

HUMAN RESOURCES

The CEO's CEO BY ROBERT A. MAMIS

An interview with former Inc. 500 CEO Tom Golisano of Paychex. He tells what it's like running a now-public company and how he has managed to maintain a steady growth rate.

Face to face

Tom Golisano's solid brand of leadership has helped Paychex, a former Inc. 500 company, grow to \$700 million in sales--and made him one of the country's top managers

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Like many an alumnus of the *Inc.* 500, B. Thomas Golisano harbored no grand expectations when he began his payroll-processing company in Rochester, N.Y., in 1970. His start-up goal was to attract as clients 300 small businesses--a new market for payroll services. "I'd drive down the street and look at all the businesses and realize there are lots of small companies in the country--and not many of them could handle payroll functions accurately," he recalls of the inspiration that made him quit a big-company sales-management position and risk everything to start Paychex.

"I came up with a concept for a new product--nobody in payroll processing in those days was doing payroll tax returns as part of their service. But ideas are hard to sell," says Golisano. His start-up cash--\$3,000--lasted about six weeks. "Then I used credit cards, I took out consumer loans, and I fudged. I sent out several thousand pieces of direct mail. My nieces and nephews licked the envelopes at night." It took nearly five years to attract those 300 customers, during which time Golisano went without a paycheck himself.

By 1982 Golisano's company had earned the eighth spot on that year's *Inc.* 500 and was well on its way to achieving the steady, predictable growth rate that is its hallmark today. (To read about the learning curve of those early years, see "How to Build an *Inc.* 500 Company," December 1988.) In 1983, after 12 years as a private company, Paychex went public. Over the past 10 years, stockholders have been treated to a 34% compounded growth rate. Paychex employees have fared equally well: more than 100 have become millionaires thanks to stock options. Now, with revenues of \$735 million, Paychex has 270,000 clients, 4,300 employees,

and 98 offices in 37 states. *Inc.* contributing writer Robert A. Mamis caught up with the 56-year-old Golisano, now CEO and chairman of the company, at its Rochester, N.Y., headquarters.

Inc. : How does Paychex grow at the same predictable rate year after year? Now that you have more than 200,000 clients, aren't you close to exhausting the market's possibilities?

Golisano: Not even close. We have less than 5% of the market as payroll clients, and the industry as a whole has less than 15%. So there's still plenty of room. We grow our client base at a prescribed rate by adding to the staff of our sales force at a prescribed rate. Client growth of 11% to 12% a year is the number we've grown comfortable with over the years. Factor in a modest price increase of 2.5% to 3%, and with our ancillary products--tax returns, human resources, 401(k) plans, employee leasing, our new debit card--that keeps our revenues growing in the 18% to 20% range. If we do 20% on the top line, because of fixed infrastructure costs, management, facilities, and so forth, we'll do better than 25% on the bottom line. In fact, we just had our sixth consecutive year--fiscal year '97--of doing better than 34%.

Inc. : Do you have an explicit figure for expanding your sales staff? And do they have quotas and that sort of thing?

Golisano: Ten percent a year. With a small gain in productivity from the old staff, that gives us that 11% to 12% client gain. We could probably do it faster, but I don't know if we could do it faster consistently. As for a quota, this year we expect salespeople to sell 143 new clients each. That's up from 141.5 or so in '96.

Inc. : Do you have a mission statement?

Golisano: Sell clients, keep them, do it profitably. I recite it at every employee session.

Inc. : How often would that be?

Golisano: Once every two months we have what's called a CEO brown-bag session. During lunch we get 40 to 60 employees. I do a slide presentation on the company, and people ask me questions. Now that every employee has stock options, another session we started is an employees' stockholder meeting. We hold it the day before the annual public meeting, and we bus 1,000 employees from headquarters to a convention center. I make an hour-and-a-half-long detailed presentation, just as if they were public shareholders. The next day we do it again at the actual meeting. We've been getting more than 500 public shareholders.

Inc. : Have you ever had any second thoughts about going public?

Golisano: I've never regretted it. We could have stayed private. Because of the way we

started--Paychex had about 100 stockholders by 1983--the issue was liquidity, not growth. But as it's turned out, being a public company in the payroll-processing business has a lot of other advantages. A major one is recruiting, being able to offer employee stock options. Plus there's the market benefit of public awareness. We handle approximately \$40 billion of clients' money annually through our taxpaying department and direct-deposit department, and any client can tell from our publicly disclosed financial statements exactly how strong our balance sheet is. That's very important. And there's a personal reward. I actually enjoy the relationship we have with the people on Wall Street. I enjoy the interchange, and I like the challenge of underpromising and overdelivering. Things I do every day have a great impact on whether or not we're going to make those earnings. But I'm not one of those who complain that Wall Street makes you run a company from quarter to quarter. Maybe Wall Street does look over your shoulder, but that presence--you can almost use the word pressure--adds a level of structure and discipline that's beneficial. It helps you advance without making mistakes. And since we're in the public trust, I don't see why that's bad.

Inc. : What has been the most surprising and most rewarding aspect of turning a small private company into a large and public one?

Golisano: That being public is *more* entrepreneurial, in a sense. The leverage of running an organization like this is huge. Paychex has a market valuation of \$4 billion. If we do 25% growth in earnings and assume our market value will grow in correlation with that earnings growth, that means our company is going to be worth a *billion dollars more* next year than it is now. Wow! That's entrepreneurship, in my opinion. The reward comes from hearing people say, 'Thanks, you put my kid through school.' And somebody sent me a bouquet of flowers a few weeks ago.

Inc. : An article in *Business Week* last year listed you as number three among all public-corporation CEOs in terms of stockholder return as a factor of how much the CEO was paid. You get a modest half a million or so a year, all told. Are other executives overpaid?

Golisano: I have a huge equity position in this company, so I'm more concerned about my equity state than my annual compensation. I own 12.5 million shares. Multiply that by our share price--\$40 today--and you'll understand why. I actually *lose* money by getting a bonus, because our per-share earnings go down. The value of my stock would be higher if I didn't get the bonus. But yes, I'm in the camp that says not only are too many CEOs overpaid but not enough of them have strong equity positions in their companies. The number of companies where the CEO holds only a tiny bit of stock absolutely amazes me.

Inc. : A buzz phrase that many CEOs like to use nowadays to describe their job is "to create value for our stockholders." It sounds too casual to be meaningful.

Golisano: I disagree. I can't think of anything more exciting to do, especially now that all our employees can have stock. For the employees to be financially successful, they're motivated to make the company successful, and if the company is successful, *all* shareholders are going to be successful.

Inc. : How do you persuade employees to compete on the corporation's behalf?

Golisano: We're not afraid to use terms like profitability and earnings per share. In fact, we emphasize them. We communicate company goals and objectives, and we don't push things under the carpet if we're not on target. We take responsibility for mistakes. Over the years our people have come to realize that if we're successful at those numbers, they'll be individually successful.

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