

TRADING STRATEGIES :

PAYROLL OUTSOURCING TRENDS 2021

The best practices in outsourcing payroll to scale your practice in 2021

A research report by the QX Accounting Services, May 2021



www.qxaccounting.com

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A FOREWORD FROM CHRIS ROBINSON, FOUNDER & CHAIRMAN, QXAS

HERE'S YOUR ROADMAP TO OUTSOURCING PAYROLL

For years, payroll has shared a dubious reputation among accountants: it's either a nuisance, a burden or an add-on service within a larger package that most accountants offered out of necessity.

However here at QX, I observed over the years how outsourcing could transform a complex, cost-intensive function like payroll into a profit magnet. Within this report, you will discover a detailed breakdown of how payroll transforms into a profitable service for a practice of any size with outsourcing.

I am proud to present what we believe is a groundbreaking set of findings about the best practices in payroll outsourcing, as reported by accountants for accountants. We surveyed over 16 accounting firm owners who have outsourced payroll over the course of the past 6 months and what were the results as witnessed by these firm owners.

I also believe that this report strikes a chord with most accountants now, more than ever. As accountants venture into 2021, there's a lot of speculation about planning for the next normal. Hence, the data used in the report covers the payroll outsourcing impact within the last 6 months to gather the fresh learning about outsourcing during these times. As accountants moved to running their practice from home, they needed more time, savings and better processes to set-up a better infrastructure for team members and clients in the face of the increasing demand in payroll services & furlough. The report paints a clear picture of how outsourcing payroll played a big part in enabling that.

The most eye-opening finding was about how much outsourcing in general has evolved. The report records the benefits incurred by these practice owners and tracks down the decisions & the strategies that these practice owners followed to achieve these results. Our aim is to carve out a roadmap for accountants who are considering payroll outsourcing and by giving them

concrete information about where the opportunities are and where the challenges may lie in before they dip their toes into outsourcing their payroll.

We know that running an accountancy practice today needs to be frictionless – no matter where you're running it from. It's in this context that QXAS presents Trading Strategies: Payroll Outsourcing Trends in 2021 as both a supportive tool and a helping hand for you to make the right moves when outsourcing your practice's payroll – so that your practice can stand tall through all thick and thin.



CHRIS ROBINSON, FCA
Executive Chairman and Founder, QXAS

TRADING STRATEGIES:

Ten best practices accountants use to outsource payroll

ARE YOU KEEPING UP?

PRACTICE 1

The move from cutting corners to long-term strategic goals

Our findings indicate that **87%** of accountants outsource payroll for strategic benefits that deliver value beyond just cost savings.

The top three objectives to outsource payroll compliance were geared towards initiatives related to improving practice management and supporting practice growth: like freeing up in-house resources (56%), focusing on clients (25%) & core-capabilities of the practice (6%).

This reflects that accountants outsource payroll as a part of larger, more strategic initiative. In the past 6 months, these are the top three objectives for accountants to outsource their payroll compliance work.

Which main goal did you plan to achieve through payroll outsourcing when you first started?

- 1 Free-up internal resources for other purposes
- 2 Focus more on clients
- 3 Focus on their practice's core-capabilities

87%

Accountants outsource payroll for strategic benefits that deliver value beyond just cost savings.

PRACTICE 2

Payroll became a prime candidate for outsourcing during WFH



In lieu of the furlough scheme, as the demand for payroll services increased for accounting practices over the course of the past 6 months, almost three-quarters of accountants (81%) who outsourced payroll, saw a guaranteed spike of anything between 5% - 40% in their profit margins.

The survey responses are also indicative of the socio-economic conditions of the past 6 months. It shows the increased demand of payroll services and the challenges that came with it for accounting practices being run from home. These may include complexities of furlough calculations, keeping up with iterations in the furlough scheme and the accurate payroll processing for clients.



What is the percentage of increase in your profit margins due to outsourcing?

5%-10%	6.25%
10% -20%	50.00%
20% -30%	18.75%
30% -40%	6.25%
40 - 50%	0.00%
More than 50%	0.00%
No increase at all	18.75%

PRACTICE 3

Top areas to invest the profits from payroll outsourcing

Almost half of all 87% respondents who profited from payroll outsourcing, invested their profits into improving processes (50%) in their practice, possibly in an effort to strengthen practice management during WFH.

The next area of investment was toward upskilling team members (37%). It is perhaps reflective of the heightened need to equip their in-house teams to cope with evolving client needs & following digital processes implemented during WFH. Effective outsourcing of low-margin, time-consuming functions like payroll provided the capital and the time needed to strengthen the two most important pillars of an accounting practice: people & processes.

