

PEO Network Articles Archive 2002

SELLING AND DELIVERING HR

By Carrie Aaron

It is much easier to start a PEO from scratch than re-tool an existing PEO. The reason is simple; a PEO is a reflection of the clients they have attracted. It is impossible to change a PEO unless you change the client base and it is impossible to change the client base unless you change the sales force. You have to either CHANGE people or change PEOPLE. In addition, you have to either CHANGE clients or change CLIENTS.

In light of the fact that there are few PEO start-ups with today's high barriers to entry and most PEOs are being forced to change their PEO model, we will focus on re-tooling an existing PEO.

If you wanted to travel to the Bahamas, the first thing you'd have to ascertain is your current location and available resources. How would you get there if you didn't know where you were starting? For example, you'd have to plan your trip very differently if you were traveling from Miami and had a private jet at your disposal versus traveling from California and only had a pair of hiking boots and a canoe as resources. Therefore, the first step in re-tooling your PEO to survive in today's current market conditions is to do a thorough analysis of your current situation and resources available to you.

An assessment tool whereby an existing PEO can assess their current situation is the "**PEO Category Scorecard**". It may also be utilized to benchmark your PEOs performance year over year and measure your progress. In order to use this tool effectively, you need to agree on certain terminology, if only for taking this litmus test, so review the definitions and wheel charts in **EXHIBIT A** and complete the PEO Category Scorecard. (please turn to page 12 and complete the exercises)

PROSPECT PROFILE

Have you completed your Scorecard? Remember, if you read on now, it's like looking at a map, but not knowing your starting point. The PEO Category Scorecard is located in **EXHIBIT A** at the end of this article. Next we will approach the prospect profile, then finish up with sales selection model.

Once you have a clear picture of where you are at today, it's time to ask the 80/20 questions. Which 20% of your clients are causing you 80% of your challenges? Challenges such as heavy U/I, W/C, H/I or service utilization? Which 20% of your clients are delivering 80% of your profits? Isn't it time for Out with the Bad and In with the Good?

Out with the bad means taking a hard look at the clients who cost you both time and money. Don't think you have to cancel them, why not package your undesirable clients up and sell them? For example, few PEOs find full service branch operations profitable. If the 80/20 book of business is in a geographic location, put it on the auction block.

In with the good is the core concept of Prospect Profiling. Ask yourself, "What if all of my clients resembled my best client?" It's not impossible if you pursue the following steps:

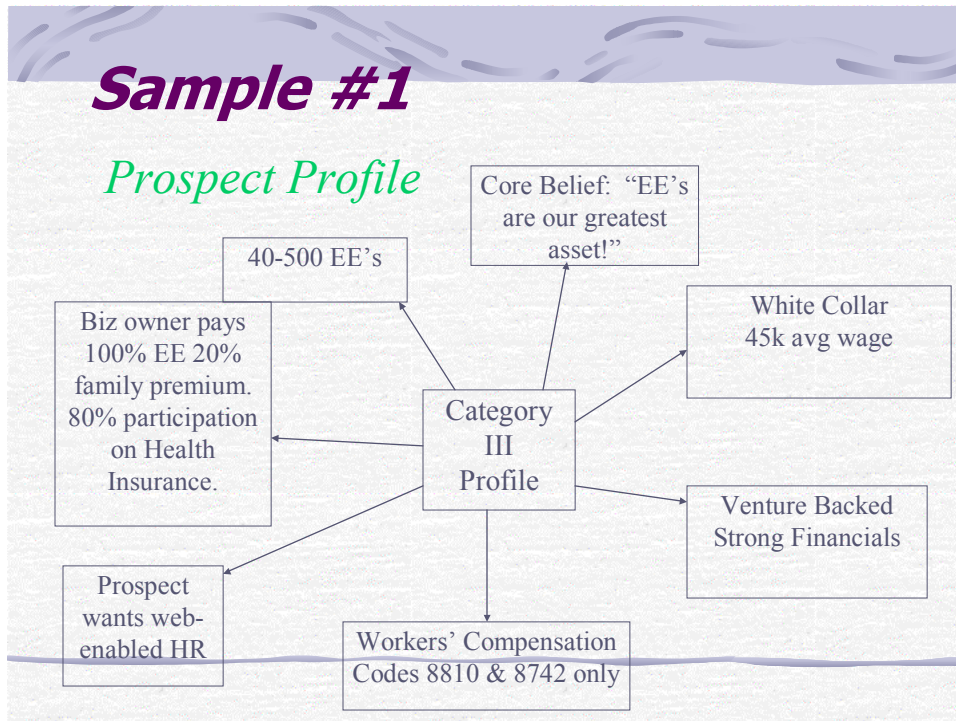
1. Determine what a good client looks like to your PEO.
2. Make sure you have the right vendor selection and service delivery model.
3. Hire the sales people that can effortlessly attract this Prospect Profile.
4. Change your compensation plan to reward sales people for attracting an **A list** client. More about this idea in the sales selection section.

The most profitable, stable PEOs today are the ones who everybody poked fun at during the middle and late 1990's. It resembles the tortoise and the hare fable. These PEOs are in the high Category II and Category III level of services delivered. Their average wage, admin fees and staff to service ratios are higher than the Census 2000 Results.

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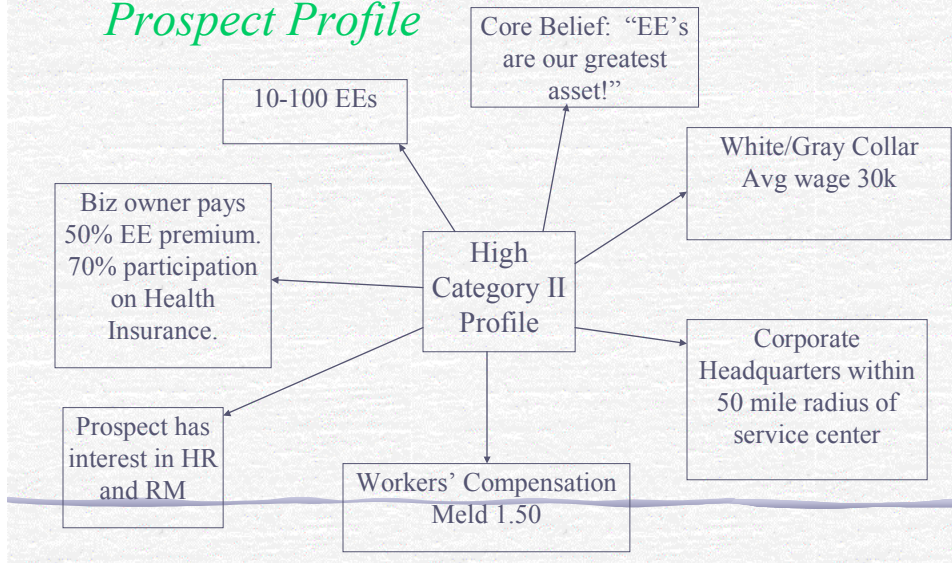
The surviving Category I and low/middle Category II PEOs are scrambling to upgrade their levels of HR delivery. This article is a roadmap to that end.

Here are three examples of a prospect profile:



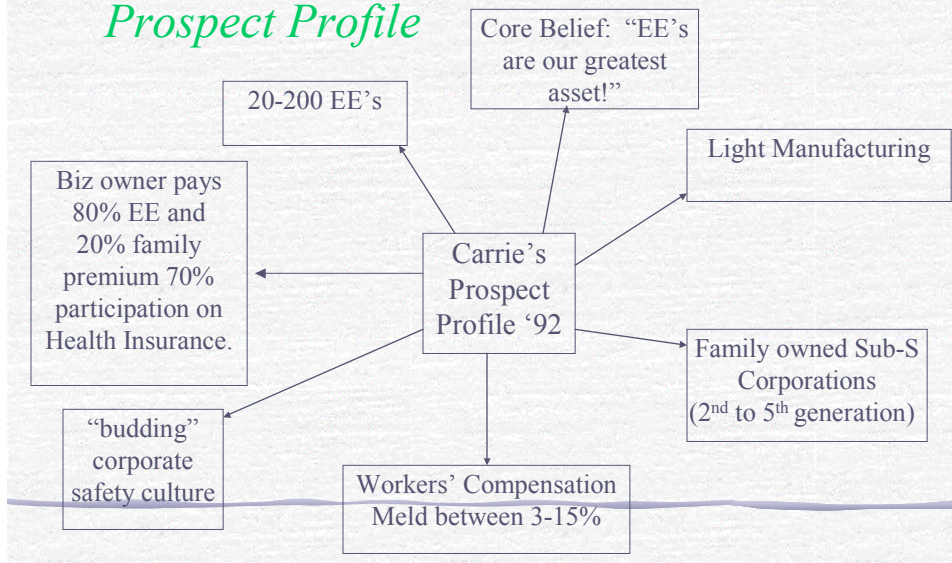
Sample #2

Prospect Profile



Sample #3

Prospect Profile



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As a PEO, you can have several different Prospect Profiles as long as they are synergistic. For example, how can your service staff handle a niche of heavy construction along with a niche of Dentist offices? That is the formula for a low and middle Category II PEO, trying to be all things to all people.

