant is involved with the payroll process. “By not offering payroll to their clients, accountants miss an excellent opportunity – like helping clients who are just grateful to get payroll off their plate,” says Daniel Hood, Editor-in-Chief at *Accounting Today*. “Now, technology makes offering payroll much easier than it used to be.”¹

New waves of technology have clearly elevated the role of an accountant’s payroll business to a new level of prominence. Cloud-based computing solutions have diminished old arguments about the profitability and importance of payroll to an accountant’s practice. Payroll is taking less time and is less labor intensive. Automation of payroll tasks makes it possible for an accountant to serve more clients than ever before. “Enhanced technology has changed the way everyone, including accountant professionals, is connecting with opportunities in the marketplace,” says Kyle Boettke, Division Vice President of Channel Partnerships at ADP.²

A payroll business that leverages technology can also provide a firm platform to help generate even more revenue for accountants via a broader menu of services. “Firms that package payroll with other BPO [business process outsourcing] services are seeing growth in both compliance and advisory services – specifically in performance and strategic services,” observes L. Gary Boomer, Visionary and Strategist at Manhattan, Kansas-based Boomer Consulting.³

In addition, the convergence of benefits and payroll and the emergence of Health Care Reform compliance requirements have increased client demand for accurate pay data that is crucial to Affordable Care Act (ACA) calculations. Consequently, payroll also serves as a unique and requisite data depository that fuels additional opportunities.

According to industry research, offering payroll to business clients also means different opportunities to different accountants, generationally.⁴ It comes as no surprise that Millennials, Gen Xers, and Baby Boomers are interjecting their core generational perspectives into their decision-making, including how their payroll business can help shape their future.

Through insights and relevant data, this paper will examine **three key reasons** why accounting professionals should leverage the power of payroll as a profit center.

Generational Groups

Millennials

Up to 35
years of age

Gen Xers

36 to 52
years of age

Baby Boomers

52 to 70
years and over

Services Accountants Offer to Their Clients

Millennials

98%	Tax Preparation and Planning	98%
76%	Advisory Services	64%
72%	Payroll Services	65%
70%	Audits	33%

Baby Boomers

Source: Accountants Confidence Index (ACI), July 2016, Accounting Today Executive Research Council.

1. Grow Your Business

Offering a payroll service to business clients provides accountants with a multifaceted added-value capability that helps to reinforce why accounting professionals are the most trusted advisors for many businesses and business owners.

Accountants with payroll businesses have excellent reasons to leverage this capability. According to survey data, about half (~49 percent) of accountants offering payroll do so to accommodate their best clients. Another 34 percent are looking to deepen existing client relationships.⁵ Additional research reveals that about half of accountants surveyed are actively looking for new ways to spend more time with their existing clients and deliver additional value.⁴

Beyond processing and delivering an accurate and timely payroll each payday, there is a vital strategic component to an accountant's payroll business. Long-term, it can help to fortify the bond between an accountant and his or her clients.

Maximize client interactions

Survey results indicate that many accountants are still struggling with how to best communicate with their clients. Nearly 40 percent indicate they have "no set strategy or plan" when it comes to established, periodical avenues of client communication, such as a newsletter. In addition, only about a quarter of accountants say they post on social media, such as Facebook and LinkedIn.⁶

For accountants who offer payroll, however, client communication is a valuable standard feature. Payroll comes with a unique, baked-in invitation to communicate on a sustained basis. "A payroll business helps accountants to have more regular contact with their clients," says Kyle Boettke. "Instead of interacting with clients only several times a year about tax-related work, payroll increases your interactions based upon a client's payroll frequency."²

As new and complex pay-related regulatory requirements add to the burdens of businesses across virtually every industry, payroll has become part of broad new business purposes and added a new layer of importance to accountant-client relationships. Pay data feeds growing HR requirements and is essential for the accurate and compliant administration of company retirement and health plans, and fulfilling the reporting requirements of the Affordable Care Act (ACA).

"Compliance isn't going to go away," explains Boettke. "Going forward, DOL [U.S. Department of Labor] regulations and ACA reporting will be two of the many challenges that will continue to touch accounting relationships."²

Underscoring the strategic significance of client relationships, Hood observes, "Accountants have the professional knowledge and tools to solve a lot of problems for their clients. One of the best things about an accountant having a payroll business is that it gives clients one more important reason to want to stay with you."¹



"By not offering payroll to their clients, accountants miss an excellent opportunity ... technology makes offering payroll much easier than it used to be."