Choose the main area that you have invested your profits into?



PRACTICE 4

Accountants unanimous on outsourcing payroll to make more time for clients

93%

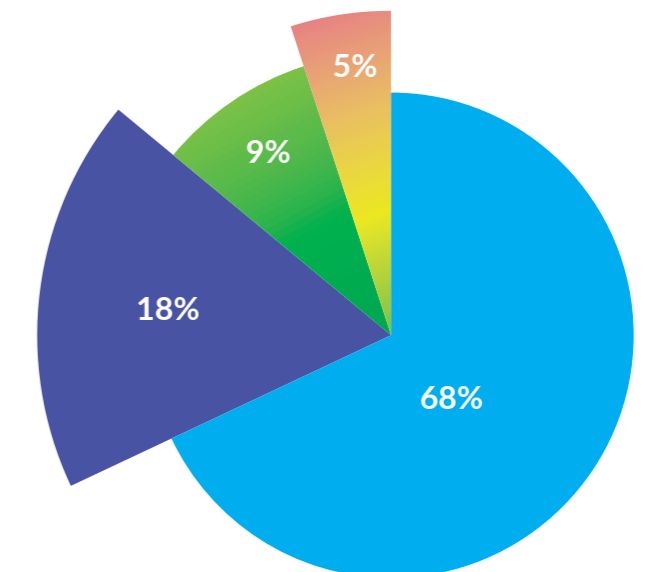
Accountants surveyed agreed that outsourcing helped them and their in-house team members save time during the work-week.

On further dissecting the data, our results revealed that 68% accountants chose to invest the saved-up hours into "focusing on clients."

The shift to client-focused approach is also indicative of a period of intense uncertainty for SME business clients in the UK during the pandemic. Accountants had to step up to guide and advise their clients on seeking government financial support, forecast cash flow and advise on the right financial moves – as their clients' businesses hit a stumbling block due to social distancing measures & the back-to-back national lockdowns.

The first and third response – focus on clients & advisory services – are particularly noteworthy. Naturally, accountants have showed a strong interest in a client-focused approach as they began saving more time from outsourcing payroll compliance. But, it is the third step that illustrates the client focused approach was beyond just providing advisory services – often included within one's accounting package. It was instead a more, organic, holistic approach to engage more with clients outside of the contractual requirements & guide them on the imminent financial roadblocks during the pandemic.

Top areas accountants chose to invest their saved-up time from payroll outsourcing:



Have you (and your in-house resources) been able to save time from outsourcing payroll?

PRACTICE 5

Top three areas accountants achieved the most savings in from outsourcing payroll

A sliding majority of

87%

Accountants agreed to have achieved savings in at least one of the following areas of running a practice using payroll outsourcing: people, process or platform.

Top areas accountants achieved saving in from payroll outsourcing:



50%
PROCESS



37%
PEOPLE



4%
PLATFORMS



8%
ALL THE ABOVE

On further dissecting the data, it is revealed that nearly half (50%) of the accountants who saved from payroll outsourcing, saw cost-reductions in running their day-to-day payroll processes. While nearly one-third of them (37%) responded to have incurred savings in 'people' - indicating a reduction in overheads, deskspace, benefits, backups to cover sickness and other employment costs.

It perhaps reflects the delegation of process-heavy and resource-intensive work required in payroll compliance to offshore teams. It's mostly work involving data-entry, completing tax forms, furlough calculations - which increase the expenses in overhead costs and purchasing payroll software.




Moreover, the constant iterations in the furlough scheme, new payroll regulations and tax codes would normally require practices to hire payroll specialist or staff members who need extensive training to run it. With outsourcing, the availability of skilled resources, at a fraction of the UK payroll salaries, and the availability of software within the packages - easily removed the costs associated with 'process' and 'people' for majority of accountants who outsourced payroll.

Have you been able to achieve savings with payroll outsourcing?

PRACTICE 6

Four Effective Pillars of Payroll Outsourcing

Our data identified four key pillars that our survey respondents ranked as important pre-requisites to successful payroll outsourcing:

-  Open communication
-  Setting Clear Objectives & Goals
-  Properly Structured Agreements
-  A strategic vision and plan

The first two pillars point to the underlying uncertainties surrounding outsourcing your payroll and the need for accountants to measure the results of outsourcing.