When you hire a sales person, make sure they have contacts in your Prospect Profile, ask them to specialize in that niche. It doesn't necessarily have to be an industry; it could be a geographic region or a growth phase of a business. Savvy PEOs deliver services outside the PEO box to their niche market.

Each sales person should have a specific Prospect Profile and write a business plan. This makes it easy on the marketing department because they are just managing the individual business plans. No more guessing on where and how to advertise. Their most difficult task would be to make sure that the tabletop display is not double booked.

SALES SELECTION-HOW TO HIRE TOP GUNS

The sales department is one of the nemeses to the PEO industry's growth. Outsiders to the industry coming into PEO have echoed this sentiment whether it is vendors, investors, or Wall Street. They are appalled by the quality of the sales professionals in the PEO industry.

In defense of the PEO sales representatives, they are assigned an impossible task. I once calculated all the degrees and professional designations that you'd have to acquire in order to truly be a professional PEO salesperson. If you started right out of high school you'd be 53 years old when you were ready to make your first call. So being a sales rep is tough and people ask me all the time, "How do you find good salespeople and what do you look for?" This is a real passion, something that I've spent 1,000's of hours researching because I believe success leaves clues. I've studied the top producers in the PEO industry and figured out what they have in common. There are four common characteristics.

In a research project that was conducted several years ago where I studied 15 of the PEO industries top producers. I did personal interviews and also had 4 top psychology-testing companies test these people as well. We all compared results and determined success leaves clues - what do these people have in common? I have subsequently tested these four characteristics in the field for the last six years and I have unbelievable certainty in telling you that the four characteristics that every top gun has in common is #1 that they were a former business owner. All PEO top guns were former business owners. As a disclaimer, there is one interesting combination that will suffice.

Now you might be thinking to yourself, "Well gosh that makes sense because then they know about business." No, that's not it because if they really knew about business they would be a current business owner, not a former business owner. The reasons that you want to hire someone who is a former business owner are the following:

If they have the drive and motivation and go out and incorporate and launch a business, then they probably have the drive and motivation, what it takes to succeed in PEO sales. Being in PEO sales is a very lonely business. You are out there every day trying to convince business owners that:

- They are out of compliance
- They've got to outsource the business of employment
- They're a walking HR nightmare
- They need to focus on their core business
- They must outsource the business of employment to you – a professional

You gather the loads of data to determine if they can qualify for your program. Now you've won your first battle and then you've got to go into your second battle. The second battle is going to your underwriting department and convincing them this prospect does qualify and meets all the underwriting criteria of your PEO. Which by the way has changed dramatically in the last 6 to 12 months. It's become much more difficult. So here's the PEO

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salesperson, having to do two separate sales jobs and it's very lonely. It can be very easy to get discouraged. You have to have a personal inner drive and personal motivation to make it in PEO sales.

The other reason why you want someone who is a former business owner is, an interesting fact and something that a lot of you aren't going to believe. **Most salespeople in the selling world are terrified of business owners.** A little test you can give your sales team. Don't administer the test if you're the PEO owner. Get one of your sales managers to ask them the following question, to close their eyes and notice if they're having butterflies in their stomach when they picture a business owner with 5 employees. If they picture a business owner with 10 employees and go up in increments of 5 and find out what their comfort level is. At what level do the butterflies set in?

What you will find with most of your salespeople, your mediocre and bottom producers, is that their butterfly level is 5 to 10. For your good producers their butterfly level is the 100 range. So the reason you want to hire former business owners is that you'll have a much better chance of them not being intimidated and terrified of business owners because they were one. If you've done something then it doesn't seem like such a big deal. Does that make sense?

The size of the business that they owned will predicate their career path in the PEO industry. If you hire a sales rep that was a former business owner and they grew their business to less than 5 employees they will most likely be happy to sell PEO forever. If they grew their business to 5 to 20 employees they will want to fast track into sales management right away. So if you don't have a sales management position open you might want to think again about hiring this person. If you hire a former business owner that grew their business to more than 20 employees you are hiring your next competitor. You're educating a budding PEO owner.

So if you find someone like this and you really want him or her onboard here's how you do it. You give them unbelievable production requirements and an earn-in equity position to your company. Three years from now when they're sitting on 70% of your book of business is not when you want to be negotiating with them about their sweat equity position in your company. You want to set it up in advance, make it tough and have them earn in the equity in your company. That can be very successful if you're in a position to give up equity in your firm.

Now for the combination scenario, which can equal being a former business owner. Remember, it is A + B. You've got to have **both** characteristics in order to equal characteristic #1. Characteristic **A** is that they grew up in a family owned business. Either their family owned the local town restaurant or their uncle owned a gas station, or they grew up and members of their family were business owners. So you can see how they may have inherited some of that motivation but the real key is that they're not afraid of business owners. To them, they're no big deal. They also have to have **B**. Requirement #B is that they have to prove to you that they have had experience calling on business owners. Not the office manager, not the HR director, not the purchasing agent, that they have physically sold to business owners. If you have A + B that's as good as characteristic #1.

Now characteristic #2 is that this potential PEO sales candidate has **contribution** very high on their list of values. This person is a volunteer nut especially in the areas of church and children. You'll be getting some interview questions on how to elicit this in just a little bit.

The 3rd characteristic of a PEO top gun is that they are networking/referral-generating fools. These people live and die by networking and generating referrals but the key is you've got to get them to prove it. They have to prove to you that they're members of networking organizations that have business owners not just other salespeople trading business cards. You've got to look at their production and figure out if they have at least 60% of their past sales, new sales production was based on referral generation. Keep in mind in the PEO business - **one referral equals 15 sales calls**. You know your own closing ratios, so how much does that improve your chances of closing the sale?

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As a disclaimer, there are a few people in the industry that are top guns who succeed by being what I would call “phone jockeys”. They live and breathe on the phone and they have figured out how to sell PEO on the phone versus in person, there is very little physical contact. One Top Gun bragged that he had a car, which was 4 years old and only had 36,000 miles on it. He has successfully set himself up as an expert with a couple of different franchise organizations. He flies in once a month to the corporate training program and does a presentation on how to be a business owner. How to be an employer and then offers PEO generically as an option. Of course whom are these people going to buy from, you know -the guy that taught them how to outsource their HR. So again that’s still networking and referral generating but he does all of his sales over the phone with a group sales presentation.

The 4th characteristic of all PEO top guns is a **compelling reason** and successful people in life have compelling reasons. A compelling reason is something that’s just in their spirit, something moves them beyond their comfort zone whether it be physical or they’ve met their comfort zone financially. That they do it because they’re compelled to, it’s not about the money, it’s not about the prestige.

All PEO top guns that I’ve met have the same compelling reasons that is that **they feel that their job and their duty is to rescue business owners**. If you think about it it’s really a melding of the other characteristics. Think about this - these top guns are former business owners. Once they’ve gone through the training and figured out what it really takes to be an employer they first do a couple of Hail Mary’s and cross themselves and say gosh thank God I wasn’t put in jail and they realize every rule and law that they broke and how lucky they were that they never got caught. Then they go out and call on business owners and see that they’re breaking the same rules and really feel a sense of urgency. This is coupled with their natural inclination to volunteer and to give, they’re givers not takers. When they put their volunteerism and their sense of contribution that they really feel like they need to share this with business owners, coupled with their networking skills and their referral generating skills and you’ve got someone with an unbelievable compelling reason.

