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Payroll software:
A buying guide
for small businesses

Selecting a tool
that can minimize
the administrative
headaches, scale
with your company

INTRODUCTION

Payroll. Just the word itself can mean many things to a small business owner. What it often brings to mind are administrative headaches, immovable deadlines, compliance requirements, lots of paperwork, and inefficient processes. But it doesn't have to be as daunting as you think.

If your small business has grown to the point that you have to start thinking about payroll as most established companies think about payroll, selecting the right payroll provider is an important decision. Selecting a tool that can minimize the administrative headaches, scale with your company's growth, and meet the needs of your employees can turn payroll from a necessary evil to a smoothly operating cog in a well-oiled machine.

The following paragraphs will outline what to look for in a payroll platform that will reduce costs, save time and boost both employee and management satisfaction.

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What is payroll?

When people think of the word payroll, it can mean something different depending on who you are. To employees, it's the process of getting their paycheck. To a business owner, it's the sum total of wages and salaries and the calculation and payment of federal, state and local taxes for all employees. To a business' accountant or controller, it's the procedures, software and structure you have in place to make sure the company compensates people who give their time, talent and labor every pay period. The reality is it's all of the above.

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Outsourcing vs. in-house

Keeping payroll in-house versus outsourcing it to a third party is a decision many small business owners struggle with. To understand the difference between the two, it's easiest to think of it in terms of the involvement of staff and technology.

Keeping a payroll system in-house requires involvement of both staff and technology, while outsourcing payroll removes the day-to-day data entry, calculations, payroll check processing and other administrative overhead involved in the process. It also removes the responsibility of administering the software and hardware the system resides on. But it comes at a cost. Working with a professional employer organization (also known as a PEO) typically starts at $49 per employee per month (and can go much higher) and costs as much as $200 per when benefits are included.

Doing it 100% in house means the business owner or admin is responsible for all the tax calculations and withholdings, making all employee payments and remittances, filing all returns, manually obtaining and securely storing employee documents and more.

What many companies ultimately land on is a combination of in-house work and out-sourcing other tasks like payroll, health benefits or retirement vehicles.

A company will have some software that resides in-house and staff whose duties involve payroll, but they'll also have a third-party software solution (Everee, Gusto, Paylocity, ADP, etc.) that creates efficiencies by removing a lot of the day-to-day time-consuming tasks. The company is left with a staff that's involved in payroll instead of consumed by it. Moreover, in a world where payroll is more and more digital, they have software that's user-friendly enough for both payroll staff and employees to not only get paid, but access things like tax information, withholdings, retirement contributions, etc. Most of these tools also offer features around things like timeclock, employee onboarding, document storage and more, to lessen the burden of HR tasks as well as payroll.

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Payroll software vs. HRIS/HCM

If you're considering purchasing payroll software for the first time, you might not be clear on the differences between payroll vs. HRIS vs. HCM.

When an employee gets paid, what goes into the final number that's on their paycheck can come from a myriad of different sources. How well those sources work and play with one another can determine how efficient your overall payroll process is.

A person's net pay is more than just an hourly wage multiplied by time worked or a big number divided out over 52 weeks or 26 pay periods. If it were that simple, payroll software wouldn't exist.

A paycheck can also take into account withholdings from federal, state and local tax authorities, contributions to retirement plans, elected contributions to things like company-sponsored life insurance, 401(k)s, child care and medical savings accounts, stock options, transfers to savings accounts, short and long-term disability, etc. Paychecks may also include deductions due to absences or PTO, where pay isn't negatively affected, but where it's important to keep track of these hours as well.

The ability for a company to offer these benefits to employees and the need to efficiently and accurately keep track of them over time increases the need for software that can handle these tasks. A lot of the software available that offers these features fall under the HRIS and HCM categories, both of which include a lot of functionality a small business might not need yet—and might not want to pay for.

The distinction between HRIS and HCM is delineated by the tasks that they handle. An HRIS (Human Resource Information System) typically assists an HR director with HR-related tasks such as recruiting, training and development, personnel tracking, workflows/org charts, and benefits administration. However, there are HR tasks that directly interface and overlap with the payroll world such as absence management and compensation management.

