Eliminate Waste, Standardize Processes, and Improve Flow to Increase PEO Profitability

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While there are many reasons companies engage the services of PEOs, one of the most basic is to increase their profitability. This raises the question, what can PEOs do to increase their own profitability? If you are running a PEO, performing tasks for which your customers are not willing to pay, encountering problems with current processes, and being unable to balance workload due to improper flow between individuals or departments can all negatively affect your bottom line.

What's the solution? You can embrace time-tested process improvement concepts that have only recently found their way into the administrative office environment. These concepts are:

- Identifying and eliminating waste;
- Standardizing processes; and
- Improving and balancing flow.

Waste Not, Want Not

When it comes to operational efficiency, what is waste? In the most basic terms, waste is performing tasks for which your customers are not willing to pay. Although there are seven different types of waste that apply in manufacturing, PEOs should focus on three types of waste:

- **Rework:** Corrections and anything starting with " re," such as re-issue, re-calculate, or re-type;
- **Over-processing**: Making a task more complicated than it needs to be, or performing a task that is not necessary at all; and
- **Stagnation**: Waiting for work to flow from one area to the next in the process.

Imagine what happens in your office every day. What processes in your company contain waste?

Rework

Performing audits due to system inefficiencies is one type of rework affecting PEOs. If a system is not robust or fail-proof enough, manual processes are required to validate and review the work product. How many times have you duplicated efforts by retyping information from a paper form? You can eliminate rework by entering information directly into the system. If you don't request the right information the first time or provide proper instructions before a task is completed, you will undoubtedly have to make corrections.

For example, Jill just completed the new hire paperwork for Jack; at least Jill thought she did. Jill forgot to have Jack sign his tax forms. So, what happens next? Jill has to track down Jack and get him to sign his tax forms. Jack is very busy when Jill calls
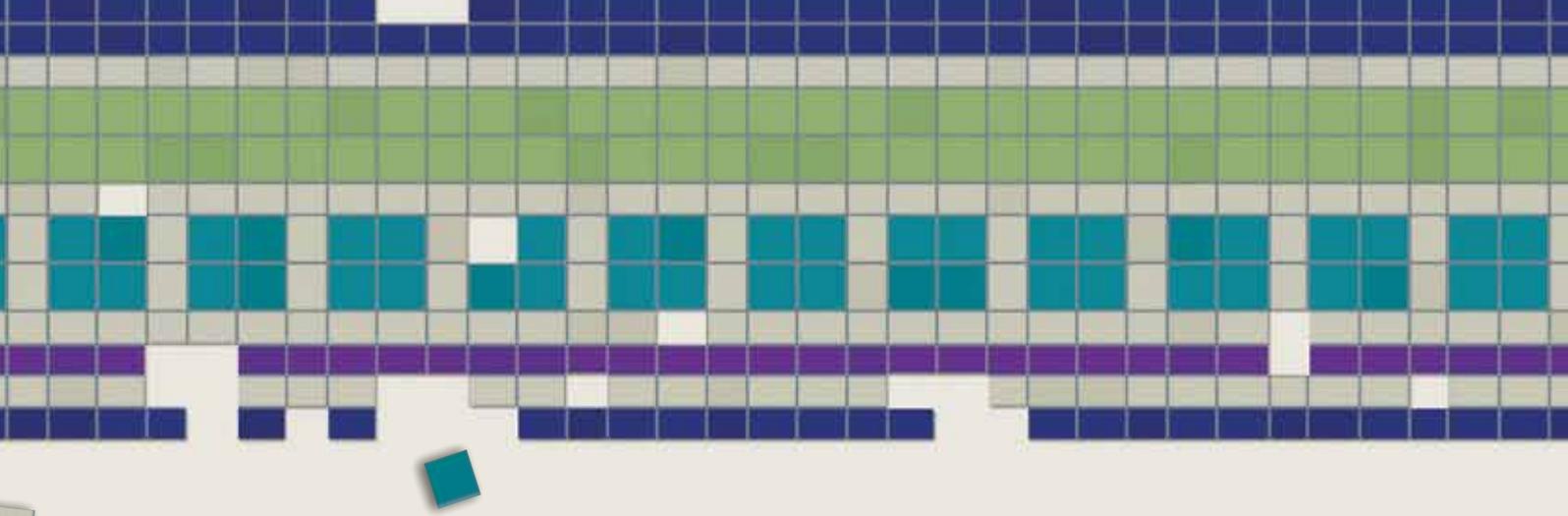
and keeps forgetting to send in the signed forms. What does this mean for the PEO? In addition to consuming a lot of Jill's time, it means the PEO is potentially liable for local taxes not withheld. Can you see how this situation can hurt profitability, both in hard costs and opportunity costs? Jill could easily eliminate this rework by creating a checklist of each step in the process to ensure she does it right the first time.