So those are the 4 characteristics of a PEO top gun. Now what I’d like to share with you is how to elicit that in an interview. In the hiring process of a PEO sales rep I believe is really four-dimensional. So we’ll talk about the first dimension of hiring a salesperson, a PEO top gun is the initial interview. This should take about 30 minutes and the following is a suggestion of 8 questions, which by the way these questions are EEOC approved so you don’t have to worry about it. These are questions, which will help you elicit in an initial interview if this person meets a top gun criteria. As you read the questions see if you can hear how they elicit the 4 characteristics.

Question #1: **Describe your technical knowledge of running a business.**

Question #2: **Describe any experience or knowledge you have owning or operating a business.** (Now keep in mind here you want to elicit their career track. It doesn’t matter, I mean there’s been great PEO sales reps that ran a personal training business, construction, a lemonade stand when they were a kid, a paper route, a TPA. They come from all walks of life. Everybody calls me and says “What business do I want to hire them from?” It doesn’t matter what they used to sell or what kind of business they used to own. What matters is that they owned one but you want to make sure on question #2 to elicit their career track and find out how big they grew it. Remember the under 5, 5 to 20, and over 20 will tell you their career track in PEO.)

Question #3: **Describe any experience you’ve had calling on business owners as customers.** (You also want to elicit if they were involved in a family owned business if you didn’t get anywhere on question #1 and #2. If they intrigue you, this is where you want to elicit if they grew up in a family owned business and if they called on business owners. If you don’t get anywhere on questions #1, #2 and #3 I would wrap up the interview. But if you find that they’ve got some similar business background move on to #4.)

Question #4: **How comfortable do you feel when you have to impose your viewpoint upon others and explain?** (What you want to look for here, you know PEO is a paradigm shift and the ego that got most small business owners to where they were is the same ego that will keep them from shifting their paradigm and understanding that they can outsource their HR department through the concept of co-employment.”

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Question #5: **Describe any formal experience or courses or training you've had in networking and generating referrals, specifically from owner and managers of small to mid-size businesses.**

Question #6: **Describe your community involvement or volunteer work in the past three years.**

Question #7: **If you were selling me on buying (blank) from you, what would you say if I said, "I'd like to think about it for a while." What would you say if I said, "We really can't afford it right now." (Now if they're PEO experienced, you can put PEO in there, but when I say fill in the blank fill it in with something that they're comfortable with, one of their former jobs, products or services.)**

Question #8: **Sell me on yourself for the next two or three minutes. In other words, why would I want to hire you?** (This is interesting because it will show you their sagacity. Someone once told me that all successful salespeople have three characteristics. #1 is voracity - truthful, #2 tenacity - they never give up, and #3 is sagacity - that is the ability to think on your feet. Every PEO top gun will tell you that no two presentations or first calls are the same. You have to have sagacity, you've got to be able to question them and find out about their business and find out about what their needs are and go in that direction. I mean canned presentations don't work - it's got to be a questioning process similar to spin selling. Which, by the way, remember spin selling is not really a technique or skill. Spin selling is a modeling project where someone modeled top selling people that sold intangible, high-end, long-term products or services.

So that's the initial interview. You want to elicit whether they have the 4 characteristics. If they do then it's time to spend some money and do some personality testing because my belief and my research has found that the results of the personality testing predicate what type of PEO they're more pre-disposed for. Are they more pre-disposed to sell Category 1, Category 2 or Category 3 PEO's? You can do this with a personality test. My favorite is (and you can use whatever you want) the CPP, the comprehensive personality profile.

If you have a big enough group, you can test your successful people with any decent personality system and just try to duplicate your success. Success leaves clues, find those people you want to clone and clone them. Now if they do have the personality that fits in with your team and that pre-disposes them to sell your type of PEO and I'll give you an example on that. You know their attention to detail. If you have got a Category III PEO and a very involved under writing process and a very involved HR delivery system and you're dealing with bigger client you have got to find someone that their personality is very detail-oriented. They're like the Dr. Seuss book about the t-crosser and i-dotter from Vaneise.

If you're selling a Category I very low service, very cheap product - there's nothing wrong with that there's a lot of prospects out there and that's what they want to buy, then you've got to find someone that has no attention to detail. They're very intuitive they just fly by the seat of their pants because you've got to put on many clients quickly.

Now after you've determined if their personality fits, let's go to the final interview. The final interview questions are the third dimension. These are the questions that tell you their values, their discipline and their work ethics. The kind of things that you don't really find out till they've been on for 6 months. There are some really talented people that just don't have any values, they don't have self-discipline. Their work ethic is horrible, they're lazy, and they've been given everything because they have some natural talent everything's been easy in their life. These people don't last because selling PEO is hard work. I have seen the PEO industry bring top salespeople from other industries to their knees. Let's go through the 3rd dimension - value, discipline and work ethics. Here are 14 questions that you might want to ask in the final interview process.

Question #1: **Who do you know in this industry or a similar industry who is successful?** (You're looking for a role model.)

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- Question #2: **Why are you interested in this profession as a career?** (Look for a mission or purpose.)
- Question #3: **If we don't hire you, where would you most likely end up working and what type of work would you be doing?** (Best Answer: "Working for your competitors.")
- Question #4: **What have you completed in your life that required great self-discipline and persistence?**
- Question #5: **What hobbies do you participate in that require self-discipline and persistence and how often?**
- Question #6: **What time management system such as the Franklin Planner or Day-timer do you use on a daily basis? What experience have you had with ACT or other contact management software?**
- Question #7: **What method do you use to prioritize your daily activities?** (Look for a formal system.)
- Question #8: **When we call _____ (blank) _____, your previous employer, what most likely will she or he say that are your greatest strengths?** (Look for words like reliable, self-disciplined, hard-worker.)
- Question #9: **What most likely will she or he say are your weaknesses or "improvement opportunities?"**
- Question #10: **If we hired you, would there be any reason why you wouldn't be willing to commit to working 12-hour days for 3 to 5 days per week for the first year or two?**
- Question #11: **If you were on trial for "job hopping," what would be your evidence against the charges?**
- Question #12: **When we conduct your background checks (Credit/Driving/Criminal), what will we most likely find?** (Look for hesitations, uneasiness, body language, and excuses.)
- Question #13: **What will _____ (blank) _____, your previous employer, tell us when we ask him or her about your work reliability, in others words, how many times you were late or absent from work?**
- Question #14: **When we ask him or her if you would be re-hirable without conditions, what will they say?**

These are fourteen great final interview questions that will give you an idea as to their values, discipline and work ethics. I have to tell you if they don't show well in this, save yourself a lot of time and money.

The fourth and final dimension of the hiring process is a reputable IQ test. Bottom line, it takes a certain IQ level to become successful with a high Category II or Category III PEO.

The process doesn't end there, you have to compensate these people, train them and then continue to support them. Remember the prospect profile? It is important to reward your sales people for bringing on clients that are **A** level. For example, if you currently provide a 25% commission on the administrative fee, you might want to consider a 3-tier program. An **A** prospect would pay 35%, a **B** prospect 15% and **C** prospects only 5% 1st year commission.

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To recap, the steps to success are:

- **Profile the clients you want to attract**
- **Hire the sales people that can bring you these clients**
- **Determine the services they want delivered**
- **Focus on services delivered versus services offered**

The first important step before hiring top guns is to make sure that your PEO operations team is in order. Because the absolute worst thing that you can do is hire top guns, have them bring on 1,000's of new worksite employees and have your operations blow up. It implodes because your service delivery is not scalable. I gave given you the secrets to hiring PEO top guns and I beg you and implore you to take a look at your operations and your workflow. Is it scalable? Are you nearing one of the "PEO Black Hole" benchmarks? (2,000, 5,000, 10,000 WSE) Beware, if you hire top guns they're going to bring on the business.

Good Luck! Please direct any follow up questions to peonetwork@aol.com.

