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# Raise Morale



## COVER STORY

### Q&A with Paychex' Thomas Golisano

**"We have a very straightforward formula for growth"**

Thomas Galisano founded Paychex in 1971 with \$3,000 in startup capital and a simple idea: provide payroll processing for small businesses. At that time, other processors preferred to deal with companies that had 50 or more employees. So Galisano flew under their radar by targeting much smaller enterprises -- even offering to do the payroll for companies with five or fewer employees for just \$5 per pay period.

Today, while Paychex is a giant that racked up \$1.1 billion in revenues over the past 12 months, it remains firmly focused on small business. Its average customer has just 14 employees. The formula has paid off handsomely. Though this is Paychex' first year on the BW 50 -- reflecting the fact that it was added to the S&P5 500 just last year -- its stock has grown at a rate of more than 40% a year over the past decade. Galisano recently spoke about his company with Business Week Boston Bureau Manager William Symonds. Here are excerpts of their conversation:

**Q: How have you managed to achieve such consistently high growth, year in and year out? [Paychex has increased net income at least 35% for the past seven years in a row.]**

**A:** We have a very straightforward formula for growth...[We aim] to increase the size of our client base by 11% to 12% a year. Then we have developed an array of ancillary products to go along with our [core] payroll product, such as 401(k) reporting and cafeteria benefit plans. This combination enables us to grow our revenues over 20% a year.

As for our income, since our fixed costs don't grow as fast as our sales volume, we manage to grow our income in excess of 25%.

**Q: Can you keep growing at this pace?**

**A:** We still only have 5% of the market [for payroll processing], and the entire [payroll outsourcing industry] has just 13% overall penetration. So there is no reason that we shouldn't grow at relatively the same rates, as long as we continue to do our job.

**Q: Why do you focus on the small-business market?**

**A:** Our average customer has 14 employees. But this is where [the business] is. In the U.S., 98.4% of employers have less than 100 employees. Also, there is less competition [for small business customers]. So that is where we will continue to focus our efforts.

**Q: You are a prime example of the growing trend of business to outsource functions once done in-house. Why is this growing so fast?**

**A:** Our customers are looking for peace of mind. They want to know their employees are being paid accurately and that they are in total compliance with all state and federal regulations. So that is what our clients are buying.



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Also, employee administration has gotten a lot more complex. Ten years ago, small employers didn't have to contend with TEFRA, COBRA, ERISA, etc. All these regulations -- while they have done very good things for employees -- have made the job of being an employer much more difficult. And that has inspired a lot of outsourcing of the payroll function.

**Q: You are one of the few companies on the BW50 that has no international operations. Do you plan to expand outside the U.S.?**

**A:** We have no plans to expand outside the U.S. In many foreign countries, the payroll problem is nowhere as difficult as it is in the U.S. Also, we have such an untapped market here at home there is no need to go abroad for growth.

**Q: Do you expect to make some major acquisitions?**

**A:** We have been mainly internally driven. We feel [we can control growth better] by growing internally. There are risks to making acquisitions. Also, there isn't a large opportunity to make acquisitions in the payroll-processing arena.

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