

Vertical SaaS
platforms unlock
growth with
embedded payroll

check



After a decade-long evolution towards all-in-one software, small businesses now have platforms dedicated to making their lives simpler and operations more efficient. Today, many of these businesses rely on a single operating system to handle everything from managing and scheduling employees to hiring to accepting payments from customers. These vertical software-as-a-service (vSaaS) platforms have captured huge market share in a short time by radically improving the day-to-day operations of small businesses, which have been long underserved. More than 860,000 restaurant locations use Toast to manage their business. Similarly, about 37,000 for-profit childcare centers rely on Procure to optimize their day-to-day operations. Today, these platforms are almost a one-stop shop.

Payroll is a natural extension for these platforms, who are always looking for new ways to more deeply serve and compete within their market. But for too long, it's been too complicated and expensive to build payroll businesses from scratch. That's where embedded payroll comes in. Embedded payroll providers make the core aspects of payroll infrastructure more accessible, so vSaaS platforms can focus on what they do best — building deeply customized and easy-to-use software that solves their customers' biggest challenges.

As a fairly new technology, embedded payroll offers many vSaaS platforms a first-mover advantage. With a native payroll offering, these platforms can differentiate, unlock new revenue streams, increase customer lifetime value and stickiness, and attract new customers that are tired of their outdated and ill-fitting payroll solutions.

In this ebook, we'll walk through the massive opportunity that payroll unlocks for vSaaS platforms; why embedded is a better strategy than previous paths to payroll; and how to pick the right partner to help launch and scale your payroll businesses.

The Payroll Opportunity



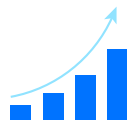
CHAPTER ONE



Payroll is bigger than you might imagine. In 2020, \$8.9 trillion was paid out in wages in the United States alone. Payroll providers occupy a position of extraordinary influence thanks to their control over this volume, and the industry's largest players have been around for half a century. Today, the market cap of payroll companies stands at over \$150 billion, with 10 valued at more than \$10 billion. And the market continues to expand, with an estimated compound annual growth rate (CAGR) of 8.3% between 2020 and 2027.¹

¹ <https://www.readthegeneralist.com/briefing/check>

With numbers like these, the payroll opportunity is hard to ignore. And there is even more value to be earned than incremental revenue from a new product line. Building the business case for payroll comes down to three key value-adds:



Increase revenue

Payroll is a profitable business. In fact, it can notably lift average revenue per user by up to 50%, with standard pricing of \$6 to \$10 per employee per month. Whether you package payroll as your core offering or as an upsell, the universality of payroll means you can sell to a wide array of potential customers.



Differentiate your platform

As a vSaaS platform, you are already an expert on your customers' needs, quirks, and pain points. This experience offers valuable insight into how to build a payroll offering that is truly differentiated in your market. For example, restaurants have specific needs around tips, hourly pay, and multiple workplaces, while a construction business would need to account for multi-location processing while complying with both labor regulations and union rules. vSaaS providers that already offer time tracking and scheduling have the advantage of being able move hourly data seamlessly to a native payroll solution.



Improve customer lifetime value and retention

Payroll is an inherently sticky product. Publicly traded, legacy payroll businesses like Paycom and Paylocity see annual gross churn of 7% and 8%, respectively — effectively the same as the average business destruction rate of 8.5% (US Census). This means payroll has very low voluntary customer churn. Once customers onboard to payroll, they are likely to stay on your platform longer, try out complimentary products, and increase total spend.



Beyond these immediately tangible benefits, payroll-as-a-service opens the door to downstream fintech and HR product expansions. Payroll providers are able to quickly pivot into other monetization strategies like health insurance, workers' compensation, 401(k), lending, and other benefits. This is representative of a larger revolution taking place in vSaaS, as embedded finance providers like Stripe lead the way to make it easier than ever for these platforms to become major financial services providers. The question is, which will capture market share first?

Small businesses, big potential

Payroll also benefits from being universal. Every business – regardless of size, industry, or age – must pay its workers. However, there is a specific segment that benefits from payroll innovation the most: small businesses.

Small businesses have limited resources and headcount to manage payroll. Often, the person in charge of reviewing hours, onboarding employees, and running payroll is the business owner themselves. This distracts them from what's most important, running and growing their businesses.

It's no wonder that small businesses want simple-to-use payroll solutions that live within the systems they already use. There are three main reasons for this:



System consolidation

Today, if a small business isn't calculating payroll by hand, then they're generally using a third-party provider. This means they have to manage multiple systems simultaneously, moving data from one system to another. vSaaS platforms already solve a major source of this tool-switching pain — but payroll remains a stubborn holdout. Adding payroll can help small businesses continue to improve efficiency and lower total software costs.



Payroll automation

Payroll administrators are often forced to manually transfer data between their back office system and their payroll provider. This not only takes hours of manual work, but it increases the risk of payroll errors. According to the American Payroll Association, automation helps businesses reduce their payroll costs by up to 80 percent. Likewise, a QuickBooks Payroll survey found that small businesses currently spend about 21 days per year on payroll taxes. These issues can result in employees not getting paid on time, or even fines. Some estimates suggest that a quarter of all workers have had payroll errors impact their paychecks during their working life.



