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What Lies Ahead

I don't normally write a Tribune for distribution in December because bureaus are up to their ears in year end preparations – getting customer files up to date, putting year-end packages together, re-checking tax files, and bringing in new customers.

But this year is different. I have had readers ask me to write about strategic issues facing bureaus in the year ahead, I am going to pick three topics to cover quickly: using data bureaus have on hand to select better customers and build stronger relationships, the new Third Party ACH Sender rules which will come into effect at the beginning of the year and some thoughts on the cloud.

Better Decisions Using Better Data

I firmly believe that data, analyzed properly, becomes information you can use to make better decisions.

There is so much noise in the market data mining and so little focus on why you collect data, how it can help your bureau provide better service to your customers, how to build your information systems, and how to train your staff. The payroll markets are changing because of evolving customer needs, increased regulation, enhanced technology, and smarter competition. In times of fundamental and important change, it is best to take time, think more, and react less!

Here are some ideas bureaus should consider in 2012: use your own data bases to enhance customer acquisition, estimate the likelihood of a prospect's response to offers, improve attrition analysis, and expand relationship development.

* **Enhance Customer Acquisition**: to help enhance customer acquisition, study your current customer base. Track their initial relationship and the expansion of that relationship: numbers of employees, payrolls, checks, and related services against their current numbers. Create a customer profitability profile and run the analysis against your current customer base, then rank order your customer base. Use the profitability profile to redefine your prospect lists using the attributes of your current high profitability customers to screen new prospects. You can score new customers against the profitability measure and base your commission structure on not just projected gross revenues but also against projected profitability measures.

What Lies Ahead (Continued)

* **Estimate the likelihood of a prospect response to offers**: historically bureaus have felt that the three great drivers of new customers have been – price, convenience, and service. Being accurate and reliable is critical, and often understated attributes customers actually looked for. Smaller bureaus have competed with the larger providers primarily on price (which drove their margins down), on convenience and service (by being close, being attentive, and having a responsive and friendly customer service team). However, the rules and markets are changing. Service delivery has gone from telephones and couriers to e-mails to remote input and to the web. Core services have gone from basic payroll and tax reports to payroll / HR reporting and management / benefits administration / retirement administration / payment systems. What drives prospects to respond to offers has been changed by their perception of what a bureau is and does, and what they want and should expect from a more complete human resource package that are becoming standard at growing bureaus. Better use of data can improve the offer made to the prospect by balancing the product or group of products offered, the pricing, the distribution channel, the positioning of the offer and the branding of the bureau, and the timing of the offer.

Attrition analysis: most independent bureaus love their customers to death. They consider attrition from the national firms as the best way to build their own customer base. With a remarkable 20% plus attrition rate of the majors, it has been an affective strategy; but maybe not so in the future. The big guys are beginning to get serious about using data to profile and track customers most likely to leave. They can use their data to refine their "offer" to those high profile attrition candidates to "buy" them back and reduce attrition. Product bundling, based on target preference data, is also being used to present offers to current customers as well as prospects with a group of services which tie the customer to the provider more closely, and make voluntary attrition more difficult.

* **Relationship Development**: bureaus can get lost in defining the data they want/need to build a deeper relationship with their customers. Don't get lost, get focused! The keys to building relationships are defining your bureau's product offering, the share of your customer's human resource management wallet you can effectively gain and manage, the cross compatibility of the products, and a good sense of your customers' sensitivity to pricing.

Third Party ACH Sender Rules Are Changing: This Time Is Different

When the financial markets collapsed in 2007 to 2009, most of us wondered what happened, why did it happen, and would we live through it. At first we were told that "that this time is different". Turns out it has happened at least seven times before in our nation's financial history. Now Europe is on the brink of disaster and is wondering what to do. I suggest they study the works of Alexander Hamilton and read the US Constitution. It has happened before; they might learn something from the eight-times-burned Yanks.

We have talked about regulation coming to payroll for 25 years. Many of you know that I was unimpressed by SAS 70 where the fox was put in charge of guarding the hen house, and that I have counseled that your bank relationship was the most important service provider relationship a bureau has. Without it, the bureau is immediately out of business.