Over-Processing

Have you ever spent a few hours working on a report only to find out no one ever looked at it? If so, you were over-processing. How do you know you are over-processing? A good way to gauge over-processing is to ask, " If I stop doing this, would there be an impact?" What would happen if you stopped including payees that received less than the IRS threshold in the form 1099-MISC reporting process? Nothing would happen, because if it's below the threshold it's inconsequential—or unnecessary processing. Why would you want to create more work for yourself? Another example is doing something better than necessary. This is as simple as sending a package via FedEx that would arrive in time if sent via regular mail.

Stagnation

In terms of waste, stagnation is a synonym for waiting, and no one likes to wait. Would you want to wait to get your paycheck? Knowing your answer is most likely no, let's examine how stagnation in a PEO could cause this to happen.

How long do you think it takes a PEO to process payroll? Measured by each individual step, the actual work might only take a few hours. However, the delay between the initiation and completion of a process (i.e., lead-time) can add up to several days. The design of a process is often the culprit for tasks waiting in a queue or inbox between the individual process steps. Multiple touches, uncoordinated processing schedules, and artificial bottlenecks inflict stagnation into the process. Look for a large queue or backlog of unprocessed items to identify the areas causing stagnation.

One Size Fits All (Mostly)

When it comes to specific process areas, companies should adopt a one-size-fits-all mentality. Well, mostly. There will always be an exception, but focusing efforts on uniform processes will have the highest impact on efficiency and profitability. If processes are not standardized, only one person can do the job. If you cannot share resources, there is downtime. There are also differences in lead-time, work product, effort, and quality.

For example, Chris and June both set up new clients. Chris has been at the company longer and was trained by his predecessor. When June was hired, Chris was too busy to train June on all of the different automated systems, so June read all of the system manuals and followed some online tutorials. They both get the job done, but when you look closely, Chris and June each follow their own non-standardized processes. So, what happens when Amy is hired and both Chris and June are tasked with training her? There will be a lot of rework and, more than likely, the development of yet another non-standard process.

When standardizing processes, it's not important to immediately have the best process. It's more important to be able to measure a good process and make ongoing improvements in a controlled fashion.

To standardize processes, you first need to understand the current processes by gathering information. Observing a cross-section of individuals will help you understand why they perform tasks, the leading practices around tasks, and the root causes for failures. This allows you to take the best of each person's approach, build on it, and develop the optimal approach for the entire organization, resulting in an even stronger standardized approach.

One of the biggest challenges when developing standardized processes is compliance and preventing individuals from slipping back into old habits. By involving all process stakeholders early on, a PEO can create buy-in from the beginning, which will help mitigate these challenges. Using the development team as ambassadors for the new process will also benefit compliance.

Go With the Flow

When you hear the word "flow," where does your mind take you? The faucet and the drain in your bathroom sink? While not the most aesthetically pleasing visual, it's a good one to have in mind when examining flow in an organization.

