PROOF THAT OUTSOURCING DELIVERS LOWER TCO THAN IN-HOUSE SYSTEMS

Looking for an “apples to apples” comparison?

In 2003 PricewaterhouseCoopers (PwC) conducted a study on Total Cost of Ownership of in-house payroll and human resources solutions which offered evidence that such systems are more expensive and less strategic than buyers may have realized. In 2004, PwC conducted a follow-up study to determine how outsourcing payroll and HR systems to ADP impacted Total Cost of Ownership. The studies found that ADP clients enjoyed a Total Cost of Ownership that averages 35% less than their counterparts who used in-house systems.

The definition of Total Cost of Ownership (TCO) encompasses not just purchase and installation, but the additional costs associated with owning and maintaining a system – as well as opportunities for improving service levels. As the first study revealed, those additional costs are the danger zone where low TCO becomes elusive and increased productivity becomes expensive. Outsourcing with ADP not only helps make costs more transparent, but offers scale economies and service synergies that result in a lower TCO.

This “apples to apples” comparison sheds new light on the payroll and HR choices faced by large companies. When contrasted with the total costs of owning and operating in-house systems, outsourcing of payroll and HR functions appears to be both less expensive and more strategic.

METHODOLOGY

PricewaterhouseCoopers conducted this extensive 2004 study in order to measure the Total Cost of Ownership (TCO) for ADP clients and create direct points of comparison for in-house system users.1

PwC invited Controllers, CFOs and Financial VPs of ADP client companies to participate in the 2004 study. More than 650 survey responses were returned, including 46 companies with more than 1,000 employees (ADP National Account Services clients). As with the 2003 study, respondents represent many industries and company sizes, with an average size of 6,900 employees. All participating companies outsource their payroll to ADP. At the time of the survey, 54% percent of the participating NAS-client companies reported having an automated Time and Labor Management system, and 22% also outsourced their HRIS to ADP.2

In order to accurately compare TCO across such diverse companies and industries, PwC collected base data that was used to build a consistent picture of total cost. The initial surveys were then followed by more than 200 e-mails and phone calls to clarify responses that fell outside the normal range.

Like its predecessor, the 2004 TCO study brings some surprising facts to light - information that leads to questions about the overall value of in-house systems. But what does this study reveal about payroll and HR TCO? How can you improve your situation going forward?

1 While commissioned by ADP, PwC conducted this TCO study independently and safeguards were in place to ensure data integrity.
The 2004 PwC study reveals that the mean annual payroll TCO per paycheck for ADP clients is $10, or 35% less than the $16 per paycheck cost for in-house systems. Outsourcing to ADP has another benefit – it makes costs more transparent. This is not the case for in-house operations. When identifying the cost components associated with in-house payroll systems and processing, many companies appear to have overlooked a substantial portion of the costs included in that $16 figure.

The most common hidden costs identified by the 2003 PwC study included the following:
- Recurring system upgrades
- IT labor costs incurred for maintaining systems (salaries and benefits loads)
- Non-labor costs incurred for maintaining systems (overhead, facilities, maintenance contracts, etc.)
- The labor cost associated with payroll activities outside of the payroll department (time spent collecting, approving, and preparing employee hours for payroll processing)

In contrast, outsourcing to ADP not only reduces hidden costs, it increases the transparency of the entire payroll cost structure and helps with financial control by converting fixed costs to variable fees.

The TCO for ADP payroll was calculated in the same manner as the 2003 study, and grouped into the following components:
- Payroll System Costs – initial license fees, implementation, upgrades and maintenance
- Ongoing Payroll Processing Costs – labor and non-labor processing fees, including ADP processing fees
- Payroll Time Collection and Approval – labor costs outside of the payroll department associated with collection, approval and preparation of employee hours

In short, ADP saves the average company 35%, providing increased flexibility and control of payroll costs.

HRIS COSTS HALVED BY OUTSOURCING

Both the 2003 and 2004 PwC studies also measured TCO for HR Information Systems (HRIS). The results indicate that the annual TCO for ADP Clients is $40 per employee versus $88 for in-house companies. The more than 50% cost savings reflects ADP’s ability to carve out virtually all one-time and on-going HRIS maintenance and upgrade costs. Because ADP develops, maintains and manages the system technology, ADP clients enjoy substantial savings and insulation from technological obsolescence.

Outsourcing with ADP can cut your Total Cost of Ownership for HR Information Systems in half. Clients also gain financial flexibility and freedom from technological obsolescence.
OUTSOURCING WITH ADP GETS YOU OFF THE UPGRADE TREADMILL

Are you making process or just running in place?

In the 2003 “in-house” study, PwC found “a shortening of cycles in the purchasing decision.” Specifically, system purchasing decisions are now being made every 4-7 years rather than the 7-10 year time horizon commonly referenced. This shortening of the lifecycle may be attributed to the frequency and associated expense of upgrades. The average in-house upgrade occurs every 18 months, and the average payroll system upgrade cost for the major ERP systems comes in at $470K. In contrast, ADP clients save money. The 2004 PwC study of ADP clients demonstrated the financial benefits of getting off the technology treadmill by outsourcing to ADP. The study found that ADP clients had much lower initial systems costs and virtually no costs associated with upgrading. In fact, companies using ADP were paying only 9% of what their in-house counterparts spent for installation and upgrades.