The financial collapse has changed the way bank regulators look at bank risk. Since the regulators (and the US Tax Payers) put trillions in liquidity support and billions in capital support at the disposal of banks and saved their bacon, they are much bolder again in telling banks how to run their business. The regulators know that the banks have taken risks they did not understand, and they have regained their courage in demanding that the banks reduce their risks or face, at least, much higher capital requirements.

What this means to bureaus is that the new ACH rules are for real. The bureaus need a plan and must put it in place, now. If they do not, their bank will most probably cut them off from access to ACH.

Many bureaus are reacting by finding a back-up bank or clearing provider. This is not enough. As the regulators increase enforcement actions, there will be fewer banks and clearing providers who will be willing to provide services to any but the best run organizations.

At the very least bureaus will need to develop and enforce customer credit policy, change their customer contracts to include permission to get credit checks and credit scores on customers on a regular basis, document funds transfer processes used by the bureau, third party reviews of their policies and processes, and enforcement of penalties on customers who violate the bureau's rules.

As the regulations come into effect over the first six months of 2012 bureaus can expect the following: their banks will ask them for customer contracts, ACH policies, and procedures used by their customers regarding the multiple forms of funds transfers the bureau provides; banks will tell their ACH clients that they are getting out of the business, particularly smaller banks and credit unions which lack deep treasury departments; and, new funds transfer companies will come into the business to provide services to bureaus which will be more expensive than the bureau's current service. In addition, the sales environment will be full of misstatements regarding deposit dates and confirmations of "good" funds. Finally, bureaus will be forcing "bad actors" out of their customer bases, and those "bad actors" will be looking for a new bureau (hopefully not yours).

The rules will clear up, we hope, by mid-year, when the regulators firm up their requirements for the banks and banks firm up their rules for the bureaus.

In the mean time, putting a good ACH strategy in place will help bureaus in dealing with their banks. It is time now to get very serious about putting your bureau in line to be a strong ACH client. The best strategy is based on new contracts with your customers, policies, procedures, a well trained staff, clear rules your customers understand, and a frank and strong relationship with your bank.

The banks will not fool around with their regulators. They can't, their regulators are serious about reducing risks to a very weak financial system. This time is different.

The Cloud

So many thoughts, so little space! The Cloud brings game-changing IT. It requires a well thought-out plan. It brings benefits which must be balanced against risks.

What is the Cloud? In general the Cloud is an environment which supports internet-based data access and exchange and internet access to low cost computing and applications. Its key characteristics are on-demand self-service, internet accessibility, flexible capacity, and usage based billing. Currently there are three general Cloud models: software as a service (SaaS), platform as a service, and infrastructure as a service. Clouds can be deployed through private, public, and community services.

The Cloud is sold as being flexible, convenient, and cheap. It can change a user's interaction with their customers and suppliers, and can accelerate change and innovation "time to market". Most service sellers tout that it will save users money.

The Cloud has risks: security, performance, difficulty in integrating Cloud with existing systems, IT governance, loss of control over data with respect to customers, measuring payback on the full investment, and lack of confidence in the ability of Cloud vendors to perform.

IT is changing the way bureaus do business, but it should not change the logical way in which bureaus think through their alternatives and come to sound conclusions. The payroll business uses critical customer data which must be protected. Loss of data on customer employees can cost the bureau fines of $1,000 per employee. Not only should bureaus review and increase their Errors and Omission insurance, they need to carefully consider the capabilities, experience, and veracity of their service providers.

Here some things to consider:

1. The Cloud is not just a change in software, it is a change in the way a bureau will do its business so planning in detail is required by the CEO lead company team

2. The Cloud can provide flexibility and accessibility to developers and to users and demands that the bureau create rules on change management, data base controls, and data security

3. We know that the Cloud can reduce capital costs of start-up and version changes and does exchange these capital costs for higher operating cost through usage charges. We do not know if three years after the implementation the bureau has saved any money or gotten the planned return on investment

4. SaaS solutions using community clouds are the current rage, but they pose important security concerns. Lots of alternatives are being created. A bureau's most important criteria for selection of any IT solution needs to be the background and capability of the developers; tested, stable, and proven platforms; integration of software and staff training; and a serious focus on data and system security, and internal controls.

The Cloud brings game-changing IT and it requires your bureaus full attention.