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By contrast, the HCM system (Human Capital Management) handles things more commonly associated with the manager of an employee, someone with more day-to-day contact than HR personnel would have. HCM systems handle tasks such as employee reviews, employee onboarding, and employee/team analytics. An HCM system can certainly affect what data goes into the HRIS system because of things like employee reviews causing increases in salaries.

Whether or not you need the functionality of HCM or HRIS software will depend on the stage of your business and number of employees. Many small businesses simply want employee document storage, employee demographic data and payroll functionality, and there are some payroll platforms available that provide this level of support at a more affordable cost than going with a full HCM or HRIS platform.

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Features of a best-in-class payroll platform

USER EXPERIENCE

We are in an era of design being at least as important as functionality. With that in mind, your payroll system should be no exception to this rule. A payroll manager should not have to hop back and forth between multiple tabs, menus, interfaces or pages to get their tasks done. They shouldn't have to attend seminars or take extensive training to know how to use the software.

People are used to the seamless user experiences they get from consumer apps, and they're starting to expect the same out of work software.

Modern payroll systems offer usability features like the following that legacy providers have lacked:

- **Being able to review and approve payroll quickly vs. having to devote an entire afternoon or multiple days to it**
- **Time tracking that's fully integrated with payroll system**
- **Easily integrates with other software to reduce the need to manually export/import data**
- **Easy entry and onboarding of new employees**
- **The ability to easily access and export payroll data**
- **Allows users to interact with it from any device**

A good payroll system should be both readable and usable on a variety of devices, from desktop to tablet to phone and across multiple platforms such as PC and Mac and/or iOS and Android.

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BUILT-IN REPORTING

Reporting is available on many payroll systems. The key to good reporting is not making it complicated. Look for reports built into a system that have been proven over time to fit most customers' needs, or reporting dashboards that give crucial numbers at-a-glance. These options can alleviate end-of-week/month/year headaches that many payroll managers face.

For the ad-hoc reports that all managers ask for, having custom reporting that is easy to use and easy to save is important as well. Once those custom reports are built, the option to automate generation of those saved reports is also an important time-saver.

TIME TRACKING

The ability to report, approve and send hours to the payroll system in a timely fashion is critical to a company's ability to get employees paid correctly and on time. Having a central software system that can receive this data, paired with an easy-to-use app that lets employees record time and managers approve and transmit that data, can bring your payroll processing into the twenty-first century.

Managers should be able to easily verify their hourly employees' time, so payroll admins aren't left to track down approvals and reconcile time punches days or sometimes weeks after the work was done. The delta between when an employee works and when their hours are verified can lead to not only inefficiency but also time fraud.

FLEXIBILITY

The needs of your employees are as diverse as your employees themselves. A good payroll system should take steps to meet those diverse needs. A payroll system that can enable multiple payment vehicles (direct deposit, debit card) and/or multiple payment frequency options (daily, weekly, bi-weekly, on-demand, etc.) can help reduce the financial stress of employees. This can in turn, boost employee morale and productivity, as long as it's a solution that doesn't charge your employees for this benefit.

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TRANSPARENT PRICING

We've discussed how a good payroll system should work. Now let's discuss what goes into the cost. While prices vary greatly depending on number of users, number of employees, and the complexity of the software itself, what should be made clear to you is an easily comparable itemization of what exactly you are paying for. Things that should be made clear to the purchaser are:

• **The base price of the software and the features it includes.**
• **The features the base price does not include and how much each feature costs.**
• **Any structured pricing (Example: cost per number of employees per month)**

Pricing should be clear so that a business with 50 employees is not paying for a payroll system scaled for 3,000 until they get to the point where they are closing in on that many employees.

Look for a provider that doesn't lock you into a long-term contract and offers upfront pricing, so you don't have to go through a lengthy negotiation process. Beware of expensive onboarding add-on costs as well. Opt for a solution that shares the onboarding work with you and doesn't charge for it.