Too often partnering with a third-party external outsourcing provider could feel like entering uncharted waters - where the accountants - feel lack of control toward outsourced function, in this case, payroll.

'Open communication' response encompasses the need for accountants and their offshore partners to mutually agreeing on goals, objectives and KPIs of defining progress.

Outsourcing payroll is only effective when offshore team works closely in tandem with accountants.

The last two points clearly illustrate that instead of binary input and output, accountants expect a strategic benefit that yields results even in the long-term.



PRACTICE 7

Data-Security worries take a backseat

Data-security measures and assurance was ranked to be of less importance than establishing “open communication”, “properly structured agreements” and “setting clear goals.”

This shows how the goalposts in payroll outsourcing have moved from the basic concerns like data security to more nuanced ones like setting goals for offshore teams.

Many outsourcing partners offer strict data security measures as a matter of course and are contract-bound under the GDPR or BSI regulations to follow the due-diligence required for handling data. Due to which accountants can now move past their initial concerns about data-handling worries of offshoring payroll and expect a higher level of reliability and professionalism from external partners in the form of better performance, hitting the mutually-agreed goals & the quality and timely delivery of work.

43%

Open communication

37%

Setting Clear Objectives & Goals

10%

Properly Structured Agreements

What are the pre-requirements to ensure successful payroll outsourcing?



PRACTICE 8

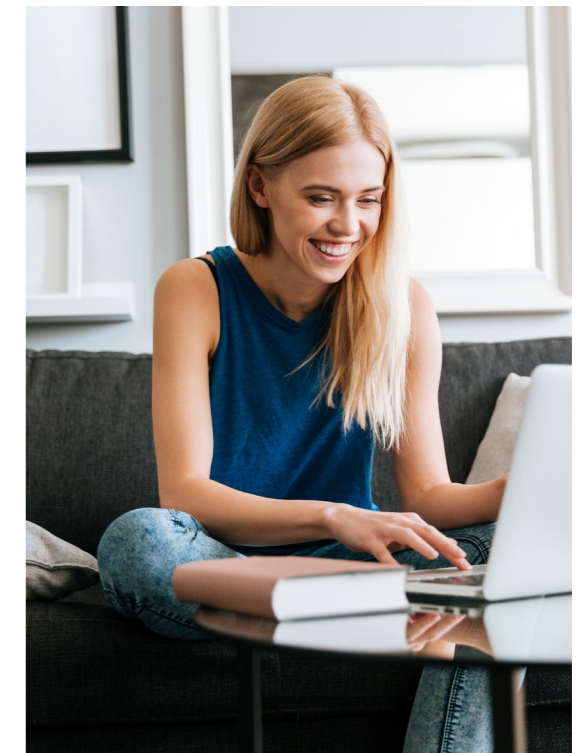
Communication is an early indicator of successful payroll outsourcing outcomes

The verdict on how communication with the offshore team impacts the outsourcing experience continues unabated. When asked about what the top contributors to a successful payroll outsourcing experience are – nearly half of the responders (43%) claimed it was seamless communication, while a quarter (25%) of them claimed overall “compatibility with offshore team” and it was followed by customer service (12%). Interestingly, faster turnaround on the jobs (12%) and the accuracy of the job (6%) were voted to be a less important contributing factor to successful payroll outsourcing.

As accountants move to focusing on more strategic benefits from outsourcing their payroll – offshore team building, training and building your offshore team’s understanding of your business become central to the outsourcing process. Conversely, accountants themselves might expect more transparency, updates and regular reporting as in-house team members do. While factors like quality of the job and its timely delivery are contractually agreed upon by offshore team members, building communication & compatibility is an organic-approach and something that practice owners and offshore teams require to put an effort in. It explains why most accountants who uphold “communication” & “compatibility” as top factors to outsourcing payroll.

Top contributing factors to successful payroll outsourcing:

- 1 Seamless communication
- 2 Compatibility with offshore team
- 3 Faster turnaround on the outsourced jobs



PRACTICE 9

Better compatibility with offshore teams means better profit margins

87%

of accountants who claimed to have seamless communication, compatibility with their offshore teams & experienced better customer service improved their profit margins by anything between 10%-40% using payroll outsourcing.

This is in stark contrast to the rest of the 12% of accountants who chose to only focus on just the quality & accuracy of the work. They hit a slightly lower profit margin of anything between 5%-10%.

This is perhaps a reflection of how a binary input & output based, transactional relationship may not be the ideal approach to payroll outsourcing. Building better relationships and integrating your offshore team as a part of your accounting team, will result in more profits.

