

SETTING STRATEGY | Using a professional employer organization

Outsourcing HR makes time for making money

By ALAN GOFORTH
 Special to The Star

Behind every successful small business is an owner with a passion for the product or service it provides. But as businesses grow, owners often find themselves spending less time on activities that can fuel continued growth.

"The average small-business owner spends 20 percent to 25 percent of his or her time on nonproductive activities, such as payroll or benefits," said Milan P. Yager, executive vice president of the National Association of Professional Employer Organizations in Alexandria, Va.

That lost time takes on added importance in a slumping economy, he said, which is why some small businesses outsource human resources to a professional employer organization.

"The way many small businesses survive bad economic times is to cut costs, which I refer to as saving paper clips," Yager said. "But you can't save enough paper clips to make money. At some point, you have to increase revenues. What PEOs do is give owners their time back."

The concept behind PEOs isn't new. Employers have been using outside services for payroll, insurance and other functions for years. The difference is that PEOs provide one-stop shopping for everything from payroll and risk management to employee recruitment, retention and termination.

Don Farquharson took the convenience of an in-house HR department for granted when he worked for Hallmark and other large corporations. He had to

SEE STRATEGY | C19
 scramble to find other options after he founded MITTI-Wellspring, a health

and wellness career school in south Kansas City. The business has 15 full-time and 20 to 25 part-time contract employees.

"We had farmed out services to a payroll company, insurance company and attorneys," he said. "We were sued by an employee, and because we didn't have an HR department, we had to hire an attorney. When you are paying an attorney \$350 or more an hour, the pitch for a PEO can be very seductive."

Two years ago, Farquharson began working with Axcet HR Solutions, a 20-year-old PEO in Lenexa. "I have been in business for a long time, and this service is spot-on," he said. "They really are involved in our business."

More small businesses such as MITTI are beginning to understand the benefits of working with a PEO, said Jerry Diddle, CEO of Axcet.

"Back In 1988, the good news is that we were the only company doing this in Kansas City," he said. "And the bad news was we were the only company doing this. I never doubted the validity of the concept, but the challenge was that no one had heard of it before."

Diddle said businesses with 20 to 100 employees — whether it's a body shop, law firm or light manufacturer — have a lot of the same issues.

"The challenge for small employers is not having a level playing field for the benefits they can offer. We can help give them the purchasing power and protection of a larger company," he said.

Regulatory compliance is

an increasingly important service for many clients, Diddle said. "Employers are behind the eight ball in compliance, not just in knowing what to do but in doing it," he said. "The challenge now is that, in many cases, employees are better versed on their rights than the employer is."

Compliance takes on heightened importance as companies downsize.

"There is a whole new set of issues in this environment, such as layoffs and a rise in wrongful-termination litigation," he said. "We try to be with our clients during layoffs so they don't make mistakes."

If anything, the slow economy is increasing demand for PEOs. About 700 companies operating in all 50 states generated \$61 billion in gross revenues last year, according to the association. Axcet also continues to see steady growth.

"I have never faced a situation like this in 20 years of business," Diddle said. "I always asked myself if our concept is sound and what would happen in an economic downturn. Not only are we adding new clients, we are growing at a very acceptable rate."

As an advocate for the industry, Yager would like to see more small businesses hire PEOs. But he also encourages owners to do their homework.

"Find out if the PEO has the expertise it says it does," he said. "When they talk the talk, find out if they also walk the walk. Ask yourself why you are seeking a PEO, whether it's to free up more time, retain employees or re-



duce workplace injuries. And read the contract — what will I do as a business owner, what will the PEO do and what responsibilities will we share?”

Farquharson recommends looking for more than just a vendor.

“Find a company that can offer a full range of services, not just payroll or benefits,”

he said. “Your PEO should be proactive and look at itself as a partner in your business.”

Regardless of where businesses find HR expertise, Diddle reminds them that the margin for error is slim.

“There are a lot of things you don’t have control over,” he said.

“Don’t get wrapped up in those, but take care of the is-

sues that you can control. Realize that times are tough, but don’t get in a panic situation and make knee-jerk reactions.

“The decisions you make now may have long-term consequences. Take your time, seek good counsel and make the right decisions.”



KEITH MYERS | THE KANSAS CITY STAR

Two years ago, Don Farquharson of MTTI-Wellspring, a center for natural health and wellness at 9140 Ward Parkway, began working with Axcet HR Solutions, a professional employer organization in Lenexa. “I have been in business for a long time, and this service is spot-on,” he said.

HIRING A PROFESSIONAL EMPLOYER ORGANIZATION

- Assess your human resource and risk management needs.
- Make sure the PEO can meet your goals. Meet the people who will be serving you.
- Ask for client and professional references.
- Determine if the PEO's financial statements are independently audited by a CPA, whether its risk management practices have been independently certified or if its operational, financial and ethical practices have been independently accredited.
- Investigate the company's administrative and management expertise and competence.
- Understand how employee benefits are paid for.
- Understand how employee benefits are tailored.
- Make sure the company you are considering meets all state requirements.

Source: [National Association of Professional Employer Organizations](#)