Specialized requirements

Every industry has unique payroll needs. And yet, most payroll providers today are industry agnostic, one-size-fits-all solutions — which means they don't truly fit anyone. This creates pain for businesses that have specialized requirements, like those with hourly or multi-state workers, or performance-based pay requirements. Due to the nature of their business, many employers have little choice among providers.

vSaaS platforms have a unique advantage when it comes to creating targeted payroll solutions for small businesses. For many vSaaS platforms on the rise, payroll is the key to becoming a true all-in-one solution for their customers.

Why embedded payroll?

CHAPTER TWO



Payroll clearly has massive potential to fuel the growth of vSaaS platforms in the next five years. So, what is standing in the way?



Until recently, becoming a payroll provider was not for everyone. It's not only a complex product to bring to market, but it also requires deep industry knowledge and technical expertise to get a payroll business up and running. Historically, there were three options for building payroll businesses: build in-house; buy a payroll company; or set up a referral program with an existing payroll provider.

Option 1: Build payroll in-house

The most obvious way to build a payroll offering is to do it yourself. Owning the design and development in-house is a sure-fire way to ensure you can deliver a high-value product that has all the bells and whistles needed to attract the segments you choose. However, building a payroll product from scratch is not something to be taken lightly. It can be a multi-year, multi-million dollar effort that requires significant build time, upkeep, and attention. Square managed to build a payroll system in-house, but even with a large team and deep pockets, it still took the company nearly half a decade and tens of millions of dollars to get right. And, they are still burdened with maintaining it.

This hidden complexity is due to the intersectional nature of payroll, which is affected by geographical, legal, and financial considerations. Building the core infrastructure to manage tax calculations, money movement, and tax filings can take years. There are more than 6,000 taxes and 1,000 jurisdictions in the United States alone, as well as 600+ tax forms across 100+ government agencies. On top of managing the tax complexity, payroll providers must also act as stewards of significant sums of money. This fiduciary responsibility means additional licensing requirements, and systems to manage risk and fraud.

While building from scratch offers vSaaS platforms complete control over every aspect of their product, and enables deeply customized experiences – most platforms have simply found payroll to be an inaccessible investment.



Options 2: Buy an existing payroll provider

Platforms who want to skip much of the build process might explore the idea of acquiring an existing payroll business. The thinking goes that this approach offers moderate control over the product post-integration and delivers faster time-to-value for end users.

Toast, an all-in-one platform for restaurants, is one of the few vSaaS platforms who have managed to do this successfully. In 2019, Toast acquired StratEx to enter the payroll space. It proved to be a game-changing move. The company's recent S-1 filing showed that more than 50% of new customers tack on Toast payroll when signing up. But with StratEx having cost a rumored \$50 to \$60 million, this isn't an option for many earlier-stage vSaaS businesses.² Moreover, the full integration took the better part of two years, demonstrating how tricky integrations can be and the major ongoing investment that is still required.

² <https://www.readthegeneralist.com/briefing/check>

Option 3: Set up a third-party referral business

Platforms whose customers want a payroll solution but have little interest in owning the product experience for themselves could turn to a referral model. While lightweight and a seemingly easy financial win, this approach does not provide any long-term customer experience improvement or underlying economic advantage. This is not building a payroll business so much as it is 'checking the box' for a payroll solution. It also degrades the vSaaS value proposition of an all-in-one solution for business needs.

BUILD

Build a payroll engine from the group up

Pros:
High product control.
High customer value.

Cons:
Takes years.
Expensive.
Complex.
Hard to maintain.

BUY

Buy & integrate an existing payroll company

Pros:
Medium product control.
High customer value.

Cons:
Long integration.
Expensive.
Hard to maintain.

REFERRAL PARTNER

Create a referral process w/3rd party

Pros:
Lowest effort.
Cheap.

Cons:
It doesn't really work.
Bad for customers.
Low revenue potential.
Low customer value.

EMBED

Build on Check's API

High product control.
Lower effort.
Easy to maintain.
High customer value.



The new way forward: Embedded Payroll

Now, there is a fourth option. Embedded payroll enables platforms to build a payroll business directly in their platform, in a fraction of the time. vSaaS businesses get to offer payroll as one of their core products, while also being able to customize the offering out the gate, ensuring product-market fit.

Embedded payroll providers take on the heavy lifting of payroll. They calculate wages, file taxes, move money, and manage the associated compliance and risk burdens. Leading embedded payroll solutions also offer key services such as operational and go-to-market partnership for your payroll business.



Accelerate time-to-market

Core infrastructure takes time to build. Consumers of core infrastructure, though, can expand at the speed of software. The right embedded payroll provider will not only remove much of the heavy lifting for product teams, but will also help train and ramp your payroll operations team. Meaning you can drive revenue and deliver more value to customers, sooner.



Lower development costs

Embedded payroll is much less expensive than the build or buy options. While there is still significant development effort required, the majority of the financial, legal, and geographic complexity is managed behind the scenes. Some providers offer pre-built software components to accelerate your build further. On average, embedding payroll is five times faster than building a payroll business from scratch.