Most accountants who outsource would often set-up email of their offshore team members under their practice's domain in an effort to better integrate them to their in-house staff members.



PRACTICE 10

A Ripple Effect of Benefits for Clients

95% accountants unanimously agreed that outsourcing payroll (during the course of the last 6 months) didn't just benefit their practice but also had a positive impact on their clients & their businesses.

This reflects how outsourcing payroll helped accountants and their in-house team members from spreading themselves too thin and adopt a client-focused approach.

While time saved from outsourcing payroll helped them build better relationships with clients, saving costs and improving profitability also had a direct impact on an accountant's clients.

On further dissecting the data in Trend #1, it is revealed that accountants who set out to free more internal resources and focus more on clients ended up investing their profits from outsourcing into improving digital processes. This in turn benefitted clients during the back-to-back national lockdowns when digital accounting systems were the only means to exchange of documents & data: sharing of receipts, reports and agreements etc.

Do you agree that outsourcing payroll compliance work has a positive effect on your firm and clients?

95%

Accountants unanimously agreed that outsourcing payroll had a positive impact on their clients & businesses.

A CLOSER LOOK:

MAKING PAYROLL PROFITABLE IN 2021

There is a perception that payroll services are not a great investment for your practice, due to the specialist resources you need and the time it takes to process the payroll. Add to the costs of purchasing computer systems, software, extensive staff training – the service soon becomes low-margin liability for your accounting practice.

However, 2020 was the year of payroll. The demand of payroll services went up since the introduction of the furlough scheme and new regulations. 2021 will follow suit with more SME businesses/clients looking for their accountants to offer payroll within their packages. If you're still not offering payroll services this year, it's possible that you're leaving money on the table. But if you are, the question remains – how do you make payroll profitable?

That's where a specialist payroll outsourcing partners like QXAS comes in. Our sole focus is to remove the time you & your team members spend on payroll processing and reducing the investments in software and hiring specialist payroll staff. Our 450+ dedicated offshore accountants and payroll specialists look after the maze of legislations, complex furlough calculations, data entry, liaise with HMRC to significantly streamline your payroll process and free-up your time & investments for scaling your practice.

We provide payroll administrators with full knowledge of PAYE RTI, Auto-enrolment and the use of specialist software like Xero, Payroll Manager, SAGE Payroll, and IRIS among others. We also respond to HMRC or government notices on your behalf, and make sure all information is in compliance with RTI so that you never pay late payment interest.

Our cutting-edge client portal & QX Tracker app, helps you stay on top and monitor the progress of all your outsourced payroll work. A dedicated client success partner will keep you up to date on our progress and advise you on outsourcing decision best for your practice. So far, we've helped over 400+ accounting firms across the UK & the globe to upscale their practice using robust, efficient outsourcing plans.

START WITH

A SPECIAL OFFER

QXAS is offering a special discount offer on our payroll outsourcing services based on the volume of payslips you outsource. We also provide free consultation sessions to guide you in building the right outsourcing plan based on the needs of your practice.

Our volume based discounts are applicable to all your payroll outsourcing billing from June through November:

Payslips per month	Discount
1- 200	10%
201 - 500	12%
501 - 750	15%
751 - 1000	17%
> 1000	20%

BOOK A CONSULTATION TO AVAIL THE OFFER

BOOK NOW



CASE STUDY

How Payroll Outsourcing Improved a London-Based Accounting Practice's Profitability by 50%

NYC Business Mentors and Chartered Accountants is a London based accountancy practice. They currently provide payroll to around 15 clients operating across different sectors and run payroll for 50+ employees each month.

THE CHALLENGE

Prior to 2014, they had steered clear of payroll altogether as they did not have the specialist knowledge and the licensed software to process payroll. Plus, payroll offered them limited profitability and was time-intensive. With employees on different pay cycles and varying wages, our client's biggest challenge was collating their client's payroll information accurately and getting it up-to-date for each pay period.

SOLUTION

Our client wanted us to take the entire responsibility of payroll, right from processing and managing of their client's payroll to liaising with third party agencies such as HMRC.

Our client went a step ahead and even set up QXAS payroll staff on their email server, so we could directly communicate with their clients and staff as if we were their employees, sending them payslips and monthly reports and leaving our client free to focus on diversifying their practice. Since then, outsourcing payroll been saving them more than 50% each month.

“ We find the service offered by QXAS to be so efficient and reliable that we have set up an email inbox on our server for them so that they can directly communicate with our clients for payroll matters

NADEEM CHUNDRIGAR,
Director, NYC Chartered Accountants.