INTELLIGENCE

We live in a time where the word "smart" is thrown around loosely. Smart, rather than being an accurate descriptor of a system's behavior, has become more of a continuum. At one end you might find a refrigerator with a web browser in it, and at the other you have IBM's Watson beating Brad Rutter and Ken Jennings on Jeopardy!.

A smart payroll system should have the ability to catch errors when they occur and the predictive ability to help humans reduce and avoid errors in the future. This technology can discover an employee forgetting to record a break or enter their recent PTO day into the system before it carries over to a point where fixing it requires costly man-hours and redundant manual processes.

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Benefits of payroll software

If you have ever held a job, the drawbacks of not getting paid accurately and on-time are fairly obvious. For team members, it causes low morale and poor performance. For employers, it creates reputational difficulties at the least and legal difficulties at worst. A good payroll system can eliminate these issues by increasing the efficiency of payroll procedures, which in turn increases a business' confidence that it can pay their employees accurately and promptly.

NUMBER-CRUNCHING

Calculations are the obvious but still most valuable work-horse feature of payroll software. From payroll calculations and deductions that figure out net pay to the non-standard calculations of bonuses, holiday pay, overtime, etc., letting a robust payroll system handle this means less time spent cranking out spreadsheets and more time spent on things like budget forecasts and strategic decisions.

ACCURATE TAX FORMS

A good payroll system can bring some ease to that compliance deadline accountants dread: tax season. Get your tax forms to your employees and freelancers accurately and on-time. Some providers will even offer guarantees, so you can feel confident you'll be covered if there are any issues that come up.

AUTOMATION

Get to your desk in the morning and see a notification that your reports are in your inbox/network folder waiting for you. That's much better than getting to your desk with a day's worth of reports looming in front of you like a charging rhino. A good payroll system can make this a reality. Automation can also go beyond reporting to include things like automated transfers and manager verification of hours.

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COMPLIANCE

Compliance is a necessary headache. Selecting a software package that has not only done the compliance homework for you, everything from IRS to EEOC to Sarbanes-Oxley, but also keeps up with the nearly constant changes in those regulations can be the cure for that headache.

SECURITY

Payroll systems often come with additional features over and above the periodic needs of payroll processing. The retention of those records is also important (see Compliance). Payroll systems that offer secure cloud storage can bring the peace-of-mind to not only compliance but also disaster recovery by having financial information stored off-site.

GOING GREEN

If a provider is still delivering hard copy documents and paper checks, it's wasteful and also slow. Besides being socially conscious, another motivation to "go green" is that employees increasingly want quick access to real-time information on their device rather than on a sheet of paper. Employees overwhelmingly prefer digital access to their wage/salary and benefits information, so look for modern solutions vs. providers that feel stuck in the past.

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Worth the investment

A good payroll system is worth the investment. It removes administrative overhead from your accounting and payroll staff, alleviates obstacles to compliance, and creates consistency that your employees can count on. For the small business owner, it's an important, well-balanced feature of your business that has one foot in the ongoing operation of your company, and the other foot in the long-term strategic plan for your business.

In the era of social media, the reputation of your company and satisfaction of its employees is something worth protecting. Taking the time to do the research into investing in the right one is time worth spending.

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1. Outsourcing vs. in-house?

❏ Outsource	❏ In-House

2. Payroll software, HRIS or HCM?

❏ Payroll Software	❏ HRIS	❏ HCM

3. Compare

FEATURES		
User experience		
Built-in reporting		
Time tracking		
Transparent pricing		
Intelligence		
Flexibility		
BENEFITS		
Number-crunching		
Accurate tax forms		
Automation		
Compliance		
Security		
Going green		

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ABOUT EVEREE

Everee is an intelligent payroll platform for small and medium sized businesses. Started in 2018 by financial leaders who were tired of outdated payroll software, Everee's platform includes an embedded timeclock, mobile app, automated payroll runs and simplified manager verifications. Its Pay Your Way feature boosts employee happiness and retention by allowing people to choose to get paid daily, weekly or on-demand when they need it. Learn more at everee.com.