Meaningful product control

Embedded payroll providers focus on backend payroll processing, meaning the front-end experience is completely ownable. vSaaS platforms can therefore build to the exact needs of their customer base — whether they need to support hourly workers, garnishments, commission based pay, health benefits, or other payroll needs.



Easier to maintain

Maintaining your payroll product isn't just about keeping up with technical debt. Taxes at the federal, state, and local levels change all the time. It is the responsibility of the payroll provider to stay up to date on these changes, and ensure compliance. Missing or misinterpreting these changes can result in penalties, inflated taxation rates, and underpayment of wages. Embedded payroll providers will take care of this for you, ensuring that your product is compliant as laws change.



High customer value

Ultimately, embedded payroll gives vSaaS platforms the freedom and flexibility to build payroll experiences that their customers love. An embedded payroll solution has the potential to solve massive customer pain points and increase platform value overall. All-in-one platforms that offer payroll have the flexibility to charge a premium for their differentiated value.



Choosing an embedded payroll provider

CHAPTER THREE



Building a successful payroll business is about more than bringing together the building blocks for a functional product. Once you add payroll on the roadmap, then comes the non-trivial task of building out the teams who will grow, operate, and maintain your payroll business.

This transformation across your operations, support, and go-to-market model is critical to your success as a payroll provider. These teams must be prepared to help employers on the platform, as well as their employees, get the service and support they need.

The right embedded payroll provider should look more like a partner than a vendor. One that offers not only modern payroll infrastructure, but that can also enable your teams with support and training. The following are a few key considerations when choosing your embedded payroll partner.



Proven engagement model

It's a huge advantage to work with a team that has done it before. These experts can help you create a business case, plan your build, and advise on important milestones, all based on experience. An implementation team dedicated to your success can be the difference between launching in 6 months or 18.



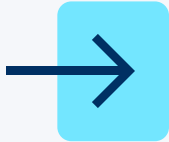
Platform maturity

Every industry has unique payroll requirements. Before moving forward with a partner, you need to understand the needs of the customers you intend to serve. A great embedded payroll partner will be able to help you understand those needs, as well as your own technical requirements. That said, while features are important, they never trump compliance. It's critical that you trust your provider to keep up with local, state and federal legislation. They should also be conducting regular audits



Operational support

Payroll is a game of edge cases. You'll need a team on call who has deep knowledge around the intricacies of payroll. Operational support can span from training on payroll fundamentals, to process design, to embedded operational support for onboarding new companies. No matter what, you'll want a highly responsive team of technical and payroll experts to support you as you scale. Talk to those experts and make sure they mesh well with your team.



Go-to-market strategy

If you launch your product and no one is there to market it, will it sell? Despite the clear value a vSaaS platform payroll product brings to its customers, it would be a mistake to assume your new payroll product will sell itself. Find an embedded payroll partner who is willing to provide strategic support and expertise around what makes payroll launches succeed in their first year.

Overall, your embedded payroll partner should understand the needs and priorities of your business. Every team — from engineering and product, to support and operations, to go-to-market — must be in lock-step to ensure you realize the potential of embedded payroll. Ultimately, you want to find a partner who defines their own success around the growth of your business — not just winning the deal or finding opportunities to cross-sell. For payroll, but also future downstream monetization strategies outside of core payroll.

Vertical SaaS platforms build successful payroll businesses with Check

As the first embedded payroll platform, we at Check believe it is the best way for vSaaS companies to build high-value, high-growth payroll businesses. We combine best-in-class technology and services in order to help companies like ServiceTitan, Procure, Dripbox, and CareSwitch differentiate their platforms as true all-in-one solutions.



Our goal is to simplify the complexity of payroll for our partners, who collectively serve more than 250,000 businesses and over 4 million employees. We manage the payroll specifics so they can focus on what they do best, meeting their customers' unique needs with a holistic platform that includes payroll.

Check serves more partners than any other embedded payroll provider, offering consultative support through every step of the engagement. We've helped vSaaS platforms like ServiceTitan design, build, and launch payroll that is uniquely tailored to their use case.

For example, ServiceTitan's customers were using generic 3rd-party payroll tools to pay their workforce, but struggled with efficiently handing off wage calculations for standard field service requirements, such as performance-based pay patterns and multi-department timecards.

With Check, ServiceTitan was able to add platform value for their customers with a payroll product built specifically for the needs of technicians, as well as hourly and salaried office employees. Because timesheets, commissions, and other relevant job information was already stored in ServiceTitan, this integrated payroll offering makes it easy for customers to save time and reduce payroll errors.



“Check made it possible for us to streamline payroll processing for our customers by reducing the complexity of building a payroll product within our platform.”

Ed Yip, Vice President of Product at ServiceTitan

We're excited for the rapidly growing vSaaS industry to continue to unlock superior value for the businesses they serve. We believe payroll is a crucial next step for these platforms to become true all-in-one solutions for their unique customer segments.

If you're interested in learning more about Check, please reach out. We'd love to discuss the payroll opportunity in your business.

<https://www.checkhq.com/contact>