



PDR PAYDAY RESOURCES

WALL STREET JOURNAL

January 30, 2006

Check It Out: A Growing Number of Companies Hope to Convince Small Firms That Outsourcing Payroll Services is Worth the Expense.

Loretta Chao

For nearly 10 years, bakery owner Madeline Lanciani did everything by hand—from the pastries to the payroll.

The owner of Duane Park Patisserie in New York remembers the hours she spent each week poring over a gigantic tax chart to do her payroll. Armed with a ruler, a pencil and her ledger, she used the chart to calculate all the different deductions for her employees. The task took about six hours each time, and on a few occasions, she had to pay late filing fees because of the confusing changes in tax structure.

But as her business grew—currently eight to 20 employees, depending on the season, up from three at the start—Ms. Lanciani says she realized that it was no longer cost-effective to spend the better part of her Fridays doing the paperwork. So six years ago, she started using an online payroll service called Peach Tree Complete Accounting from Sage Software Inc. of Norcross, Ga. And last year, she hired a part-time bookkeeper from the Bookkeeping Company, a New York bookkeeping service.

Time Is Money

Having to deal with payroll is a painstaking chore for many small-business owners like Ms. Lanciani. Complicated tax regulations and the threat of heavy penalties for payroll mistakes take both time and money away from running the business. Payroll companies estimate there are several hundred employer tax updates every year, including federal, state and local taxes. And according to the Internal Revenue Service, of the 30.5 million employment-tax returns and forms filed in 2004, 26% resulted in penalties, at an average of \$670 per penalty.

To help small-business owners avoid such penalties and save time and money, experts are

increasingly suggesting that they pay someone else to crunch the numbers, or at least help owners to do so faster. And a host of companies are available to do just that—from payroll firms that do all the work for you to Web-based services that help you quickly do it yourself.

“Generally, the benefits [of using some form of payroll service] outweigh the negatives significantly,” says Lisa Rowan, program manager for human-resources services research at market-research firm IDC. “On the cost front, for example, you have to take everything into account when you do it yourself: cost of software, any additional hardware, check printing, etc. Often, some of these [costs] get overlooked.”

Still, there are caveats. For one thing, if the payroll company makes a mistake and refuses to pay any resulting government fines, the business owner is still ultimately liable for the penalties. Since the payroll companies are not liable, not all of them will pay for fines resulting from mistakes.

Jerry Sitkiewicz, former president of the National Association of Small Business Accountants, says only 20% of small-business owners outsource their payroll, because many have misconceptions about the industry. “There are still a lot [of business owners] that don’t realize how efficient and affordable it is,” he says. “They think that if they’re paying their accountant \$500 a month, it must cost \$500 a month to get their payroll done.”

What owners also may not realize, he says, is that they will incur expenses from buying and updating software and tax tables, and from time spent away from the business itself. For instance, the average annual salary for a full-time payroll clerk is about \$29,000, excluding benefits, according to SalaryExpert.com, a compensation-research Web site based in Vancouver, Wash. Meanwhile, the going rate for a full-service payroll company is around \$50 per pay period for a client with 10 employees.

Payroll Plans

There are various options for small-business owners looking to outsource their payroll services.

Payroll services have traditionally been offered by professional employer organizations (PEOs), which sell benefits and human-resources services to companies. They usually charge clients a percentage of their total payroll. Staff Resources Inc. of Chico, Calif., for instance, charges an administrative fee of 1.5% to 8% of the total payroll, with smaller companies paying the higher percentage and larger companies paying the lower one. Staff Resources basically takes on the role of a human-resources department and handles all payroll duties and even recruiting.

These organizations tend to cater to midsize and large companies or to small companies that employ high-income professionals, according to the National Association of Professional Employer Organizations (NAPEO).

More accessible and economical for smaller business are companies like Paychex Inc. of Rochester, N.Y., and Automatic Data Processing Inc., Roseland, N.J., which started off as payroll-only firms.

These companies now offer plans ranging from just payroll to ones that include payroll, retirement and health benefits, and tax filings.

Paychex charges \$55 for a 10-person office on a biweekly payroll, while ADP charges \$43. They handle everything from printing checks and arranging direct deposit to filing taxes and paying penalties for filing mistakes. Client just need to submit their employees' hours.

Many small businesses, however, feel that such a payroll service is more than they need. And some are hesitant to disclose payroll information. So a host of companies have cropped up that offer Web-based tools to help business owners.

These companies—including SurePayroll of Sokie, Ill., and PayCycle Inc., Palo Alto, Calif.—say the online tools do all the calculations and provides clients with the right forms. Business owners fill in employees' hours and follow prompts to file the appropriate tax forms. The companies also set up direct deposit from the business owners' accounts. And they give owners the option of either printing out checks themselves or having the companies mail them out.

SurePayroll charges \$46 per biweekly pay period for a 10-person business, while PayCycle charges \$49 a month. Peach Tree Complete Accounting, the product used by Ms. Lanciani, the bakery owner, charges \$49 per biweekly pay period for a staff of 10. These companies also assume responsibility for calculation and filing mistakes and any fines that result from those mistakes.

Michael Alter, president of SurePayroll, says the advantage of having clients plug in the data themselves is that payroll information doesn't get passed through several different people, which can create opportunities for error. "Traditional services for the small-business market have been to phone or fax in payroll two days before payday," Mr. Alter says. After that, "it's a game of handoff. You don't know if the process worked or not. The more handoffs you have, the higher the chance for an error. In the payroll world, an error is really expensive."

Both Paychex and ADP say they also provide the advantage of flexibility, so owners can decide how much work they want to do themselves. For instance, they offer phone-in, fax-in and computerized methods of submitting payroll information.

Big Savings

Rich Friedman, a senior project manager at telemarketing firm TranSource Automotive Solutions in Deerfield Beach, Fla., uses PayCycle and says being able to outsource his payroll has been a big relief. "Traditionally, in call centers, you have a lot of turnover, so setup is a lot of work here," especially with most staff being paid hourly, says Mr. Friedman, who has eight employees.

He estimates that without the services, he would be paying double just to hire a part-time staffer to handle payroll. PayCycle charges him about \$45 per bi-weekly pay period, and he spends 20 minutes each time to sign in to the Web site and enter his employees' hours.

money to have someone else do your work for you, and in the early years of a business, cash flow is a particular concern.

But small businesses that do outsource say the expense is well worth it. Garvey's Office Products in Niles, Ill., outsources its prospecting for new customers because it's more cost-effective than having its own salespeople make cold calls.

"It's a time-consuming job to do. You need to be able to make 50 calls an hour to sometimes get one or two appointments," marketing director Sheila Gartland said. "We'd much rather have our sales reps focusing on the accounts they have and making sure they get taken care of."

Gartland said the company doesn't outsource any other operations. While support functions such as HR and accounting are the areas that tend to be outsourced the most, some companies find it makes sense to outsource even some of their core operations. Writing is a major part of the job description for executives at Booker's firm, but sometimes writing projects will be outsourced to people who have a particular skill or talent. Many advertising firms outsource some of their graphic arts projects, although they have their own artists on staff.

What to outsource is a very individual decision for many firms. It depends not just on where a firm's strengths lie, but also the philosophy of its owners.