ADP National Account Services
Outsourcing for HR, Benefits and Payroll

Michael P. Rooney
Chief Financial Officer
ADP Employer Services

Dear Sir or Madam:

Per your request, enclosed you will find white papers detailing the key findings of two significant studies conducted by PricewaterhouseCoopers.

In 2003 ADP asked PwC to measure the total cost of ownership (TCO) for in-house payroll and human resources systems because we felt that companies may not have a clear picture of all of the associated costs. Then in 2004, PwC followed up with the second study in order to investigate whether ADP outsourcing clients have a lower TCO and to make direct points of comparison.

As you will read, the earlier study offered credible evidence that <u>in-house systems are more expensive and less strategic</u> than buyers predicted. In contrast, this year's study showed that <u>outsourcing with ADP offers an average 35% savings on payroll and more than 50% savings on HRIS.</u>

Even if you are satisfied with your company's solution, we think the information contained in this mailing will help you make better, more-informed business decisions going forward.

I urge you to review the enclosed information thoroughly and evaluate its implications for your business. A representative from ADP National Account Services would be happy to discuss the findings in more detail, and can be reached by calling 1-800-CallADP.

Sincerely,

Michael P Rooney

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PRICEWATERHOUSECOOPERS

The Total Cost of Ownership:
Warning Signs of Hidden In-House Systems Costs

A study conducted by PricewaterhouseCoopers

September 2003

The Total Cost of Ownership: Warning Signs of Hidden In-House System Costs

Executive Overview

Managing costs is without question, a primary challenge for corporate and financial executives today. Although not a direct contributor to profitability, administering payroll and all systems costs for HRIS represents a significant expense for most organizations — one that has a considerable impact on the bottom line. Based on the results of a recent PricewaterhouseCoopers study of the total cost of ownership associated with administering payroll and all systems costs for HRIS, this expense may be much larger than many executives recognize.

In the study conducted by PricewaterhouseCoopers LLP (PwC), several findings indicate that not all costs are clearly evident when evaluating payroll systems. The study revealed that there are two specific components that add significantly to the cost of ownership and are generally not measured or appropriately considered: the non-payroll department costs attributable to time collection activity and the costs associated with payroll systems. As a result of these “unaccounted for” costs, companies that might expect their cost per paycheck to be between $2 - $6 will, when taking these areas into consideration, have an average total cost of $16 per paycheck.

The study found the average cost per employee per year for owning and maintaining an HRIS is $88. There is not a lot of comparison data in the public domain for this metric, but in all likelihood, based on the study’s findings on payroll systems, a large portion of this cost also goes unaccounted for in the average system cost evaluation.

Finally, the study looked at the manner in which systems are being used and the returns that financial executives expect from continued investments in upgrades or the installation of new systems. Several key findings confirmed arguments put forth by various industry experts:

- Only a small percentage of senior financial executives expect any economic value added as a result of continued investments in in-house systems.
- The average in-house system has been upgraded within the last 18 months. The pace of upgrades is even higher among newer systems.
- A large portion of purchased functionality in HRIS goes unused, ending up as shelfware.

This whitepaper has been prepared for ADP, Inc., the sponsor of the PwC TCO study. Financial Executives International (FEI), the pre-eminent professional association for senior-level financial executives, also worked with PwC by publicizing the study and encouraging participation by its membership.

Methodology

The Purpose
Commissioned by ADP, PwC surveyed 181 companies with 1,000 or more employees that process payroll (gross-to-net calculation) in-house. The purpose of the survey was twofold:

- To determine the end-to-end annual TCO of the payroll delivery function
- To determine the annual TCO of the HRIS function (system only).

The Survey
PwC developed and administered a confidential Web-based survey from March 31, 2003 through May 9, 2003. Senior financial executives (CFOs, VPs of Finance and Controllers) were invited to participate. In return for their participation, PwC prepared and distributed an individualized findings report to each respondent.

The Data
Recognizing that companies measure costs differently, PwC defined total cost of ownership in a manner that broke down total cost into its component parts. Asking respondents to provide base data for these component parts allowed PwC to calculate a consistent total cost of ownership using the base data and normalizing data where necessary (e.g., amortizing installation and upgrade costs incurred during the last three years). Respondents were asked to answer questions that quantified all one-time and ongoing costs for the areas of payroll and HRIS. Detailed component descriptions were provided in the survey itself as well as via personal follow up from PwC where necessary.

For the purpose of this study, the total cost of ownership of payroll is annualized, and is the sum of the following components:

- Initial system installation cost[1] – amortized over three years
- Cost of last significant upgrade – amortized over three years
- Payroll process labor costs – salaries and benefit loads in the payroll department
- Payroll process non-labor costs – corporate overhead, facilities, other administrative costs
- System maintenance labor costs – salaries and benefit loads for IT professionals
- System maintenance non-labor costs – overhead, facilities, maintenance contracts
- The labor cost of time and labor management not borne by the payroll department – collecting, approving and preparing employee hours for payroll.