EXHIBIT A

Services Offered vs. Services Utilized

With all of the brochures looking similar and the sales pitches sounding the same, how can one PEO charge 1% administrative fees, while the other PEO charges 8%? Why does one PEO have a staff to service ratio of 300:1, and the other is at 75:1? The answer is services delivered versus services offered. What would happen tomorrow if 100% of your worksite employees called and wanted to enroll in 401(k)? Wouldn't you agree that you might have to hire more internal employees and that your G&A would increase? For example, if a PEO offers 401(k) but only has 3% participation, is it really a service utilized or is it just a service offered?

A famous philosopher once pondered over a tree falling in the forest and nobody hearing the tree fall. We have a similar quandary in PEO: if you offer a service and the worksite employees don't participate, is it really a service that you deliver?

Discovering that your competitor delivers health insurance to 20% of their worksite employees and your PEO is delivering the same service to 60% of your worksite employees is not cause to run around shouting that your PEO is better. It will however, help you understand why your competition only charges 3% administrative fees, and why your PEO has to charge 3.5% to cover the additional internal staff necessary. It will also assist your marketing efforts when you're competing for business, and you feel the prospect better fits your profile. You can also now explain to this business owner the long-term value of doing business with a high Category II PEO, versus a mid-Category I PEO; you can show them exactly how they are a Category II prospect and the long-term latent exposure of signing with a Category I PEO.

Taking this test will give you a tangible measurement of your services delivered versus services offered. This snapshot is a reflection of the quantity of services the management team can compile, the level of services your sales force can sell, the quantity of services your clients want, and the value of service that your vendors and internal staff can deliver. If priced properly, there is a profit at the end of this equation. **Profit is an indication of how effectively you will be able to operate in the future.**

DEFINITION OF A PEO

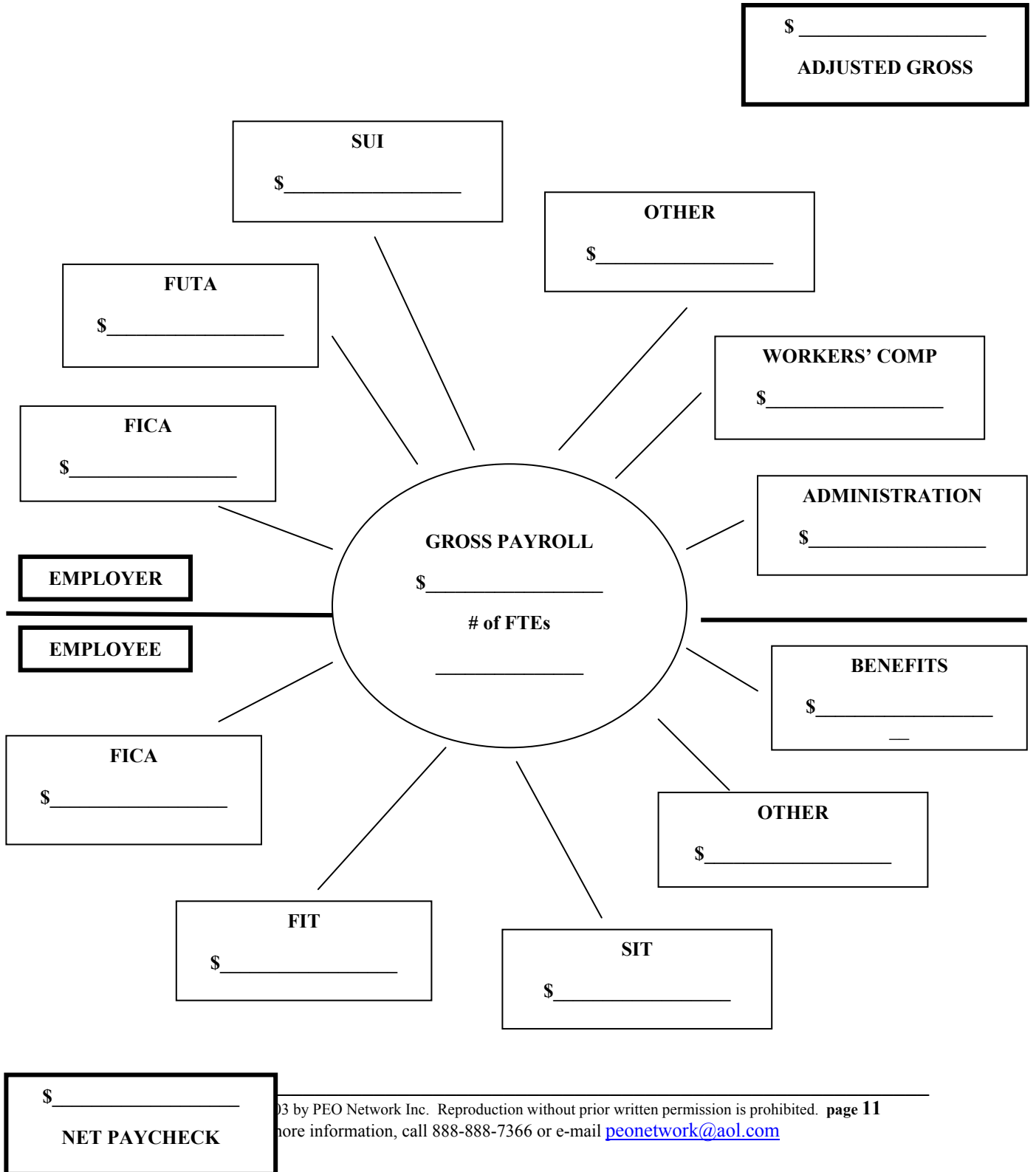
A business owner is an employer by default. The government has deemed American business owners as non-compensated, highly penalized tax collectors, providers of workers' compensation and health insurance, and the redeemer of social ills. A PEO can be utilized to outsource a significant portion of the administrative burden of being an employer. The PEO can process payroll, handle the payroll tax administration, and provide workers' compensation and employee benefits under the PEOs FEIN. PEOs can also assist in labor law compliance, risk management, EAP, hiring, firing, and other HR functions. Theoretically, PEO is a vendor consolidation and outsourcing management tool, which is facilitated through a co-employment agreement.

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SAMPLE CATEGORIES

Using the presupposition that a PEO is a reflection of its clients, you'll notice some distinct trends as you peruse the following "sample" wheels. The category I PEO attracts a blue collar, low margin, and high volume business owner. Conversely, a category III PEO attracts a white collar, high margin, and low volume business owner. The lifespan of these two different business owners are in direct reflection of the lifespan of the PEOs that serve them. A Category II PEO tries to be all things to all clients. .