What happens when there is a clog in the drain of your bathroom sink? A partial clog allows some water to flow, but not enough. If it's a full clog, nothing passes through. In either situa-
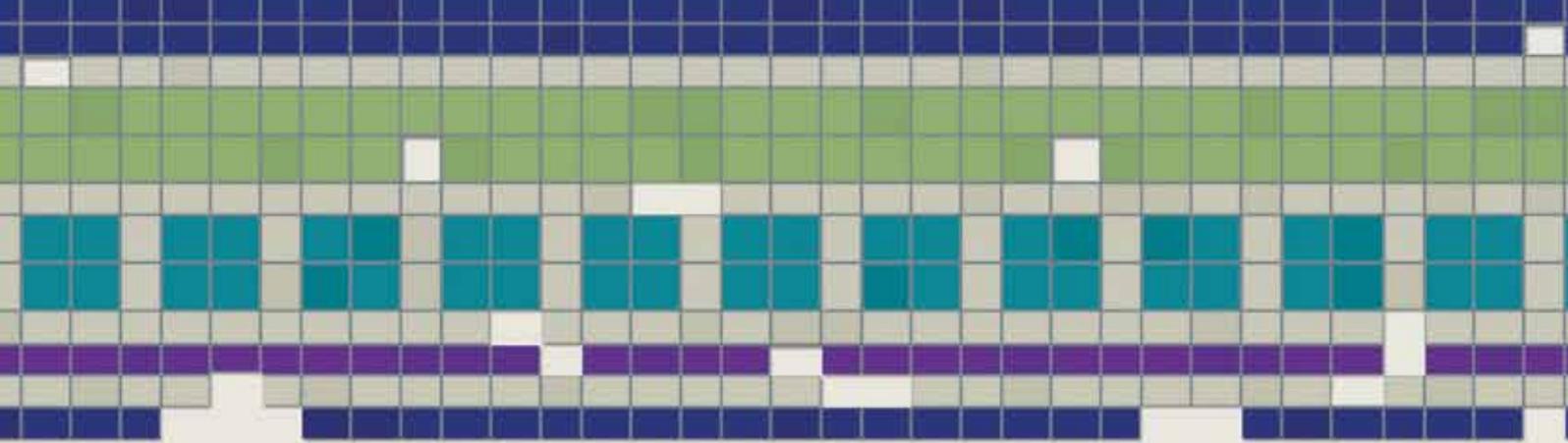
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tion, if you turn the faucet on full force, you are going to wind up with a pretty big mess to clean up. So, what's the solution? Fix the clog and you balance the flow.

Take this example. Larry manages a PEO that offers three different service lines: PEO, ASO, and staffing. Larry's PEO is organized into functional areas (i.e., new-employee setup, benefits, payroll, and client reporting). Each team supports all service lines and receives requests from multiple client-facing representatives.

Beth is the manager responsible for handling benefits for all service lines. Her area has experienced an increase in workload due to client volume and recent regulatory changes. As a result, the design and processing of benefits for staffing, the most workload-intense, have experienced significant delays. How should Larry reorganize his PEO to balance the flow and increase capacity? Instead of the current functional organization of his PEO, Larry can create work groups that are dedicated to specific service lines, each managing its own performance.

Service-Line Oriented Work Groups

Work groups are dedicated to a service line and consist of members from various functional areas. Each group processes a relatively uniform set of requests. Work follows a path specific to the service line. There are defined hand-offs from one step to the next. The employees and hours assigned to each process step are balanced to the workload created by that respective step. The balancing eliminates bottlenecks, or clogs, that would lead to delays or stagnation in the process. Larry can promise his clients a quick turnaround and response to requests as work flows smoothly through the process.

Managing Performance

Each group tracks workflow metrics on a weekly and sometimes daily basis. Using visual or graphical reports to measure success ensures that each group is aware of any issues requiring attention. As members of each workgroup are located close to each other, they develop corrective action from within the group and implement them without delay.

Implementing Flow at Your PEO

A PEO can balance flow by following four critical steps:
- Eliminating rework and over-processing, and standardizing processes when necessary;
- Combining products and cases with a similar flow and work content at each step into small dedicated groups;
- Assigning just enough capacity at each process step to match the workload; and
- Creating visibility for productivity, workloads, and backlogs, and giving each group the authority and responsibility to manage its own production and flow.

By balancing the flow, you shorten response time, increase capacity and productivity, and potentially increase profitability throughout the entire PEO. It also eliminates backlog and stagnation as well as improves customer service.

The Bottom Line

How do you plan to increase your PEO's profitability and efficiency? By identifying and eliminating waste, your PEO can stop performing tasks for which customers are not willing to pay and direct your team's efforts to activities that will further increase profitability. Implementing standardized processes will also eliminate additional costs and increase capacity for your team. Structuring processes and resources between departments and individuals will improve your flow and service levels to both internal and external customers. What is your next step to improve your PEO's bottom line?●

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