Daniel Hood
Editor-in-Chief
Accounting Today

Use payroll data to provide new insights

Pay data can also tell an accountant a lot about a client's business. As the industry has shifted from mostly manual recordkeeping and write-ups, technology is assisting accountants to mine and use an abundance of existing client data – particularly data regarding payroll – to turn the page to new, nontraditional accountant offerings that can profoundly improve client performance.

"It's a new day. A payroll business can help an accountant open the door to brand new areas like data analytics – I see more and more accountants moving into that area," says Daniel Hood. "For example, a client might be experiencing enormous amounts of overtime during the third week of each month. By focusing on the dynamics of the client's business, examining the right data and asking the right questions, an accountant can help the client get a solution that can save time and money."¹



"Payroll is an important part of the technology ecosystem ... Cloud-based tools change the business model in favor of the trusted advisor."

L. Gary Boomer
Visionary & Strategist
Boomer Consulting, Inc.

Build your client base

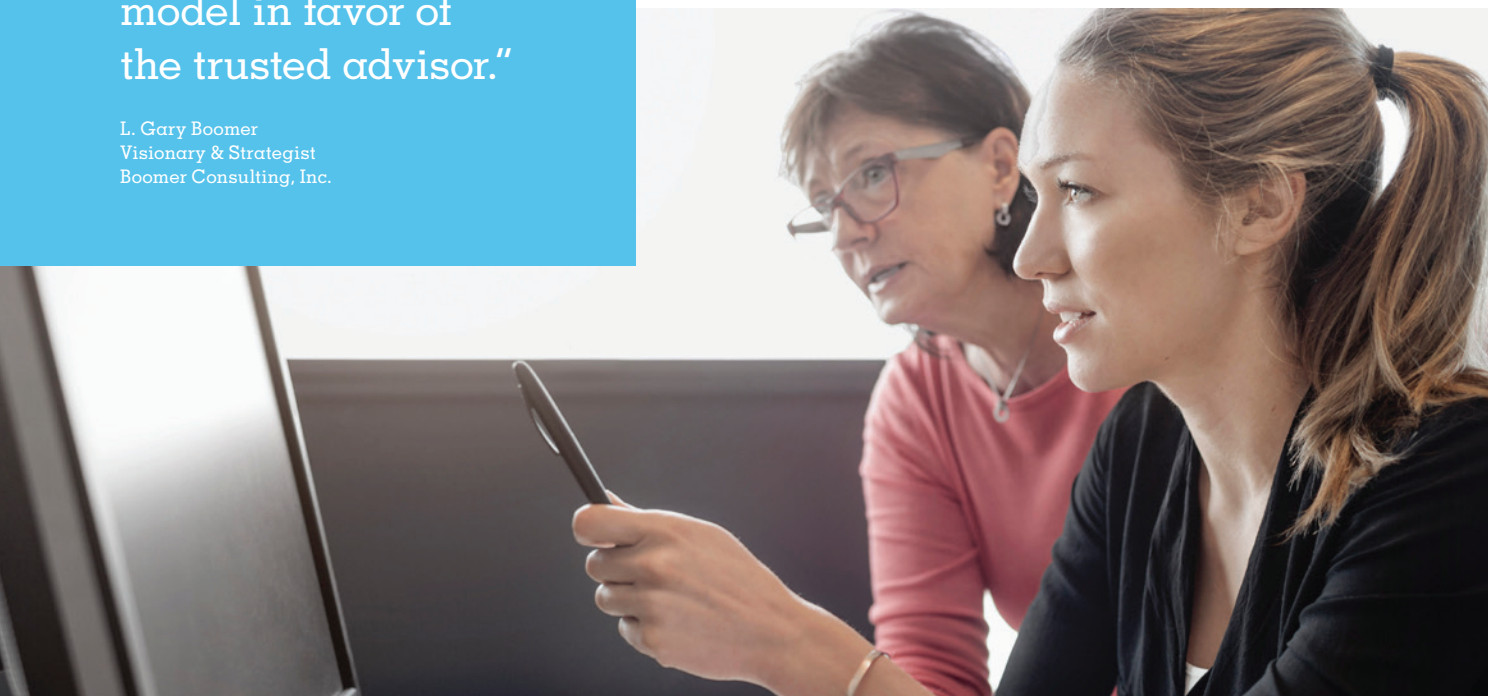
Retaining clients and adding new ones has never been a precise science. However, even maintaining a steady client base still takes a significant investment for accountants – primarily in making every moment of every client interaction as productive as possible. Old-school thinking, focused on creating exit barriers, is giving way to more positive measures to help attract and keep clients.