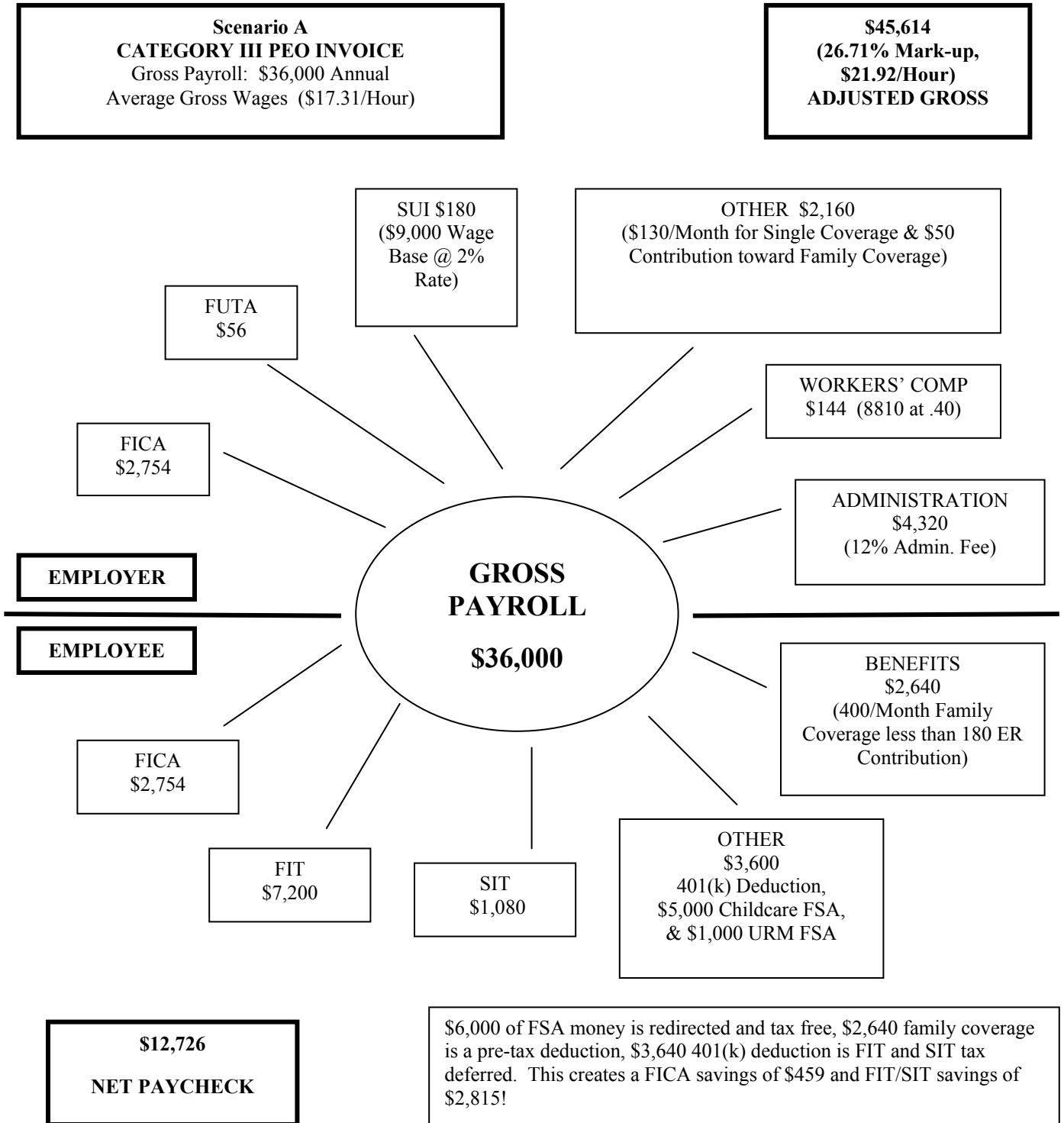
YOUR PEOs WHEEL OF EMPLOYMENT



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CATEGORY III:

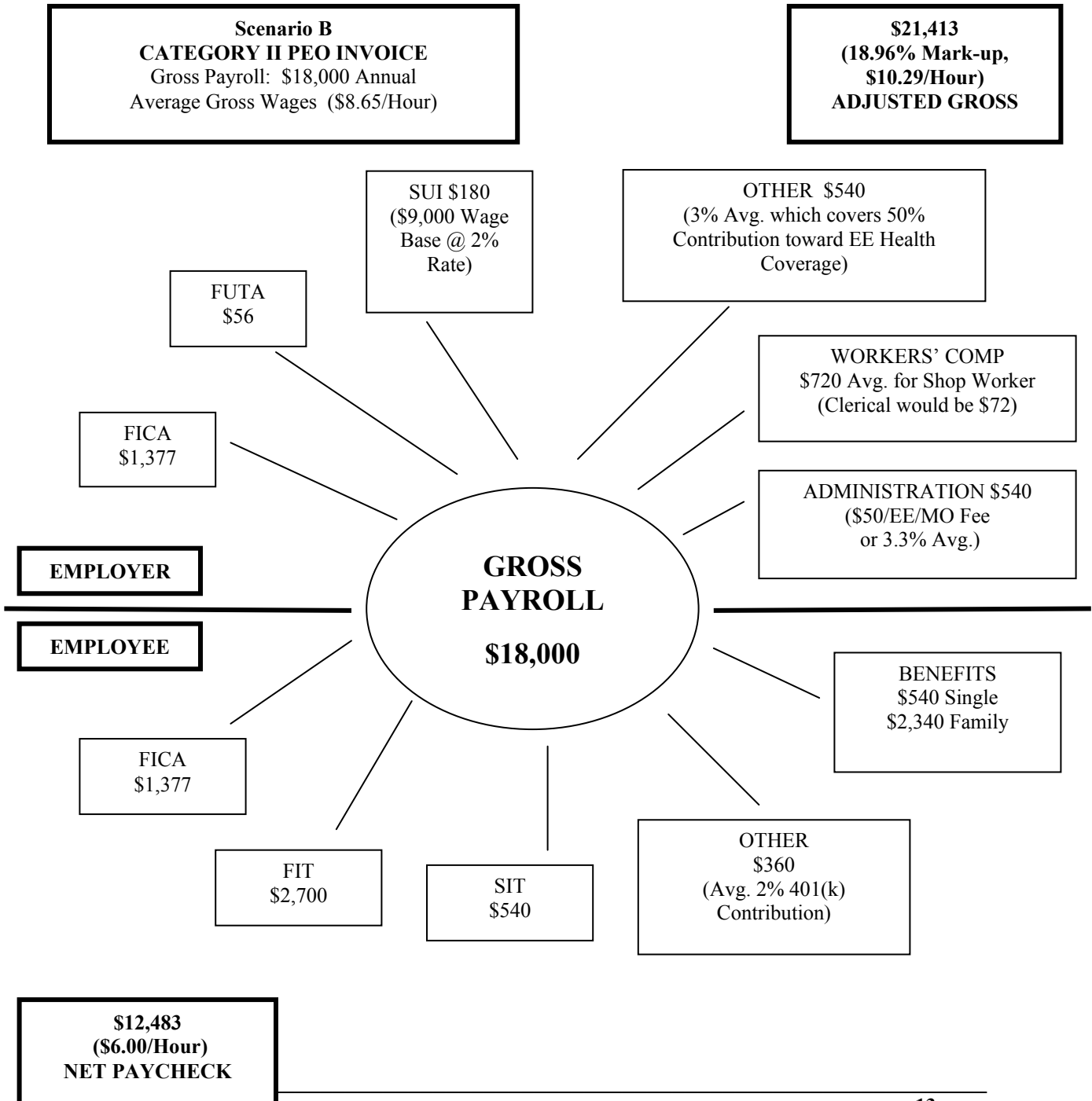
This is a full-service PEO that provides payroll, payroll tax administration, workers' compensation, mandatory employee benefits, an array of ancillary employee benefits ("golden handcuffs"), preventative risk management, quality loss control, and a full-service HR department.



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CATEGORY II:

