TRENDS by Mark Gordon | Managing Editor

HEAVY Lifting

Gevity develops a new business model as it slowly discards its old one. Some competitors follow, while some fill gaps left behind by Gevity.

Over the past five years Erik Vonk has seen first hand how slowly big change churns, especially when it relates to what's essentially a do-over of a $650 million publicly traded company's entire business model.

Big change also brings a lot of interested people watching the process from the sidelines, including employees, investors and competitors. That's something else Vonk is witnessing first hand.

Vonk, chief executive officer and chairman of Bradenton-based Gevity, has been leading the company's transformation from one dealing primarily in selling worker's compensation insurance to one that is a full service human resource provider for small and mid-size businesses. In doing that, Gevity is also shifting its customer focus from traditional blue-collar entities such as construction companies to more white-collar style businesses, such as those in the financial industry.

REVIEW SUMMARY

Business. Gevity
Industry. Professional employer organizations
Key. Bradenton-based Gevity, one of the biggest PEOs in country and a bellwether for Gulf Coast PEOs, is becoming a human resource company for small and mid-sized businesses.

Finally, Gevity executives hope the business model change will change its bottom line. The company is projecting that by 2009, a large bulk of its fees will come from human resource related services, not worker's compensation insurance. It bought a human resources firm, HRAmerica, earlier this year to help with the integration of the change.

The strategy is part of the lengthy turnaround process Vonk took on in 2002, soon after Gevity's board called the then-retired former banking and staffing industry executive away from his Georgia tobacco and sugar cane farm.

"The company had run out of wits and was struggling to survive," Vonk says. "It was looking for a new direction."

And Gevity's new direction has the potential to impact more than just the company's employees, customers and shareholders. Competitors, from fellow multi-million dollar professional employer organizations to mom-and-pop companies with just a few hundred clients, are primed to be impacted by the transformation. Gevity, one of the biggest PEOs in Florida and the country based on revenue, is usually a bellwether for the industry.

What's more, the timing is right for all interested observers to be paying attention, as Gevity's gradually business model shift, which Vonk calls a restart, is in its final stages. In addition to releasing some aspects of the transformation in publicly released materials, Gevity executives plan to talk about the transformation June 14 at the company's fourth annual Stakeholder Day at the Ritz-Carlton, Sarasota (See related story).

Mark Wemple

Roger Reynolds, president and chief executive officer of Bradenton-based ABCO Payroll Services, is hoping Gevity's business model transformation will be a boost for his eight-employee firm.

A 'sexy trend'

Roger Reynolds is one of those holding a stake in the process that will be paying attention. Reynolds is president and CEO of ABCO Payroll Services, a growing Bradenton-based firm that has gone after some of the same customers as Gevity, albeit on a considerably smaller scale. ABCO, which focuses on payroll for construction firms and contractors, had revenues of $715,650 in 2006 and is projecting to be just under $1 million this year.

While a mere gnat to Gevity, Reynolds hopes that Gevity's business model transformation, successful or not, will leave a gap in the market. He's betting big that it will: The company recently moved into a refurbished 2,800-square-foot office and is expanding so it can recruit more of the companies that could be left behind by Gevity's transformation.

"Anytime there's confusion and ambiguity in the marketplace," says Reynolds, "it's an opportunity for us."

Several Gulf Coast executives say other PEOs will likely follow Gevity's lead in getting out of the workers comp market in the next few years, similar to how a group of airlines will raise prices soon after another one does it. Michael Corley, president of Bradenton-based PEO Progressive Employer Services, says Gevity has been a trendsetter in the industry and even though his firm doesn't often compete directly with Gevity for clients, he monitors it.

Corley says he's not surprised Gevity wants out of the workers compensation market, as by definition, it's a heavy-risk market. But Corley says Progressive, which had revenues of $46.8 million in that market in 2006, will not be one of the followers.

"The trend will be to do that and it sounds really sexy," Corley says, "but the reality is if you properly manage your risk there is a lot of money to be made in Florida."

An 'ineffective' market

Gevity is seeking to make money in Florida and the rest of the country, and Vonk is convinced that going to the HR model is the only way to get there. The viability of the workers compensation insurance driven-PEO business model, Vonk says, is a "business model [that]

Erik Vonk, CEO and chairman of Gevity

an open book

Gevity is hosting its fourth annual stakeholder day June 14 at the Ritz-Carlton, Sarasota. And even though the agenda includes some traditional annual meeting fare, such as a dinner and a golf tournament, Gevity's pow-wow is set up to be different than other company's events.

The difference, Gevity executives boast, is that they are truly transparent about company doings. This year's event, for instance, includes a session dedicated to the details of the company's business model transformation.

