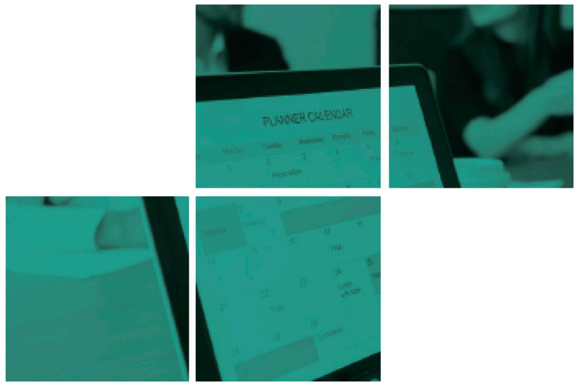
Strategic Business Planning for PEOs



Jim Mack

As an industry veteran, I have seen the PEO industry in a lot of stages: growth, initial public offerings (IPOs), rollups, acquisitions, private equity infusions, and the rush of new PEOs being formed.

As the PEO industry continues its tremendous growth, individual PEOs should know the steps to take to grow at or faster than the industry pace. These steps include not only performing the expected payroll, benefits, and HR administration work, but also planning for future business growth. I would like to address the planning stage.

Summer is a great time to start planning what you are going to accomplish in the fall with your strategic goals and objectives for a one-, three-, and five-year horizon. What follows are important items to consider under each of those time frames.

One-Year Plan

The one-year plan is primarily sales, client retention, operating expense, and net profit focused. This is a very tactical short-term plan to hit the numbers the company wants to achieve. The development of this plan will require involvement of your leadership team for a variety of aspects.

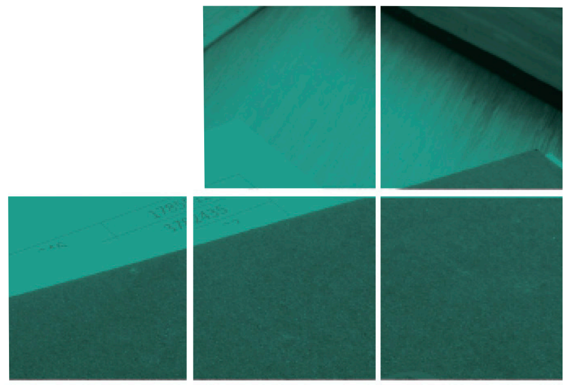
The sales leader will need to develop a sales plan that is both realistic and challenging to the business development reps on the team. Some PEOs give stretch goals to the salespeople and then have a slightly lesser number for plan purposes. This is also the time to assess whether the team is strong enough and whether some underperformers need to be replaced. It's also a good time to determine whether your PEO will sell with internal reps or if brokers are part of the revenue-generation process. If brokers are involved, are the right ones on board?

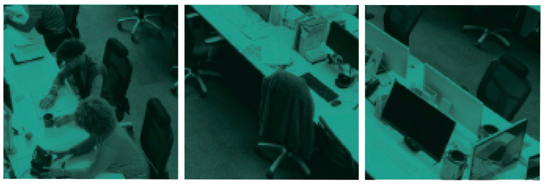
The CFO should drive the rest of the process by calculating gross profit from client retention, expenses by department (consulting with department heads is critical in the process), investments for the next year (new computers, phones, service people, licenses, other variable expenses), and fixed expenses.

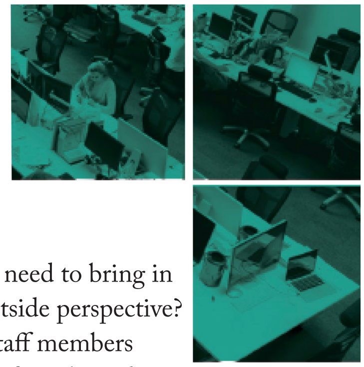
The NAPEO Financial Ratio & Operating Statistics (FROS) Survey report (*www.napeo.org/peo-resources/publications-products/online-store*) is extremely valuable in this process. In general, approximately half of the new gross profit generated in the plan should be reinvested in the business, with the rest falling to the bottom line for bigger ideas that would be included in the three- and five-year plans. The CFO should put the complete package together for the president and/or owner to review and approve. The results of the process need to be communicated appropriately throughout the organization and then updated no less frequently than quarterly as facts and circumstances change.

Three-Year Plan

An important part of the strategic planning process is developing a three-year plan in addition to your one-year plan. This involves more people, is more strategic in nature, and may be the type of activity that requires an investment in someone outside the organization to lead the process. It may be better to conduct the effort off-site to limit interruptions.





A three-year plan involves reviewing all aspects of the business to plan for its future. This entails looking at sales and marketing, operations, systems, people, expansion/acquisitions, and management. The idea of this plan is to envision where you want those parts of your organization to be in three years and plot the steps necessary to get there. This process may require several investments by the organization and they need to be carefully evaluated to make sure there is a return on those investments. A three-year financial plan is critical to ensure that the PEO can perform and generate the income necessary to fund the investments needed to grow the business significantly.

