

Beyond Payroll Investment Summary

The minimum requirements for payroll and staffing services is rapidly evolving. Coupled with the need and market demand for disruptive technology and innovation; providers which have assertively responded are satisfying middle market customers and capitalizing on the current and future demands.

Disruptive technology innovation is changing the minimum platform requirements such as:

- **Usage and application of data:** for analytics, for security, for compliance, in the cloud and between systems. Providers must choose wisely on how to monetize these required investments.
- **Services are being bundled and packaged as core HR technology** such as: HCM, Tier I level HR Support, and Change Management Services¹. Again providers must choose wisely which services to bundle in order to improve gross profit margins.
- **Online marketplace ecosystem(s)**, whether it's an open app community such as Salesforce.com's Force1 Platform, the Microsoft Partner Community, or new communities such as the ADP Marketplace Community or CornerstoneOnDemand Marketplace, or closed communities such as IBM, SAGE, Intuit, Oracle, and SAP. Again providers must choose wisely which communities to invest in to attract new customers.

Beyond Payroll Investment Decisions:

1. **Packaging** (multichannel and BPO services by industry vertical)
2. **Technology platform and capabilities** including HR, WFM, BPO and data analytics

When deciding to invest, please keep in mind Guy Henshaw's mantra: "***No Margin. No Mission***" because how much to invest and how best to monetize will, bifurcate the market into leaders and laggards.

After a decade at Ephor Group, advising entrepreneurs and the institutional investment community on their business models and capital deployment strategies, **I've come to the realization that the development of the company entrepreneurs and leadership "skill sets" is more important** than having sufficient capital. And as your business grows, those demands and skill set requirements escalate. Additionally, the investment community has come to the same realization especially for technology enabled businesses.

As I am sure you have come to realize and observe, the ability to create a good business does not necessarily coincide with the creation of wealth for the founders and leaders. It requires a highly planned and executed business strategy, coupled with experienced leadership skill set, and "useful capital".

As you plan for the second half of 2015 and enter in to 2016: I urge you to "***openly and honestly evaluate your organizational skills, capabilities and its leadership attributes and make the decision on what to change and then commit to making those change elements occur in an assertive manner.***"

Most Sincerely,

Garry E. Meier, Ephor Group Managing Partner

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P.S. Read more articles from Ephor eBook which is a collection of articles on "***Solving the Value Equation***" to create wealth for entrepreneurs online at www.EphorGroup.com/eResources.asp

¹ 10 to 20% recurring annual subscription.

Workforce 2020: The Evolving Platform to Meet the Demand of the 2020 Workforce.

Workforce 2020 Platform

1. **Forget Unicorns and Focus on Sector Leadership.** Beyond small businesses (the market segment with less than 49 employees); the needs by industry vertical markets vary greatly.
2. **Forget "Core HR" and Focus on "Beyond Payroll Bundled BPO Capabilities".** The marketplace now extends fully into workforce management and often times additional related BPO including content, software, services, and outsourcing solutions. While there are thousands of service firms worldwide there are only a handful of "capable and scalable platforms" with a meaningful customer bases. The goal is to automate transactions, coordinate the human aspects of work, and measure, analyze and act on the information. To satisfy the demands of the workforce in 2020 providers must move beyond payroll services to offer HRMS technology as well as both HRO services depending upon industry needs and ASO services (primarily time tracking and expense management). In summary, a shift has occurred from historically only managing "employee transactions" to workforce management ROI considerations.

There is a bifurcation in the market between those companies that illustrate "Market Leadership Qualities" who are "getting it" versus those who simply will not.

- Payroll service providers have several advantages as the workforce management arena matures. Payroll is the source of the "critical data" that drives many of the services provided to employees. Payroll processing is complex, and is getting more complex and more regulated each day. Taxing issues, tax preparation and the flow of funds from tax, insurance, benefits administration services require controls, and many of core competencies that payroll service entities illustrate. Exploit your "special skills."

- Technology is being developed, adopted and being utilized at "internet speed", and in many cases the technology is ahead of us, the providers, in terms of subject matter expertise, system of security and controls, and what are workforces are demanding. Specifically HRMS workforce management solutions *are evolving to include:*

- ☑ **Assessments, Competencies, Training:** More than 50 private companies are providing \$1m to \$10m tools.
- ☑ **eRecruiting:** ~25 industry tools with content (mostly venture backed).
- ☑ **Health & Wellness:** Thousands of startups with some backed by Strategics and Financiers.
- ☑ **Motivation & Awards:** ~25 private company solution providers.
- ☑ **Training & eLearning:** Hundreds of content providers add value in this area.