Gevity Chief Executive Officer and Chairman Erik Vonk says several close advisers, including some company board members, warned him that being too open could open the company to competitive risks and second-guessing. But Vonk says he takes the approach that shareholders, clients and employees are all equally important and each entity deserves a clear picture of the company.

Gevity's stakeholder day is open to the public, but the company is asking interested people to register on its Web site, www.gevity.com. For more information contact Patrick Lee in the company's investor relations department, at 1-800-243-8489, ext. 3301 or at patrick.lee@gevity.com

— Mark Gordon

has become less and less viable over the years."

In the 1980s and 1990s, the business model worked, Vonk says. But, he adds, "it lived by the grace of the ineffectiveness of the insurance market."

So as the workers compensation insurance market changed — partially through regulation and partially through sheer time — Vonk, as well as a few other Gevity executives that preceded him, say they believed the company's risk would go up and its margins would go down if they stuck around in the market.

So Gevity began to shift out of it. Slowly. Even today, the company is still in the workers compensation insurance market, Gevity's director of investor relations Anne-Marie Megela points out — although it's under far less risk then it once was.

Vonk says one of the biggest lessons he's learned through the process is that change can be even more complicated than building something from scratch — nearly every decision has the chance to counteract another decision, for instance.

Another challenge specific to Gevity's business model transformation is how Wall Street traders and investors react to it. The company needs access to capital more than ever before, says Vonk, as it looks to grow its revenues and expand its reach with the transformation.

But the company, traded on the Nasdaq exchange under the symbol GCHR, is basically stuck in the middle as the transformation inches along. Its share price has been hovering around $19.50 a share, only $1 or so over its 52-week low.

"You are no longer getting credit for your current performance," says Vonk, "but you don't get credit for the future performance either."

Getting bigger

Gevity has a history of transforming itself. The company has had a large presence in the nationwide employee leasing and staffing industry almost since the day Bill Mullis, a former Review Entrepreneur Award winner, founded it as Staff Leasing in 1984. It went public in 1997 and it changed its name to Gevity in 2000, after a succession of leadership changes that culminated in Vonk's hiring.

Growth for Gevity has come in starts and stops over the past five years, as it went through parts of its transformation. Most recently, it had a quarterly drop in revenue, reporting $161.1 million in the first quarter of 2007, as opposed to $169.7 million in the first quarter of 2006. Vonk, in the company's April 26 quarterly earnings statement, attributed the drop to the loss of legacy clients in the last quarter of 2006. The company earned 10 cents a share for the quarter.

On an annual basis, Gevity reported revenue of $647.9 million in 2006, a 6.4% growth over the $608.8 million it reported in 2005. But its net income dropped 6% over the same time period, from $37.3 million in 2005 to $35.2 million in 2006.

Gevity and Vonk, not surprisingly, took an optimistic approach in the company's latest earnings report. Its long-term performance projections include 15% year-over-year growth in net revenues, a 15% to 20% increase in year-over-year operating income and a 30% dividend pay out.

And Vonk says there could be greater growth to come in the next several years, all stemming from the business model transformation. When it's completely done, says Vonk, Gevity "can become a much larger company than a PEO can ever become."

BY THE NUMBERS

PEOS

The Gulf Coast is the epicenter for the nationwide professional employer organization industry, with four of the top 10 and seven of the of the top 25 headquartered in the area. Here's a peek at where the Gulf Coast PEOs fit in across the country, based on 2005 and 2004 revenues, the most recent available from Los Altos, Calif.-based Staffing Industry Analysts Inc., which tracks the industry.

($ in thousands) Company Company	Headquarters	worksite employees	2004 net revenue	2005 net revenue	%chg.
1. ADP Total Source	Miami	139,000	577,000	703,700	22%
2. Administaff Inc.	Houston	94,000	969,527	1,169,612	20.6%
3. Gevity	Bradenton	136,867	585,481	608,797	4%
4. Paychex Business Solutions	Rochester, N.Y	59,000	54,000	67,000	24.1%
5. TriNet Group	San Leandro, Calif.	16,645	157,035	204,771	30.4%
6. Oasis Outsourcing	West Palm Beach	51,889	67,498	73,936	9.5%
7. FrankCrum Inc.	Clearwater	128,000	111,842	129,054	15.4%
8. Strategic Outsourcing Inc.	Charlotte, N.C	39,000	189,000	211,000	11.6%
9. SCI Companies	Tampa	38,000	121,000	156,000	28.9%
10. Advantec	Tampa	18,932	35,390	35,885	1.4%
11. Selective HR Solutions Inc.	Sarasota	26,500	52,944	60,227	13.8%
19. Progressive Employer Services	Bradenton	14,771	20,738	29,163	40.6%
21. The Nelco Cos.	Bradenton	10,000	l273,081	288,961	5.8%*

*The Nelco Cos. revenues are gross. It didn't release net revenue figures.
Source: based Staffing Industry Analysts, Inc.

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