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Outsourcing HR Reaps Benefits for Small Business

By [Jennifer Schiff](#)

April 4, 2006

According to the Small Business Administration, small business owners spend between seven and 25 percent of their time handling employee-related paperwork. Not the most productive use of their time. But by outsourcing some or all of their employee-related functions — such as payroll, benefits, healthcare or recruitment and retention — small business owners can focus on what they do best. And in the process they can improve productivity and even save some money.

A "Geico" Moment

Seminole Office Products, based in Central Florida, is a family-owned-and-operated business with 51 full-time employees. When Sheila Berry, the director of operations, started there a little over three years ago, the company's president handled payroll and medical benefits, which included paying 100 percent of each employee's HMO plan. But when Seminole's healthcare provider said that those premiums would increase 20 percent — a crippling amount for most small businesses — Seminole looked at other options. Seminole chose to outsource its HR.

As Berry explains, "I thought it would be a better use of our time if someone else handled our HR, and that by doing so we might have more buying power [in terms of health insurance]. Instead of being a small 50-person company going and looking for healthcare, we could be part of a huge conglomerate."

After looking at five different outsourcing companies, Seminole went with [Gevity](#), an employee management solutions provider focused on small-and-mid-sized businesses. In addition to taking over payroll and benefits administration, Gevity helped Seminole with hiring and retaining employees, tax, compliance and legal issues and automating and professionalizing its HR processes.

"Gevity also saved us something like \$40,000 on healthcare," says Berry. "That's a big savings for a small company."

Buying a Team of Experts

Another benefit of using a human resource outsourcer — also known as a Professional Employee Organization (PEO) or an Administrative Service Organization (ASO) — as opposed to hiring someone in-house, is the depth and breadth of expertise these companies bring. Put another way, instead of hiring one generalist, you get dozens of industry-specific experts.

"Small employers typically don't have the resources to hire in-house experts on payroll tax and employment law compliance, although they are subject to most of the same laws and regulations as large employers," points out Pete Stoddard, the director of public relations at multinational HR provider [Ceridian](#), which has a rapidly growing [small-business division](#). "Outsourcing gives them access to that expertise at a fraction of the cost and helps them mitigate risk."

(Note: According to a recent study by the Small Business Administration, legal costs for litigation alone can cost a small business up to \$150,000 — and that's not including damages, loss of time and emotional hardship.)

In addition to relieving small businesses of administrative

headaches and helping to minimize risk, outsourcing HR can also improve productivity. "The fact that I can provide top-tier HR to my employees means that I'm going to have happier, more productive employees that are going to stay with me longer," says Gevity Chief Information Officer Lisa Harris, who also happens to be the daughter of a small business owner.

Services HR Outsourcers Typically Provide

- Payroll management
- Tax and compliance expertise
- Recruitment and retention assistance
- Benefits administration
- Time and labor management
- Help with worker's compensation and other legal matters

Services may be offered à la carte or bundled

What to Look for in an HR Provider

When shopping for a human resource services provider, as with shopping for anything these days, it pays to do your research and to know what you want upfront. "I always recommend that small business owners make a list of all of their HR needs and what's important to them from a business perspective," says Harris. The more you know about your company's HR needs, the better, she says.

For example, if you want help hiring new employees, make sure your outsourcing company offers recruiting assistance. Investigate what kinds of medical and retirement benefits the HR company provides. Will it supply you with an employee handbook (a key resource for avoiding potential employee lawsuits)? Will you have a dedicated representative? (Note: HR providers do not typically assign a dedicated rep to small businesses but instead offer access to a team of experts via the Web or the phone. However, if having a dedicated rep is important to you, ask.)

HR on the Web: 24/7

"More and more, customers are turning to a Web-based product that lets them log onto a secure

portal and enter, track and manage their payroll data with their third-party vendor," says Ceridian's Stoddart.

And as everyone knows, the Web is open 24/7, unlike traditional HR departments. "Our client base loves that," says Linda Mougalian, senior director of product management for ADP's HR/Benefits Solution. "We provide them with tools online, real-time assistance, context-specific help and automatic updates." Remember Gevity? The company's self-service HR portal — Gevity Central — gives customers access to their HR information 24/7, including detailed reports, as well as a searchable database and Internet tools.

Indeed, the Internet has probably been the primary driver behind the growth of HR outsourcing (which is growing at double digits) and what's made it possible for even micro businesses to afford. "The Internet is the great enabler," states Tom Miller, vice president of solutions marketing at employer services giant [ADP](#), which, like the other providers interviewed, has a [Small Business Services division](#).

"Without the Internet there is no self-service. There is no open enrollment. There's no changing your 401(k) on a daily basis, or looking into your flexible spending account or anything else. Without the Internet, none of that exists," says Miller.

And because so many human resource services providers act as [ASPs](#), providing HR services and applications through a Web portal, they save small businesses a lot of IT hassles — another benefit.

Getting Back to Cost

Gevity's Harris suggests that small business owners take a sharp look at their current HR costs. Calculate what you spend on payroll processing, tax filing, benefits, worker's comp and legal matters. "As part of the sales process, we ask prospective customers what they're spending today," says Harris. "How much time do you spend dealing with it all? When you add it all together, chances are that Gevity's fees will be less than what you're paying today."

As for specific pricing, most human resource providers charge a fee based on the number of employees and the services rendered. For example, "a company with 100 employees would pay an estimated \$150 per week to outsource their basic payroll functions to a company such as Ceridian," says Stoddart. "For that cost, they would receive payroll registers/reports, employee pay statements (checks or direct deposit statements), tax filing service (Federal/state/local tax deposits and quarterly reports) and issuance of official bank checks and direct deposit services (if preferred to company payroll checks)."

He says that costs increase when companies add services such as HR compliance products, Employee Assistance Programs, HR administration, benefits services such as Flexible Spending Accounts, COBRA and other employee benefit programs.

Of course you can't put a price on some issues — such as peace of mind. It's like mining for gold, says Seminole Office Supply's Berry, who likens small business owners to gold miners. After you've spent so much time, energy and money mining the gold, you wouldn't just leave it piling up without having a good safe. "One of the best and easiest ways to safeguard your business and your employees is to have professional advice, which an HR firm can provide," says Berry.

[Jennifer Lonoff Schiff](#) writes about business and technology and contributes to [SmallBusinessComputing.com](#).

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