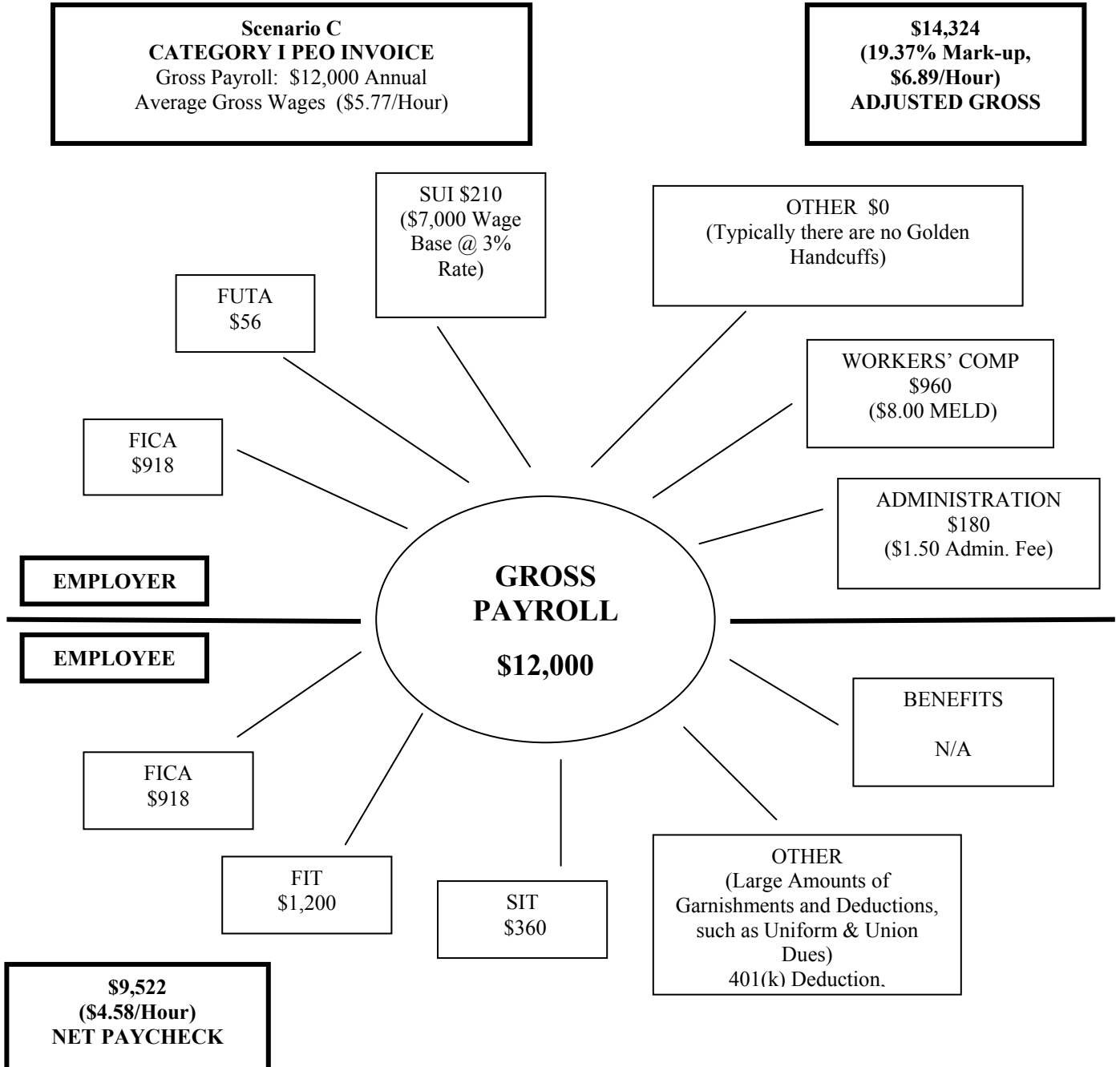
This is a PEO that provides payroll, payroll tax administration, workers' compensation, optional employee benefits, a limited array of ancillary employee benefits, reactive risk management, limited loss control, and reactive HR services. Category II's are in the exception business. The majority of PEOs could be classified in the Category II range; some are low IIs, and some are very high IIs. The main difference between a Category II and III PEO is the reactive versus preventative nature of the RM & HR departments, as well as the mandatory participation requirements on health insurance & 401(k).



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CATEGORY I:

This is a low-service PEO that provides payroll, payroll tax administration, workers' compensation, optional health insurance, reactive risk management, and minimal HR services. The PEOs in this category basically provide payrolling services, which the temporary staffing industry has been providing for many years, long before PEO and even "employee leasing" became popular. Payrolling is defined as providing payroll, payroll tax administration, and workers' compensation to clients. The definition of payrolling, agreed upon by NAPEO and NATSS, is published in the NAPEO position papers. This model was very popular in the middle and late 1990s, but a hard P&C market has caused most Category I PEOs to go out of business. (ESOL, Unified, AMS)



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TAKING THE TEST

After completing in-depth assessments on more than 20 PEOs, peripheral assessments on at least 100 PEOs, and testing theories on the statistics of the publicly traded companies, PEO Network has created the “PEO Scorecard.”

Due to the vast differences and nuances of individual PEOs, this scorecard is a scaled-down version taken from the in-depth assessment process. This particular version distills these nuances into the common, measurable characteristics that most PEOs share. As each section of the test is described in detail, you will be given additional suggestions of how to further assess your own PEO. These exercises, though valuable, are outside the scope of this article. They are called “advanced assessment.”

Instead of guessing your PEOs answers to the “PEO Scorecard,” dedicate several days to preparing for it. If you keep doing what you’ve always done, you’ll keep getting what you already have. Haven’t you been guessing long enough?

The most effective strategy is to take the test for the first time utilizing information from the prior calendar year. Because you can then cross reference your numbers with invoices, general ledger, and tax forms, this will give you the most accurate “Wheel of Employment”. This approach will also help you eliminate any seasonal anomalies, such as high state unemployment costs due to bundled billing while testing in the first quarter.

PAYROLL / PRICING MODEL

The first and most vital step is to calculate your number of FTEs (full-time employees), which has been grossly misunderstood and under-utilized. A mid-Category I PEO claimed to have 18,000 leased employees and generated 62,000 W-2s but its FTE calculates 12,000. Which number is correct? All of the statistics are correct and relevant, but the FTE calculation is the most accurate assessment tool. Unfortunately, many PEO executives tout the number of annual W-2s as the status of their PEO, especially at industry functions and when profiled in the press.

The most accurate method by which to elicit your FTEs is to calculate the number of hours worked annually and to then divide that figure by 2,080 (40 hours per week x 52 weeks). Effective short cuts include a tally of all full-time employees and only adding up the part-time hours that are divided by 2,080. An ineffective short cut is to use a current EE count and match it against last year’s figures. Enter your FTE calculation in line 1 of the “Section A: Payroll / Pricing Model” table scorecard on the following page, as well as in the gross payroll circle in “Your PEOs Wheel of Employment” that is on page 2. Next, list your number of prior year W-2s issued, excluding internal employees. Then determine the amount of annual gross payroll from client invoices. This figure plus internal employee wages should match your 940, 941, and W-3 recap figures. Beware here, though: Discrepancies in these calculations can usually be explained by section 125 cafeteria plan usage. For example, an EE utilizing a 125 plan could have a salary of \$50,000 with premium deductions of \$4,000, URM FSA deduction of \$3,000, and child/dependent care FSA deduction of \$5,000. This would result in a W-2 reporting of “taxable” wages of \$38,000 but an invoice of gross wages to the client of \$50,000.

Finally, tally the amounts you charged to clients for state unemployment, workers’ compensation, and administrative charges from the invoices. Then plug the numbers into the “Wheel of Employment.” Divide your invoiced amount by the number of FTEs and compare your averages to the three scenarios listed in the following table. Determine which pricing model your PEO most closely resembles and log the results in “Your PEOs Wheel of Employment.”

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Utilizing your “Wheel of Employment Score” in Section A, calculate your “Worksite Employee Turnover Score” by dividing the number of W-2s into the FTEs. The “Client Attrition Score” is a calculation of your net client count at year-end. (Divide your ending # of clients by the beginning # plus New clients $200 / (220 + 30) = 80\%$ Subtract that rate from 100 $(100-80) = 20\%$ Divide 100 by the result $(100 / 20) = 5\text{yrs}$) And finally, the “Staff-to-Service Ratio Score” is the number of internal staff (excluding salespeople) divided by the number of FTEs.

Here is an interesting chart that will tell you how long your clients are sticking with you:

Retention	Years with Client
95%	20
90%	10
85%	7
80%	5
75%	4
70%	3

For advanced assessment, copy the blank “Wheel of Employment” before you get started; call this wheel “Cost of Doing Business.” Calculate the above figures using your internal cost. For example, gather all of the quarterly state unemployment reports and compare your cost (excluding internal staff charges) to the amount you invoiced to clients. You should be treating your internal staff as a client and creating an invoice each pay period. If so, it will be easier to extract this data and transfer the total calendar year invoices to the “Cost of Doing Business” wheel, in the administrative column. You might even want to consider segregating departments within the invoice; for example, you can take the tally of the risk management department and add it to the workers’ compensation spoke of the wheel.

Remember the lag time associated with your internal costs, and to compare apples to apples. For instance, when calculating workers’ compensation, remember to include general ledger costs that apply to the calendar dates of coverage versus the policy dates of coverage. That includes aggregating deposit amounts and including audits and especially accounting for IBNR, deductibles, and reserves.

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Comparing your “invoice wheel” to your “cost wheel” will give you a clear picture of your profitability and where your profits are generated. Due to the tremendous amount of pass-through revenue, this snapshot is a more effective management tool than traditional financials. It will also show you how your PEO derives its profits.

