



Spruce Valley Payroll & Services:

Small firm helps its brethren navigate payroll

By Nick Woltman, *PIONEER PRESS*



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Bernie Schwab and Terry Johnson in the office at the Spruce Valley Payroll and Services in Farmington on Thursday morning May 2, 2013.

For employees, payday is the best day of the week. For employers, it's often a different story.

Payroll tax filings, W-2 forms and distribution of funds can be intimidating for even a veteran business owner. And mistakes can have expensive consequences.

It's this type of "self-inflicted wound" that typically brings business owners into the Farmington offices of Spruce Valley Payroll & Services, says President Bernie Schwab.

"Business owners have this ambient stress level that's always happening regarding payroll," Schwab said. "If it's not done right, it can create chaos."

Spruce Valley specializes in the payrolls of small businesses -- all of their clients employ fewer than 100 people. Their own payroll includes

Schwab, CEO Terry Johnson and three employees.

When they started out six years ago, it was just Schwab and Johnson working out of a small building at Spruce Valley organic farm, which is operated by Johnson and her husband and is the payroll company's namesake.

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Both Schwab and Johnson came to the payroll business from corporate backgrounds.

The two had what they now say were unrealistic expectations of how much business they would be doing early on. Both now say the slow growth they experienced initially was a blessing in disguise.

"We had this expectation of tons of new business right from the get-go," Johnson said. "Fortunately, it didn't happen that way."

While they had hoped to be servicing about 100 clients by the end of that first year, Johnson and Schwab estimate they brought on fewer than half of that. And they had trouble keeping up with even those, hiring their first employee after only a few months.

By December 2012, they'd hired ►



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Payroll administrator Allyson Henry from Farmington at work in the offices of Spruce Valley Payroll and Services in Farmington on Thursday morning May 2, 2013.

► two more people and moved into their current offices in downtown Farmington. Spruce Valley now serves about 260 clients, most of them in the Twin Cities.

Schwab says the company's revenue grew 26 percent in the past year. He expects roughly the same rate of growth in 2013.

And potential new clients are popping up all the time. Every month, new businesses register with the Minnesota secretary of state's office, many of them squarely within Spruce Valley's target range of fewer than 100 employees.

But marketing can be a hassle. Many small-business owners are skeptical about whether their handful of employees actually warrants paying an outside firm to handle payroll -- and the cost can vary greatly.

They soon find out that managing the books takes a whole new skill separate from what brought them to the business, Johnson said.

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taxes,” Johnson said.

But the landscaper and other small businesses have at least one concern in common: cash.

“For small businesses, cash is king,” Schwab said, adding that the business owners they seek to work with are often uneasy about handing such a large share of their money over to Spruce Valley in advance of payday or tax filing deadlines.

To calm their fears, Johnson and Schwab don't hold their clients' money, a practice called impounding. Spruce Valley moves money directly from their clients' accounts to the IRS and to employees. But this can be a liability for the payroll company.

If a client has insufficient funds to cover a payment, Spruce Valley is on the hook for the balance. This has happened with fewer than 1 percent of transactions since Johnson and Schwab started the business. In just about all of the cases, it was a timing error for transferring the funds and the clients made good, Johnson said.

They do their best to mitigate this risk by carefully selecting who they

take on as clients and educating them on how to navigate common payroll pitfalls.

“Payroll's one of those areas that you don't want to play around with,” Schwab said. “I always consider us a cheap insurance policy.”

In her own words: Terry Johnson

On establishing credibility as a new

business: “When you're starting from scratch, it's a leap of faith for people to work with us. It's really them giving you the opportunity to prove yourself. We take that very seriously.”

On managing money as a business owner:

“When it's your account and not a corporate account, it's a whole different reality. I would be prudent whether it's a corporate account or my personal account, but it's a different mentality. You really inspect it a lot more closely.”

On the responsibility that comes with managing another business' payroll:

“The big thing when I'm working with a business owner, I feel like I'm responsible for their reputation to their employees. If an employee gets an incorrect check, they're going to look at their boss, not me. We're extremely conscious of that.”

On working with small businesses as a

small-business owner: “Knowing what that small-business owner is dealing with has given us even more compassion for them. ... I certainly can relate to the small-business owner trying to manage their money to make payroll and tax payments.”