

Offering Comprehensive Employee Management Software and Solutions in a “co-opetition” Model where they not only Sell the Services but Provide the Platform, PayChoice is helping Small and Medium Sized Businesses (SMB) Succeed By providing a Fortune 500-Style Suit of Payroll and HR Services

**Business Services  
Payroll Services**

**PayChoice**  
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**Robert Digby  
CEO**

**BIO:**  
As CEO of PayChoice, Robert is responsible for the overall leadership of the software and service bureau divisions. He brings to the position more than 20 years of payroll, HR and benefits industry expertise, with proven operational success in leading high-performance organizations and customer centric service organizations. He is the former President of RSM

McGladrey Employer Services, the payroll, HR and benefit services company of RSM McGladrey / H&R Block. Robert also held senior leadership roles during his 15 year career at Ceridian, including President of PowerPay Internet small business payroll division, Senior VP of Marketing and Senior VP of Sales / Client Services for Ceridian Corporation. While at Ceridian, he also directed a national sales organization of 480 sales representatives. A Captain in the U.S. Army, Robert received his B.A. in Economics from the Virginia Military Institute (VMI) where he graduated as a distinguished military and honor graduate.

**About PayChoice:**

For more than 20 years, PayChoice has helped small- and medium-sized businesses (SMB) succeed by providing them a Fortune 500-style suite of payroll and HR services that frees the owner to focus on growing and managing their business.

PayChoice offers comprehensive employee management software and solutions that are easy to use, highly personalized, and deliver the best overall value. The PayChoice suite of services includes payroll, tax filing, HR data management, time & attendance, workers' compensation and other employee management services and solutions.

**Interview conducted by:  
Lynn Fosse, Senior Editor  
CEOCFO Magazine**

**CEOCFO:** Mr. Digby, your website indicates your tagline “America’s Choice for Payroll”. Would you tell us why PayChoice is America’s choice?

**Mr. Digby:** PayChoice is uniquely positioned in the marketplace. We are not only a traditional payroll outsourcer like an ADP or Paychex, but we also license the payroll processing platform with technology that allows independent payroll companies to compete against the ADPs and the Paychecks of the World. We have unique capabilities selling our services directly to the end user and providing a payroll platform that enables over two hundred individual and independent licensees to go out and compete independently in the payroll space.

**CEOCFO:** You are selling your own services and licensing it as well, why this business model?

**Mr. Digby:** It is an environment that we call “co-opetition.” Not only do we sell the services but we also provide the platform. There are opportunities where we will run against one of our licensees and compete against them but we have written some very succinct guidelines. We work with our individual licensees in two key areas: PayChoice will not go out and try to sell one of our licensees’ clients and we will not hire their employees. However, if we compete with our licensees head-to-head in the marketplace, then may the best company win. Many of our licensees are selling to their specific bank clients or they are an insurance company selling to their insurance company clients, or they are a CPA organization that is selling just to

their CPA clients selling accounting services. There is very little friction in the marketplace and it gives PayChoice maximum coverage to sell directly and license the technology.

**CEOCFO:** Are most small and mid-sized businesses outsourcing today?

**Mr. Digby:** Only 18% of the 50 employees and below segment is outsourcing today. Many of them just need payroll checks or they are using an accounting package. Others are just so small that they have a CPA or accountant who does payroll for them. The marketplace is large and outsourcing is growing significantly. In the 51-100 employee segment, and upwards to 1,000 employees, that market is more penetrated by payroll outsourcing with approximately 35-40% of the marketplace outsourcing payroll. That leaves 60-65% of this segment available for outsourcing. The market is huge and there are many available clients that we can access. The market is definitely not saturated.

**CEOCFO:** What have you figured out about the process that other payroll companies have not?

**Mr. Digby:** Payroll has become a commodity. There are vendors out there that will calculate a check, put checks in the mail, or email you the checks after they process. These services are available and rather inexpensive. PayChoice differentiates itself from the competition in a few key areas: The first of which is service. Many of the small and mid-sized businesses do not have a professional payroll or HR department. In these situations, it is usually the owners or office manager doing payroll. This segment of the marketplace does not have competency in payroll. If they have employees in multiple states or they have different tax jurisdictions, the risk of tax penalties or fines far outweighs the cost of the service. The number one reason why prospects come to PayChoice is because of the service levels that we provide. Our organization has the highest retention rate in the industry. For instance, 90% of our clients return year after year. If you look at the big national players they are in the 76% to 80% range –

client loss levels well over double what we have. We have also designed our product for a small to mid-sized company. It is simple to use and it does not require significant training. You can actually use the product without training and get up and running very quickly. It provides all the features and functionality that a small company needs. We position our pricing to be competitive, typically 15% below the national competitors.

**CEOCFO:** Sometimes when you are priced lower than the competition people tend to be skeptical that you can do as good if not a better job. Do you find that people are surprised at your pricing, or is it priced as a commodity?

**Mr. Digby:** Payroll has over the years become a commodity and people are making decisions based upon price. There is a percentage of those in the marketplace that are skeptical that the lower price will still include better product and better service. One of the

**“97% of our revenue model is recurring.”- Robert Digby**

biggest challenges we have as an organization is that we do not have the multimillion-dollar marketing budgets like the national legacy players have along with the name recognition. When you do not have the name recognition, you have to educate the prospect. It is an area that we work around by employing a few tactics. Client references help get us beyond that skepticism. The other strategy we employ is sales through distribution channels, third parties, banks and CPA organizations. They act as a trusted advisor for these clients.