SECTION A: PAYROLL / PRICING MODEL PEO CATEGORY SCORECARD

NOTE: It is best to utilize the prior calendar year because you can cross-reference the information against tax returns & GL

Number of FTEs (Add up part-time EEs into 40-hour increments.)			Client Attrition Score:	
Number of W-2s issued			Less than 5% (3-year avg.)	100 points
Annual gross payroll from invoices			Less than 5% (current year)	80 points
Annual state unemployment billed from invoices			6 - 10% (3-year avg.)	70 points
Annual workers' compensation from invoices			6 - 10% (current year)	50 points
Annual administration fees from invoices			11 - 20%	30 points
Plug in your PEOs numbers and determine which scenario you most closely match:			21 - 40%	20 points
Scenario A		100 points	More than 40%	0 points
Scenario B		50 points		
Scenario C		0 points		
			Staff-to-Service Ratio Score (excluding salespeople):	
			More than 500:1	0 points
			300:1 ≠ 499:1	20 points
			200:1 ≠ 299:1	40 points
Annual Worksite Employee Turnover Score:			100:1 ≠ 199:1	60 points
More than 100%		0 points	Less than 100:1	70 points
75 - 99%		10 points	Less than 100:1 (at least 400:1 working HR person)	80 points
40 - 74%		40 points	Less than 75:1 (at least 400:1 working HR person)	100 points
20 - 39%		50 points	Increased staff-to-service ratio by leveraging technology (i.e. self-service Web appl.)	50 points
Less than 20%		100 points		
			TOTAL SCORE	TOTAL POINTS

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BENEFITS

You can track one of the most easily discernible differences among PEOs by examining their health insurance participation rates. When preparing for this portion of the scorecard on the following page, you must utilize the number of worksite employees participating in your plan, not the dependents. For example, when you ask your benefits department for these statistics, they will most likely include spouses and children. You also need to track the number of clients that are participating in your plan.

Category I PEOs offer health insurance, but have less than 20% participation, and most clients don't offer health insurance as an option for the worksite employees. Category II PEOs offer health insurance and have between 21% and 70% employee participation, and approximately 50% client participation. Health insurance is a big selling point for Category II PEOs. If the coverage is not strong in certain geographic areas, then the clients will keep their own policies and the PEO will administer the plan. Many great articles have been written about the dangers of this common practice.

Category III PEOs are clearly defined by their 100% client participation and at least 75% of eligible worksite employee participation. Owners of Category III PEOs take on much more of the liabilities of being a co-employer than the other categories, and they realize the importance of the PEO both maintaining the policy as well as attracting clients that contribute to the benefits package.

For advanced assessment, complete a survey of the clients that are not participating on your health insurance program to determine if they offer any coverage at all. Employees that do not have health insurance have a propensity to file fraudulent workers' compensation claims to cover injuries not related to their job. This is the same as providing 24-hour coverage but only collecting a premium for 8 hours. It places a higher burden on your experience modification, which eventually affects your pricing model.

SECTION B: BENEFITS PEO CATEGORY SCORECARD

NOTE: It is best to utilize the prior calendar year because you can cross-reference the information against tax returns & GL

Health Insurance Score:			Golden Handcuff Score (Only apply points if you have more than 10% participation in the benefit offered.):		
75 - 100% EE participation (Clients must utilize PEOs plan)	100 points		None offered		0 points
75 - 100% EE participation (Clients are allowed to keep their existing plan)	70 points		Dental		10 points
50 - 74% EE participation	60 points		Vision		10 points
40 - 49% EE participation	50 points		STD		10 points
20 - 39% EE participation	30 points		LTD (group)		10 points
10 - 19% EE participation	20 points		LTD (individual)		15 points
0 - 9% EE participation	10 points		Term life		10 points
			UL		15 points
Section 125 Plan Score:			Critical care		10 points
None Offered	0 points		Cancer policies		10 points
Deducting premiums pre-tax	-25 points		Auto insurance		15 points

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with no plan administrator and/or deducting premiums for client coverage.					
POP (premium pass through only)		25 points		Homeowners insurance	15 points
URM FSA (at least 1K goal)		50 points		Credit union	10 points
CC FSA		50 points			
Less than 20% participation in URM FSAs		-25 points		TOTAL SCORE	TOTAL POINTS
Less than 20% participation in CC FSA		-25 points			
401(k) Plan Score:					
None Offered		0 points			
Less than 10% of eligible EE participation		10 points			
11 - 49% of eligible EE participation		25 points			
50 - 75% of eligible EE participation		75 points			
More than 75% participation		100 points			

WORKERS' COMPENSATION

This section of the scorecard is difficult to pinpoint because of the varied types of policies available to PEOs. This section is also inclusive of risk management, claims management, and loss control. The two biggest barometers between the categories is the preventative versus reactive nature of this department as well as the average meld, which signifies the risk factors of the job codes. For the purposes of this scorecard, we will focus on the tangible meld and the staff-to-service ratio of the risk management department.

For advanced assessment, a sound actuarial reason supports the pricing of different job functions. For example, common sense would dictate that it makes sense to charge 40 cents per \$100 of wages for a clerical worker and \$15 per \$100 of wages for a truck driver. A truck driver is more likely to become injured on the job. Most PEOs only study the amount they are charging to clients versus the amount they are paying to the workers' compensation carrier. An advanced assessment exercise is to calculate your true cost of workers' compensation by including your internal costs, latent exposure, properly accounting for reserves, and factoring IBNR potential claims.

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SECTION C: WORKERS' COMPENSATION PEO CATEGORY SCORECARD

NOTE: It is best to utilize the prior calendar year because you can cross-reference the information against tax returns and GL.

Invoice Meld Score (total WC premium invoice divided by total gross payroll):			Risk Management Program Score: <i>Which profile best describes your PEO?</i>		
.20 - 1.00 meld		100 points	.20 - 2.0 meld with workers' comp staff-to-service ratios of 2,000:1		100 points
1.01 - 3.00 meld		75 points	Of more than 2,000:1		80 points
3.01 - 5.00 meld		50 points	2.0 - 4.0 meld with workers' comp staff-to-service ratios of 1,000:1		70 points
5.01 - 8.00 meld		40 points	Of more than 1,000:1		50 points
8.01 - 14.00 meld		25 points	4.0 - 8.0 meld with workers' comp staff-to-service ratios of 750:1		40 points
Over 14.00 meld		10 points	Of more than 750:1		20 points
			Greater than 8.0 meld with workers' comp staff-to-service ratios of 500:1		30 points
Policy Score:			Of more than 500:1		10 points
Self-insured		10 points	Outsourced loss control		-10 points
Deductible program (\$100,000 deductible and higher)		20 points	Outsourced claims management		-10 points
Composite rated program		30 points			
Deductible program (less than \$100,000 but greater than \$5,000)		30 points	TOTAL SCORE		*Add bonus points _____
Deductible program (less than \$5,000 deductible per claim)		50 points			
Fully insured		75 points			
Fronted offshore captive		10 points*			

HUMAN RESOURCES

The most misunderstood terminology in the PEO industry is HR, which stands for human resources. We claim to be an off-site HR department but if you ask 10 different people in your organization for their definition of HR, you will get 10 different answers. If we can't agree, then how are we supposed to make our prospects, clients, vendors, and legislators understand whom we are and what we do?

Most PEO marketing brochures claim, or at least insinuate that the PEO will handle the labor law compliance. Most PEO client service agreements clearly place the burden back on the client. Reality lies somewhere in the middle. Typically, if a great client has a sex harassment or other labor law claim and takes the advice of the PEO, then the PEO will pay for legal and settlement costs. However, if a troublesome client does not heed the advice of the PEO, the client will go to the cleaners.

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When taking your HR test on the following page, don't give yourself any points if you only audit the client's current employee handbook versus providing a customized PEO handbook. Don't give yourself bonus points if your EPLI coverage is only for the internal PEO staff. Just placing an ad for a client does not count as hiring assistance. Category III PEOs handle the entire process for clients, except for the decision on the final few candidates. They also physically complete the paperwork on all new hires, not just the original charter group enrolled at the orientation. Finally, when counting HR staff, only count those internal employees that actually go out and visit client locations and make at least monthly phone calls to remote clients.