According to research, while accountants across all age groups still acknowledge using word of mouth as a primary means of acquiring new clients, there appears to be a paradigm shift, when you look deeper into the statistics.

As more Millennials enter the workforce – and the accounting profession – they are redefining boundaries. They are comfortable with mobile devices. They use the cloud. They are in sync with business partners, including top payroll and Human Capital Management service providers, that can help them achieve their business objectives faster by employing innovative new technologies and best practices.

Nearly twice as many Millennials are attending formal networking events with prospective business clients than do Baby Boomers. Moreover, almost 40 percent of Millennial accountants or their firms advertise their services in print and digital media, compared to about 20 percent of Baby Boomers.

In addition, almost a third of Millennials acknowledge that their firms do seminars, webinars, and live events on specific topics to drive their clients to think about using additional services. That compares to only about 10 percent of Baby Boomers.⁴



2. Increase Your Revenue

Revenue generation and profitability are key areas of focus for many businesses. So are core business necessities like payroll and pay-related regulatory compliance. “Payroll is certainly one of those services that ... offers a level of stickiness that is unrivaled by most other professional services,” says Jim Boomer, Chief Executive Officer of Boomer Consulting.⁷

Profitability, scope, and technology are three areas that can help forge a successful strategy for accountants with a payroll business.

What is the profitability of a payroll business?

Profitability depends on your strategy and varies by each accountant or firm that has a payroll business. “I’m seeing most accountants using their payroll business as a revenue-producer, because it’s a great way to aid cash flow throughout the year,” observes Kyle Boettke.² “For some accountants, payroll might be a loss leader. For others, payroll can mean enormous margins,” adds Daniel Hood.¹

The *potential for profits* increases the level of interest in a payroll business. A recent survey of accounting professionals indicates that while less than five percent of interviewees responded that payroll is their most profitable business, 39 percent of those surveyed said it was either their *second* or *third most profitable* segment of their practices.⁴

Should the scope of a payroll business be an end or a means?

For many accountants with a payroll business, again your strategy plays an instrumental role regarding whether payroll is purely a siloed profit center or a foundation for additional revenue opportunities fed by pay data.

Some practitioners and firms are exploring new services, driven not only by growing market desires, but also government mandates. As an example, most accountants say that they already play some role in helping clients meet the requirements of the Affordable Care Act (ACA).⁶ As calls for help with compliance issues increase, accountants naturally want to be the partner who helps clients handle those challenges.

Using pay data to provide that assistance also creates a path to offering new, nontraditional services.

How much of a role do technology and service providers play?

Society, in general, and its businesses have become immersed in technology tools that save time, reduce cost, and put information at your fingertips whether you’re in front of a laptop computer or on your cellphone or tablet. Mobility and user convenience are paramount.

However, adoption of new technology into workflow and for information access can vary widely. Many times that depends upon which generation you are in. “For Millennials, technology is a natural fit. They’ve used technology for most of their lives – it’s second nature. For older users, technology is something you’ve probably acquired as a new skill, probably as a consumer using a cellphone,” says Hood. “Millennials are also very comfortable with remote work and using the cloud. If you are an accountant, that comfort level is essential when so many businesses are operating with employees at remote job locations, using the latest tech tools to help them do their work.”¹

Boomer Consulting’s CEO notes, “The increased automation of the payroll process due to technology advances has also made payroll a much more profitable service offering than it was in the past.” Accountants with big plans and accelerated growth strategies are utilizing technology to help them do more. Increasingly, they are also partnering with third parties to provide transactional support.⁷

Adds Daniel Hood, “The trend over time has gone from handling payroll transactions inside to now going outside for processing support. That’s driven in part by the technology and automation that outside providers can offer. When an accountant spends less time on payroll tasks, they have more time to do other things that accountants do.”¹



A recent survey reveals that nearly 40% of accountants have “no set strategy or plan” when it comes to established, periodical avenues of client communication, such as through a newsletter.