**CEOCFO:** Do you see this as a growing area for you or still more of an ancillary offering?

**Mr. Digby:** Our ancillary offerings are the fastest growing parts of our business today. The industry overall and the economic landscape has been very difficult over the last three to four years. Small businesses have been impacted the most as evidenced by rising unemployment. Employee count per client has also reduced over the last few years. From that stand-

point, the economic environment has headwinds for the industry but overall we seem to be doing extremely well. The last two or three years, you have learned to live within this new paradigm of almost a no-growth employment marketplace and we have to use different techniques to continue to succeed. One of our key successes is utilizing third parties to help introduce us to new clients that we typically would not be exposed to. Other non-payroll offerings such as HR and Time and Attendance are the fastest growing product lines within the company.

**CEOCFO:** How are you able to keep up with changing federal regulations when every state and every city seems to have new rules daily, many of which affect payroll?

**Mr. Digby:** That is one of the most complex areas about the payroll industry and one of the key barriers to entry. It is an area where business owners struggle to stay current. Without experienced tax experts, it is difficult to understand, decipher and put it into practice. That is one of the greatest values that a payroll company can bring to the table. We have experts, on our staff, that are current on all tax law changes. We have an in-house staff for research and work with several third party monitoring services. Not only do we stay on top of federal taxes but state level and city level taxes as well. Keeping the tax rates compliant gives a small business owner peace of mind. Even when you have governmental fiscal cliff negotiations that go to the last second, we are still required to have the tax rates current.

**CEOCFO:** You have direct customers and the licensing. Is one more important to the company than the other or are they on an equal track and where is the most growth anticipated?

**Mr. Digby:** In 2004, PayChoice was just a licensing company. In 2004, we had an investor group come in and acquire the majority stake in the company. At that time, one of the strategies that the investors implemented was to leverage the full strength of our portfolio as well as other opportunities to grow the business faster out-

side of just the pure software licensing business. In 2005, 100% of our revenues were from licensing their software as a SaaS (software as-a Service) based service model. As we stand today in 2013, about one third of our business is licensing and the other two thirds is direct payroll outsourcing. We have been able to grow both sides of the business rapidly, but the highest growth part of the business is the direct sales or the outsourcing side of the business. We leverage our licensing base in a unique way to fuel our growth. A number of licensees annually decide to sell their business, or retire and get out of business for whatever reason. In the past, they would sell their business to the old legacy players and lose 30-40% of their client base in the transition to the buyers platform. In 2005, we offered licensees an alternative solution. We began acquiring our own licensees. The beauty of this is that clients do not have to go through a conversion because they stay on the exact same platform and require no new training. It is a much better model for our licensees and clients. In total, we acquired twenty licensee companies over the last seven years. These acquisitions fueled much of our growth and produced the unique business model so that we continue to grow very quickly.

**CEOCFO:** What is ahead over the next year or two?

**Mr. Digby:** In the next couple of years the business is going to grow both the top and bottom lines. As the company has grown, we have made a significant investment in developing a

next generation product which builds on the SaaS operating model. This is so our clients no longer have to host the technologies themselves. These investments were put in place to drive growth and to scale the business profitably in the future but also to allow us to enable different revenue models to bring to the market. In 2013, we are rolling out a new hybrid model between the licensing and the traditional outsource world - BPO. This is where clients can license the technology from us without some of the back office headaches. Many of these CPA firms, insurance firms or banks have never been in the payroll industry but payroll has many synergies with their business which can be integrated together through payroll/HR. Getting access to payroll is very important. Many of these firms want to get into the business but they do not have the core competency that it involves to create a service offering. The hybrid that we are developing allows them to license our technology allowing PayChoice to handle the back office for them. They just have to go out and sell to their client base. This hybrid solution that was just recently released is called our BPO product solution. This is an area we feel is going to be a high growth area for us. We have worked very diligently in the last few years to build up our third party distribution channels and last year we signed up several large national distribution partners that focus on the small to medium business market. These channels will be coming online in 2013 and the payroll product distribution that will come through those channels to PayChoice will drive the

growth of our top line. One of the key focus areas is the ability to grow profitably, so while we are in a high growth mode over the next several years, we expect that our profitability will grow about significantly faster than our revenues over the next three years.

**CEOCFO:** Why should the business and investment community pay attention to PayChoice?

**Mr. Digby:** A company like PayChoice is attractive because of our revenue model. As we start 2013, we know where our revenue is going to come from and 97% of our revenue model is recurring. It is very predictable and annuitized revenue model which is attractive to the investment community. Additionally, the capital expenditures and investments that need to be made once you have your core product in place is minimal. The small business market is large and there is still a huge potential for growth. Some of the large payroll companies have performed extremely well from a stock market valuation. I think it is very attractive and a well regarded area to invest in particularly regarding quality organizations, such as PayChoice, that have completely re-architected and have our next generation platform investment completed. We spent over \$17 million planning and developing our next generation payroll/HR product and private cloud infrastructure. The investments are in place, now it is about scaling the business and driving profitable growth.



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