



Outsourcing in Your Backyard

The outsourcing of back-office operations to local companies is the new rage among small businesses.

BY KRISTINA SHEVORY

AT A TIME WHEN MANY small-business managers are wrestling with skyrocketing health care premiums, Robert Colliton isn't giving much thought to his firm's doctor bills this year.

In fact, the general manager for Bothell-based Scotsman Publishing Inc. saw his company's medical expenses remain unchanged in 2004. This year, rates have risen by only 5 percent.

His secret? It certainly isn't the company's size. "With only 24 employees, we don't have the buying power for employee benefits," Colliton laments.

What this small business does have is outsourcing might, thanks to the help of a Washington-based professional employer organization (PEO). Seven years ago, the

magazine publisher transferred its human resources department to HR Novations of Bellevue, a PEO that pools its clients to obtain better insurance rates.

Eager to shave expenses and lower costs, a growing number of small- and mid-sized companies are outsourcing their payroll, benefits, insurance and workers' compensation duties to PEOs. These groups, which usually charge either a flat fee or 1.5 percent to 7 percent of a company's payroll, do everything from training managers to screening job applicants. PEOs also co-employ a company's workers to share liability costs and to free small businesses from some of the tedious employee-management issues.

Scotsman Publishing has joined what appears to be a hot trend in the business community. According to recent studies, a growing number of small businesses are outsourcing back-office operations to save money and keep up with federal and state regulations.

"It'd be virtually impossible to stay on top of everything," says Colliton. "I feel confident we're current [with regulations]."

While they operate below the radar screen, PEOs actually started more than 20 years ago to help companies reduce their workers' compensation expenses. The firms have since added benefits management and payroll processing. Over the years, PEOs have expanded to help companies keep up with increasing regulations.

"Government regulations are a PEO owner's best friend," says John Heaton, president and founder of Pay Plus Benefits, a Kennewick-based PEO. "Every time you turn around, there are more regulations you have to comply with."

PEOs have also helped many small businesses cut costs enough to maintain company health benefits—an increasing rarity today.

"You can't really justify a human resources staff unless you have at least 50 employees," Colliton says. "A PEO gives us the benefits of a full-service shop." **SBM**

ILLUSTRATION BY LEVI HASTINGS