Source: Accountants Confidence Index (ACI), February 2016, Accounting Today Executive Research Council.

3. Influence Your Future

While the *future* chronologically arrives at the same time for everyone, those who prepare for its arrival will have something to say about how things look and work when it gets here.

Leave nothing on the table

A payroll business can provide profits and opportunity across generations. Baby Boomers and Gen Xers who don't currently offer payroll as a service may think it's too late to add it to their professional repertoire. To the contrary, easy-to-use technology and turnkey partner support from trusted payroll providers enable accountants who are nearing retirement to rapidly establish a payroll business, gaining incremental payroll revenue from their clients who would like to use the service.

For Gen Xers, "now" could be a perfect time to enter the payroll business, as they get ready to end their career as a senior staffer or principal in a large firm, and venture out to start their own practice or buy an established practice (including a payroll business) from a retiring Baby Boomer.

Add value by adding payroll-related services

Adding value is the indispensable "what's new" element in any healthy accountant-client relationship. As accountants compete with off-the-shelf tax and other software and nontraditional online competitors to deliver traditional services, some accountants are deciding to expand their payroll business. Still others will use payroll as a launch point into nontraditional services for another good reason. About 47 percent of accountants in a recent survey acknowledged they have seen an increase in their clients' needs for HR services as a result of legislative changes.⁴

"I think payroll, for more and more accountants, will become a gateway to a broader range of nontraditional services for clients – HR, benefits and other areas where there are significant compliance challenges," adds Daniel Hood.¹

Among the HR Services that accountants can address are the compiling or updating of employee handbooks, creating job descriptions, establishing safer workplace programs, and using more efficient hiring and employee feedback tools. Technology enables accountants to bundle these types of services with payroll and charge a premium for what they are providing without becoming an HR expert.

Research indicates a strong industry leadership trend among Millennial accountants in both traditional and nontraditional areas of service. Specifically, half are looking to accelerate growth providing Tax Preparation and Planning; 35 percent in Advisory Services; 30 percent in Retirement Planning; and nearly 30 percent in both Forensic Accounting and Insurance.⁴

Equally important, firms and practitioners report they are already gearing up for an accelerated future. More than a third of Millennials and nearly a quarter of Baby Boomers said they have added new services for existing and prospective clients; and in similar numbers, they said they are investing more in marketing and business development support.⁴





Conclusion – Key Take-Home Points

A well-managed and profitable payroll operation can help you grow your business, add revenue, and influence your future.

The most compelling reason for accountants to offer payroll is because it strengthens client relationships – by increasing interactions with clients and providing a built-in channel for regular client communications.

Technology has become a game changer for accountants with a payroll business or those who want to start one. By automating payroll tasks – with internal software or by partnering with a trusted service provider – accountants can serve more clients and expand their business in other ways.

Each generation of accountants – Millennials, Gen Xers, and Baby Boomers – has a tendency to view their business opportunities through a “generational lens.” Millennials tend to be more aggressive than Baby Boomers and Gen Xers when it comes to growing their payroll business. The profession’s youngest accountants also seem more likely to use their payroll business as a platform for business expansion.

Accountants that don’t have a successful payroll business in place are not only taking a pass on the opportunity to benefit from a recurring source of revenues and profits, they’re also running behind the curve for future business opportunity.



About RUN Powered by ADP® Payroll for Partners

RUN Powered by ADP® Payroll for Partners is an easy-to-use, full-service payroll solution that enables accountants to offer an integrated suite of payroll, HR, and time and attendance services to their clients. Backed by ADP’s technology, compliance and security teams, and supported by a dedicated accountant service organization, it is the platform of choice for thousands of accountants who want to grow their practices with less work, less worry, and more profit.

For more information about ADP and our programs for accounting professionals, contact your ADP representative, call 1-855-408-3751, or visit ADP’s Accountant Portal at adp.com/accountant.

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Sources

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