- The decision making process is moving from the HR department to a higher level executive or executive committee structures. Therefore we *must change who we market to and who we sell to. It is clear that the buyer community will be a "higher level, more capable, more perceptive and sophisticated professional executive" who's perspective is more holistic of their organization and needs.*

Payroll Provider "Special Skills" Required

- Be a Provider of Employment Lifecycle Services**
- Handling of Increasing Payroll Process Complexities**
- Creating Partner/Alliance Access to National Banking System & Treasury Capabilities**
- Innovative Technology**
- Innovative Organizational Structures**
- Creating Executive "Buyer Communities"**
- Be an Effective Change Agent**



Beyond Payroll Market

- The market for HR Technology in the United States is 100,000 middle market companies (\$10 million to \$250 million, 50 to 10,000 employees), more than one (1) million SMBs (<\$10 million, <100 employees), and the enterprise market, plus government entities.
- Revenue Growth requires a “WOW” product supported by foundational recurring revenue solutions which solve BIG outcomes for buyers.
- Wealth for shareholder and founders will be created through “Technology Enabled Services” which utilize a “Holistic” Partnering & Distribution Approach backed by strong product marketing, core revenue operations sales team, and strategic channel support.

The Case: Beyond Payroll Outsourcing: HR Technology & Services Bundle Pricing

Service	Payroll & tax	WFM	Benefits Admin	Benefits Procurement	HR Support	Total
HR Support					\$90	\$90
Benefits Brokerage				\$285		\$285
Benefit Administration			\$75			\$75
Benefit Reconciliation			\$25			\$25
Talent Management		\$25				\$25
HRIS & Reporting		\$46				\$46
Time & Labor Reporting		\$24				\$24
Reporting	\$9					\$9
W-2 / 1099 Processing	\$1					\$1
Cobra Administration	\$3					\$3
Garnishment	\$2					\$2
Payroll & Tax	\$100					\$100
Total Per Year Per Employee	\$115	\$95	\$100	\$285	\$90	\$685

Gross Margin	Current State	Growth Opportunity
	>75%	65%

Employment Life Cycle	Gross Profit
Recruiting	30%
Onboarding	55%
Staffing	25%
Talent Management	>75%
Payroll & WFM	>75%
Administrative Support	65%
HR support	>75%
Outplacement	80%

2015 HRTech Update

- >48 private company beyond payroll platforms.
- 21 private company acquisitions in 2014 YTD (13 in 2013, 7 in 2012).
- 255 private payroll service providers greater than \$1m in annual revenues.

Payroll platforms are increasingly adding:

- 1) Core Employee Data Applications (Time, Expense, WFM, Performance, Analytics, etc.)
- 2) Human Capital Content (Assessments, Recognition, Compensation, Training, Wellness, Learning, etc.)
- 3) HR services vary by industry and company size, but may include:
 - a) Tier I Level HR Support
 - b) Administration (Tax, Benefits, Screening, Onboarding, etc.)
 - c) eRecruiting and Staffing Support
 - d) HR Content

How the Middle Market Buyer Looks at Payroll Platform Solutions:

1. If using Salesforce.com, they consider Financial Force HCM and the Salesforce.com App Marketplace.
2. If using and ERP from Oracle, Workday, SAP, Microsoft, IBM then look at their preferred ERP Payroll Partners.
3. If you have an HRMS, they have a preferred list of vendors.
4. If they Do NOT Have Existing HRMS, then look at: ADP, Paychex, Ceridian, or bundled ASO Services such as CheckpointHR, TriNet, Insperity, Oasis Outsourcing, CoAdvantage, ComuPay, Sheakley, Paycom, Paylocity, Paycor, CBIZ, Thompson Reuters, Heartland, Infinisource, Barrett, Ultimate Software



What Should My Growth Strategy Include & Why?

For a no obligation overview discussion of your market sector comparables, contact Ephor:



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How & Where Should I Expand My Capabilities?

For a pragmatic, no obligation overview and discussion, contact



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