SECTION D: HUMAN RESOURCES PEO CATEGORY SCORECARD

NOTE: It is best to utilize the prior calendar year because you can cross-reference the information against tax returns and GL

Compliance Score:			Hiring / Firing Score:		
Client handbook at 100% of client locations		50 points	Assist in 100% of EE recruiting		50 points
Client handbook at more than 50% of client locations		25 points	Assist in 50% of EE recruiting		25 points
Client handbook at more than 10% of client locations		10 points	Assist in 10% of EE recruiting		10 points
Custom EE handbook at 100% of client locations		50 points	Assist in 100% of EE termination		50 points
Custom EE handbook at more than 50% of client locations		25 points	Assist in 50% of EE termination		25 points
Custom EE handbook at more than 10% of client locations		10 points	Assist in 10% of EE termination		10 points
Delivery of exempt vs. non-exempt audit to 100% of clients		50 points	Complete exit interviews for clients		10 points
Delivery of exempt vs. non-exempt audit to 50% of clients		25 points			
Delivery of exempt vs. non-exempt audit to 10% of clients		10 points			
			Staff-to-Service Ratio Score:		
Follow-through on audit		10 points*	No HR professionals on internal staff		-20 points
EPLI coverage for all clients		50 points*	More than 2,000:1 HR staff		10 points
			Between 1,000:1 and 2,000:1 HR staff		25 points
			Between 500:1 and 1,000:1 HR staff		50 points
HR training provided to clients with more than 50% client participation		50 points	Less than 500:1 HR staff		75 points
HR training provided to clients with less than 50% client participation		25 points			
No HR training provided to clients		-10 points	TOTAL SCORE		*Add bonus points _____

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CALCULATE YOUR PEOs SCORE

Compare your grand total score to the bar graph at the bottom of your scorecard and determine your PEO category. Don't be disappointed if you are not a Category III PEO; this is rare. Like the famous football coach Vince Lombardi once said, "They may not be in a class all by themselves, but the class they're in, it sure doesn't take long to call roll."

Again, the purpose of the "PEO Category Scorecard" is to provide a way to measure services delivered, not to prove that one PEO is better than another. It just proves that each PEO is different and also gives a more accurate measure of a PEOs client base. Therefore, if you want to change your PEOs score, you are first going to have to change its client profile, and then upgrade the sales force.

Transfer your total points from each section to this chart to determine your category.

Section A: Payroll / Pricing Model			Section C: Workers' Compensation		
Wheel of Employment		total points	Invoice Meld		total points
Worksite EE Turnover		total points	Policy		total points
Client Attrition		total points	Risk Management		total points
Staff-to-Service Ratio		total points	SECTION C		TOTAL POINTS
SECTION A		TOTAL POINTS			
Section B: Benefits			Section D: Human Resources		
Health Insurance		total points	Compliance		total points
Section 125		total points	Hiring / Firing		total points
401(k)		total points	Training		total points
Golden Handcuffs		total points	Staff-to-Service Ratio		total points
SECTION B		TOTAL POINTS	SECTION D		TOTAL POINTS
			GRAND TOTAL (Sections A - D)		GRAND TOTAL POINTS
Category I PEO 0 - 500 points		Category II PEO 501 - 1,199 points		Category III PEO 1,200 - 1,635 (max. points)	

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PEO SALES TRENDS FOR 2002

What's HOT

What's NOT

Three top trends are emerging for 2002; selling value versus a price savings, selling to larger clients and selling through networking. As the economy gets back on course, many PEO sales people are listening to the wake up call of the '01 recession, hard P&C market and 9-11 tragedy.

If you study the stats of the 10 largest PEOs over the last 4 years ('97-'00) you will notice a 112% growth in revenue but only a 36% growth in the number of worksite employee's covered. This proves a trend that has been happening since 1999, PEOs are attracting a higher wage white/gray-collar worksite employee. When the statistics for 2001 and 2002 become available, the averages will be even higher. The PEOs that sold to high-risk, low wage blue-collar clients are disappearing and so are their sales people. A few of these "order takers" have evolved into selling value added HR, most have moved on to other industries.

Selling Value Versus Price

So how are PEO sales people able to sell value versus price? Are business owners ready to listen, are PEOs getting better at delivering HR or both? Assuredly, the industry professionals who have been writing and training on the subject for the last five years would like to take some credit. But in reality it is due to the convergence of several outside factors.

In the boom years of 1995-1999 a huge influx of sales people were brought into the PEO industry. It takes about 3 years for a PEO sales person to **get it**. It takes that long to truly understand what being an employer is really about, to appreciate the net present value of a client and get that if you sell on price then you'll lose on price. This influx of sales people have been culled & the cream has risen to the top. The current crop of experienced sales people has matured. This has coincided with the hard P&C market that has increased pricing, challenges with health insurance and a sluggish economy. Selling value means selling HR services delivered, it means **understanding the value of the business of employment**.

Selling to Larger Clients

These established sales people have also figured out that it takes the same amount of effort to close and enroll a 5-person group as a 35-person group. Which leads us to the next trend for 2002 – selling to larger clients.

The national average is 12 worksite employees per client; this trend will head to the low 20's nationally and is already heading to the 40-worksite employees per client range for some PEOs. The average annual wage for these clients is also on the rise, with a national average around \$22,000, some PEOs are averaging around \$35,000-average annual wages. Again this is due to the convergence of several factors. These factors include a more experienced sales force that also has to deal with stricter underwriting guidelines.

Networking

So how are they attracting these larger clients? The top trend in 2002 is through many forms of networking. Some of the fastest growing PEOs are utilizing insurance agencies for marketing, networking and some direct sales. Savvy PEO Top Guns are aligning with CPAs & labor law firms. There was a big trend in 2001 for PEOs to align with banks, but that model has yet to become successful. An emerging trend for 2002 will be trade shows. Many prospects have limited travel to just tradeshow, so that is the place to network with many prospects.

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Many mistakes were made and valuable lesson were learned in the late 1990's. The three top trends that fell from grace are job-hopping, churning clients and telemarketing. These trends faded because they simply don't work and have cost millions of dollars.

Job-Hopping

In the flurry of the late 90's, many PEO sales people were lured by the promises of a headhunter and switched PEOs only to find out that the grass isn't always greener on the other side. Some even switched a second and third time before they figured it out.

PEOs are in the headache business, the Murphy's Law Business – what ever can go wrong, will! There is no perfect PEO, think about it, is there a perfect HR department in any traditional business? As sales people, you are talking about outsourcing the business owners' headaches, not solving them. They are simply transferred to the PEO.

A business owner is an employer by default. As long as the government deems the American business owner as the non-compensated, highly penalized tax collector, provider of Workers' Compensation and Health Insurance plus the redeemer of all social ills – there will be a need for managing the business of employment. The seasoned PEO sales professional of 2002 knows that you need to find a PEO with decent management, quality service offerings and stick it out with them.

Churning Clients

In the same vein, many PEO clients were contacted by competing PEOs and made a switch for a promised savings or improvement in service delivery. Some PEO clients have switched three or four times before they figured it out. No PEO is perfect, the savvy PEO client of 2002 knows that you need to find a stable, quality PEO and stick it out with them.

The PEO concept is a vendor consolidation but it is not a vendor relationship. It is a strategic alliance because the PEO enters into a co-employment contract with the business owner. When a vendor makes a mistake, you switch vendors. When a strategic partner drops the ball, you work through it.

COLD CALLS DON'T WORK!

One referral equals 14 cold calls. As networking blossoms in 2002, telemarketing will phase out. Telemarketing's limited success was strictly for selling on price. When selling value, you need to have an introduction. An introduction through a trusted business advisor is worth its weight in gold.

Trends in Sales Management for 2002

From a sales management perspective, accountability is a hot trend for 2002. Many PEOs have matured to the level that there is management in place plus there are enough years of sales stats to establish some benchmarks. Some PEOs have gone on a 'point' system, where they assign a point value to all the steps that get you from a suspect to a client. Each sales person is accountable for a daily or weekly "point" total.

Sales managers have the luxury of a larger sales staff today and that has spawned the trend of team selling. The PEO sales process is like a decathlon and every sales person has his or her gold medal events. Typically a good closer is a poor prospector and vice versa, so when you team these two people up, production rates soar.

The current trends in PEO, whether hot or not, are part of the process of evolution necessary in the PEO industries growth. PEOs didn't invent anything – they just handle what is already there in a different way. It is vital to stay up on the trends in the US small business sector because that is where PEO trends will follow.

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