For all intents and purposes, QXAS are the nyc-bmca payroll team. Nothing is too much trouble for them. I am very impressed with their processes, the accuracy of the payroll work provided, and the turnaround time, and most importantly, our clients are very happy too.”

BENEFITS REAPED:

- > Saved annual costs of around £1000 in software and upgrade costs
- > Added a new source of revenue for their firm
- > Removed the need to recruit specialist payroll staff
- > Enabled the client to offer a payroll service with minimal intervention themselves
- > and deliver extra profit to their accountancy firm

PAYROLL OUTSOURCING CHECKLIST

This checklist will help you determine if payroll outsourcing is appropriate for your accountancy practice, check each question for which you are able to answer YES.

COMPLIANCE	YES/NO
Do you constantly monitor evolving payroll legislation and adjust your processes to ensure compliance?	
Are you up-to-date with all related legislation, such as auto-enrolment?	
ADMINISTRATION	
Do you always process payroll on time with 100% accuracy to avoid costly financial penalties for errors or non-compliance?	
Are you always able to answer payroll-related enquiries from your clients immediately and accurately?	
Are you putting valuable, strategic practice goals on hold to complete repetitive administrative tasks?	
Do you have the time you need to invest your skills and talents fully in your practice's strategic goals?	



HOW TO CHOOSE A PAYROLL OUTSOURCING PARTNER

The difference between an outsourcing partner and an outsourcing provider.

The best outsourcing partners understand the importance of forming a partnership with your accounting practice, and become equally responsible for your practice's growth in the long-term. In comparison to providers, who believe in more transactional, short-duration, ad-hoc offshore services. Providers may not such as the communication prowess, the software expertise or tools to create transparency for their practice owners.

As highlighted in the report, accountants who outsource payroll are now looking at more strategic benefits. Outsourcing partners will usually have in-built tools to monitor outsourced jobs, trained resources with demonstrable skills of helping practices upscale and payroll software expertise. They will also have well-built reporting structures, workflow, processes and client success partners for the long term growth of your practice.

So when you choose an outsourcing partner, make sure you take the time to find a payroll outsourcing partner who collaborates with you to help you grow. **The right partner will streamline your accounting processes, enable you to eliminate workflow bottlenecks and increase the efficiency of your in-house staff as workload is distributed.**



CONCLUSION & TAKEAWAYS

The conclusion from our findings is clear: accountants are using the strategic benefits of payroll outsourcing to upscale their practices through three main approaches: improving processes, making more time for clients & freeing up internal resources to focus on practice's core capabilities.

Effective payroll outsourcing with a reputable, outsourcing partner is an opportunity to set off a chain of benefits of accounting practices: improving profits margins, investing profits into improving processes & inviting more clients with payroll /upselling payroll work to existing clients.



The payroll outsourcing trend will keep rising in 2021 in lieu of the complex calculations and manual work involved in the furlough scheme. You can still get an edge on your competition by acting now. Put an end to the cost-intensive activities like hiring payroll specialists or resource intensive work like data-entry, doing tax forms.

If you'd like to know more about payroll outsourcing with QXAS, get in touch with Pramith Naidu today. He will guide you through creating your own payroll outsourcing plan and how payroll outsourcing works at QX.

The most important learning was about how accountants used a low-margin, cost-intensive service like payroll and used outsourcing to turn it into a profit magnet. This is the point of outsourcing: to be strategic and not impulsive in outsourcing decisions that only result in short term gains.

One of our main objectives behind the research was to have accountants who have borne successful payroll outsourcing outcomes to share their best practices with accountants who are considering outsourcing payroll but don't know where to start.

And so let us take the collective insights from the data and the stories in this report and carve out our own payroll outsourcing plan that propels your firm forward, through all thick and thin.



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At QXAS, our experienced payroll staff provide a cost-effective payroll outsourcing services to a broad range of accountancy practices from sole proprietors to multi-partner firms. We tailor our service to suit your requirements. All you have to do is provide us the necessary information and we become your payroll department. We will ensure compliance, maintain confidentiality, and take care of the legislative changes, leaving you free to grow your practice. As an ICAEW and ACCA member firm and with recent Xero accreditation, we are confident we can make payroll profitable for you.



Have questions? Get in touch with our payroll experts:

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Visit www.qxaccounting.com/uk/service/payroll-outsourcing/ to learn more about payroll outsourcing services.