According to the study, it was less expensive for companies considering a change to switch to ADP rather than to another in-house option. This presents an attractive alternative for those looking to make a change that offers both short-term and long-term savings.

Outsourcing with ADP gets you off the technology treadmill. ADP hosts and maintains your payroll or HR solution, so upgrades are seamless, transparent, and included. You also mitigate the risk associated with maintaining tax compliance.

4 Costs reported by companies that have upgraded in last 3 years.
For years super-large companies (more than 10,000 employees) have operated in-house systems on the premise that their own uniqueness and scale economies would produce greater savings than outsourcing could offer. But the 2003 TCO study demonstrated that this is not the case. As the company size increased, TCO per check for companies using in-house systems leveled out at $13. However, the 2004 study showed that TCO per paycheck for ADP clients continued to decrease as the number of employees increased. This suggests that large companies may actually enjoy substantial financial benefits from outsourcing.

ADP's extensive infrastructure allows significant scale advantages when partnered with the scale economies of large clients. Cost savings grow as companies increase in employee size, and companies with more than 10,000 employees enjoy an average TCO that is roughly half that of their in-house counterparts. And, rather than one-size-fits-all functionality, ADP's clients benefit from best-of-breed functionality and strategic best practices specifically designed for large employers.

Outsourcing with ADP offers economies of scale and strategic best practices for large employers. ADP National Account Services is focused on meeting the needs of companies with more than 1,000 employees.
The 2003 PwC TCO study found that in-house systems may appear to reduce costs for payroll and HRIS, but are often shifting costs to budgets where their association is harder to identify. For example, payroll processing costs might decline, but internal processing labor associated with system development and maintenance is likely to increase in proportion.

When considered on a “per paycheck” basis, the total cost of outsourcing with ADP is simple and transparent. Some portion of each check may be attributed to system costs, processing costs, and non-labor costs. But because of ADP's scale and domain expertise, our costs are lower and nothing is “hidden”. The 2004 study showed that ADP’s clients saw dramatically lower maintenance costs, upgrade costs, and processing non-labor costs – more than enough to offset ADP’s fees – essentially reducing rather than shifting costs. So you enjoy the savings, plus the many benefits of outsourcing, and there’s nothing to hide.

PwC’s 2004 study found greater TCO savings where payroll was paired with an automated Time and Labor Management system. Companies using non-ADP TLM did see savings, but ADP clients using both services saw an additional 6% savings.

ADP has been a leader in HR outsourcing for more than 50 years, and offers clients unparalleled breadth and depth of solutions. Not surprisingly, synergies between integrated ADP systems result in greater savings for clients. In addition, ADP combines the best practices from 50+ years of service delivery in all our areas of expertise to deliver seamless service to your employees and managers.

When you outsource with ADP National Account Services you can rely on the leader in the industry, with more experience in providing employer services for large businesses than any other company in the world.
The two studies conducted by PricewaterhouseCoopers offer valuable points of comparison. If your company is still managing payroll
and HRIS in-house, a close examination of the 2003 and 2004 results will point to methods for decreasing your Total Cost of Ownership.
The 2003 PwC study provided strong evidence that in-house systems are more expensive and less strategic than buyers predicted. Then,
in 2004, PwC showed that outsourcing with ADP offers an average 35% improvement in TCO, plus many other benefits associated
with outsourcing.

Companies outsourcing with ADP National Account Services, had a payroll TCO 35% lower than their in-house counterparts and their HRIS
TCO was more than 50% lower. In addition, outsourcing with ADP offers these advantages:
- Hosted solutions from ADP minimize hidden costs and budget shifting
- Transparent upgrades provide new functionality and compliance without the associated costs
- Labor and non-labor costs for processing payroll and maintaining systems may also be eliminated or greatly reduced
- Fixed costs become variable, and you minimize both IT investment and processing time – letting you devote more resources to your
  primary business objectives.

Outsourcing with ADP allows you to tap into best practices, to manage costs more effectively, as well as to ensure compliance and
mitigate risk. These are some of the reasons why our client retention rates are increasing year-after-year while the expected life of
in-house systems is decreasing. When you outsource with ADP National Account Services you can rely on the leader in the industry, with
more experience in providing employer services for large businesses than any other company in the world. In fact, over 5,000 large
employers are taking advantage of outsourcing with ADP.

Sitting down with an ADP representative is the first step to lowering your TCO and regaining control of strategic business decisions. There has
never been a better time because converting to an outsourced solution is now faster than ever. In fact, it’s possible to be enjoying the benefits
of outsourcing in as little as 12 weeks. For more information visit our Web site at WWW.NAS.ADP.COM or contact us at 1-800-CallADP.