Let's look at some of the areas that will need attention in this plan, which will chart where you want to go and how you'll get there.

Sales/Marketing
Consider the robustness of your sales tracking system, your compensation structure and sales incentive plans, the lead generation process, sales training, the onboarding process, and sourcing for new salespeople. Do you have the right people leading an ever-growing team and are they capable of growing your team? Are you paying at or above the market to attract and retain salespeople, the hardest skill set to find and keep in this industry?

Operations
Consider your customer relationship management (CRM) system to track client and sales activities, align operations and sales activities with clients for onboarding and retention, client level or PEO level benefits plans, rewards system, and key performance indicator tracking using NAPEO survey data. It is imperative that the sales and operations sides of the business are in alignment and share common goals and reward structures. Planning this out is critical for your future success.

Systems
Look at the operating system for payroll/invoicing, overall IT strategy and cybersecurity, CRM, accounting software and integration, hosted versus cloud software, and data and computer security. Because of the sensitive nature of the information that PEOs capture and the continued growth of cyber attacks, this part is crucial to your success.

People
Look at the leaders and whether they are capable of running a department 50 percent larger. Is your staff receiving ongoing PEO training and education? Do you have career planning and development available? Do you need to bring in non-PEO people to provide outside perspective? How will the number of your staff members grow if you increase in size significantly, and are your metrics in line with the industry?

Expansion/Acquisition
Consider the possibility of new greenfield offices and whether you need to move your headquarters to accommodate people growth. Should you acquire a local or regional PEO to expand more rapidly? Do you have funding to make acquisitions or do you need to develop a funding source, and are you ready for explosive growth culturally and practically?

Management/Leadership
This may be the most sensitive area of the plan because it may include critically determining if certain leaders can progress to the next level, reviewing if leaders have the necessary skill sets in all areas, and determining if the CEO needs to bring in a number-two person to allow him or her to be more visionary and less operational. It could include restructuring reporting relationships, saying goodbye to some leaders, and adding some new ones.

All of the above steps are necessary and critical to forming a solid three-year plan. Next let's look at what gets added to develop your five-year plan.

Five-Year Plan

The five-year plan expands upon the previous three-year plan and allows the organization to dream big dreams and reach for what might be thought of as impossible goals. Possible goals are suggested below.

Diversification
The company may plan to add an administrative service organization (ASO), human resources consulting, a standalone benefits agency, or staffing to its product offering. Some of the thought process behind doing this would be to improve client retention by becoming the agent for client benefits plans, making the relationship stickier. The ASO product could be used to attract larger clients that might want to pick and choose the services they receive or may not want a co-employment relationship. The PEO can use human resources consulting to prove itself to a skeptical client, setting up the opportunity to turn the company into a PEO or ASO client. All of the above have the obvious added feature of generating more recurring revenue and

protecting the PEO in the event of an economic downturn with additional revenue streams.

Large Acquisition/Private Equity Funding/Merger

If the ownership decides to take a large step, any of these could be contemplated. Again, each would take planning and timing. A large acquisition can be used to take out a competitor in the market or to establish a substantial presence in a new market. The impact of using up company cash reserves or taking on debt always needs to be critically evaluated in this situation. An owner could bring in private equity as a strategy to take some of the company's hard-earned investment off the table. Loss of control is always a consideration here. Finally, a merger with a similar-sized PEO is another strategy to gain considerable size and bring the best of two PEOs together. Review the risks of culture, management styles, systems, and shared ownership thoroughly before proceeding.

Tripling in Size Organically

This would be a huge undertaking—opening offices and adding significant people and structure. However, it could also be a tremendous amount of fun. Carefully picking under-served markets to expand into is critically important. Finding qualified salespeople would be key to being successful. Finally, you would need a new team dedicated to pulling off this strategy while the remainder of your service teams continue to focus on existing clients. Adding significant new locations and clients can't come at the expense of your existing client base or the strategy is flawed.

Hiring a New CEO

The owner may decide it is time to let someone else run the organization. The owner may recognize that his or her skill set is visionary rather than operational, or just decide to take a step back and slow down a bit. The first step, obviously, is selecting a qualified individual who fits in with the existing culture. Another important part is the transition plan and period. The new CEO must have complete authority to make decisions after the process is completed, or he or she will be set up to fail. A final step at this point is to bring in a board of advisors to assist the owner and the new CEO in this process and in general for the company as it grows significantly. Advisors without PEO experience can be good to have some outside business perspectives.

Conclusion

As you can see, each of these steps is different and unique, but all mesh together into a cohesive overall plan for the PEO. A major benefit of developing your plan is the time invested in thinking about where you want the organization to go in the next period. Oftentimes, we get so busy in "doing" that we forget about figuring out where we want to go and how to get there. "A goal without a plan is just a wish," as a well-known business quote says. My wish for you is that you start planning to reach your goals.

Jim Mack is a managing director at Oaklins member firm, Capital Alliance, Dallas, Texas.