[1] For survey participants who installed a system more than three years ago, $0 was used to reflect the system installation costs in the TCO calculation. For participants who installed a system during the last three years, 1/3 of the cost of their installation was used in the TCO calculation.

PwC contacted participants directly when data fell outside the normal range of responses. In total, more than 400 e-mails and phone calls were made to clarify participant data. Examples of items that required follow up were full-time-equivalent counts and average salaries, clarification of how respondents segregated payroll and HRIS costs, and missing non-labor systems costs. Data corrections were made to the appropriate study records with approval from the participants. This approach ensured that PwC captured total costs, rather than just labor or system costs.

While it may be assumed that best practices have an impact on the total cost of ownership, the study made no attempt to specifically identify and measure this impact. The study focused on cost only. Areas such as the quality of payroll administration, or a comparison of costs between respondent companies (all of whom process payroll in-house) and those of payroll outsourcing vendors, were not included.

Profile of Participants

Companies — 181 companies are represented in the payroll portion of the study. Of those respondents, 164 also provided HRIS information.

The breakdown of participants by company size was as follows:

- 1,000-2,499 employees — *64*
- 2,500-4,999 employees — *59*
- 5,000-9,999 employees — *31*
- 10,000 or more employees — *27*

The average size of companies participating in the study was 6,500 employees. The participant companies all process their payroll in-house, and each has at least 1,000 US employees on that system. Federal and state governments were excluded from the study.

Individuals — Respondents identified themselves as members of the finance, payroll, accounting or human resource functions within their respective organization.

Key Findings and Analysis

The Average TCO for Payroll is $16 per Paycheck

The total cost of ownership for payroll across the 181 participant companies amounted to $16 per check or $459 per employee per year. As would be expected, the TCO of payroll expressed as a per-employee or per-paycheck amount decreases as company size increases. Clearly evident in Figure A below, however, is the diminishing value of that reduction. The largest average reductions occur between the 1k – 2.5k and 2.5k – 5k company size groups. Above that, less significant cost reductions are seen. As company size grows, so too does the cost of systems used to deliver payroll.

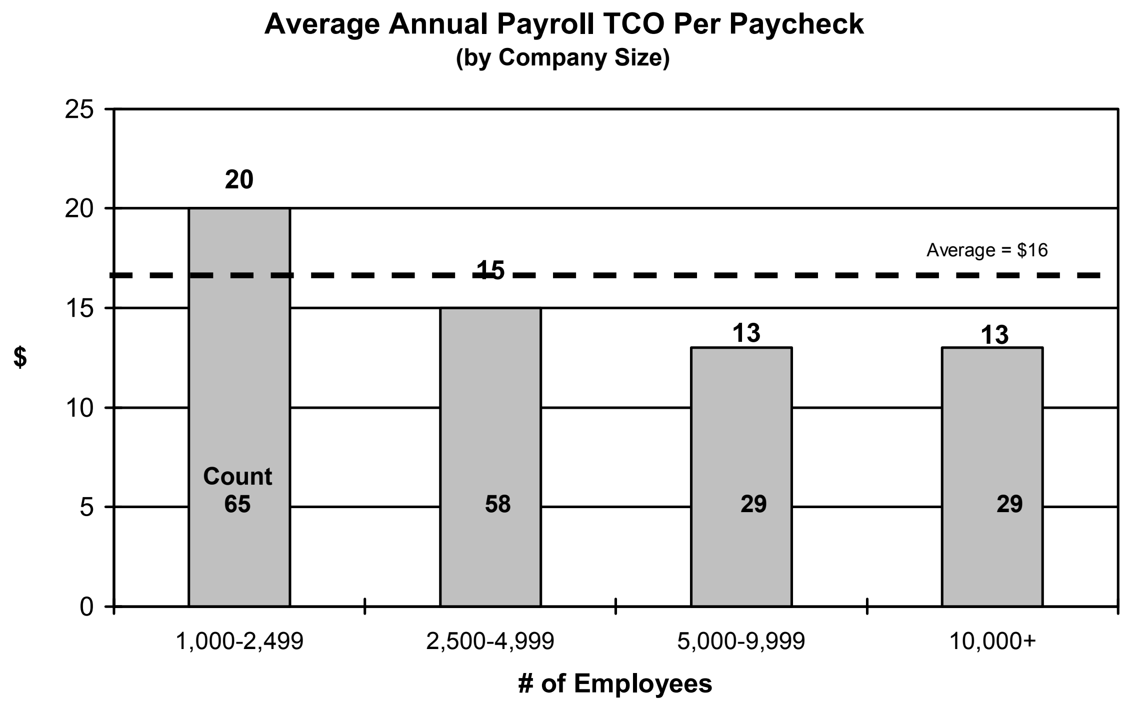


Figure A

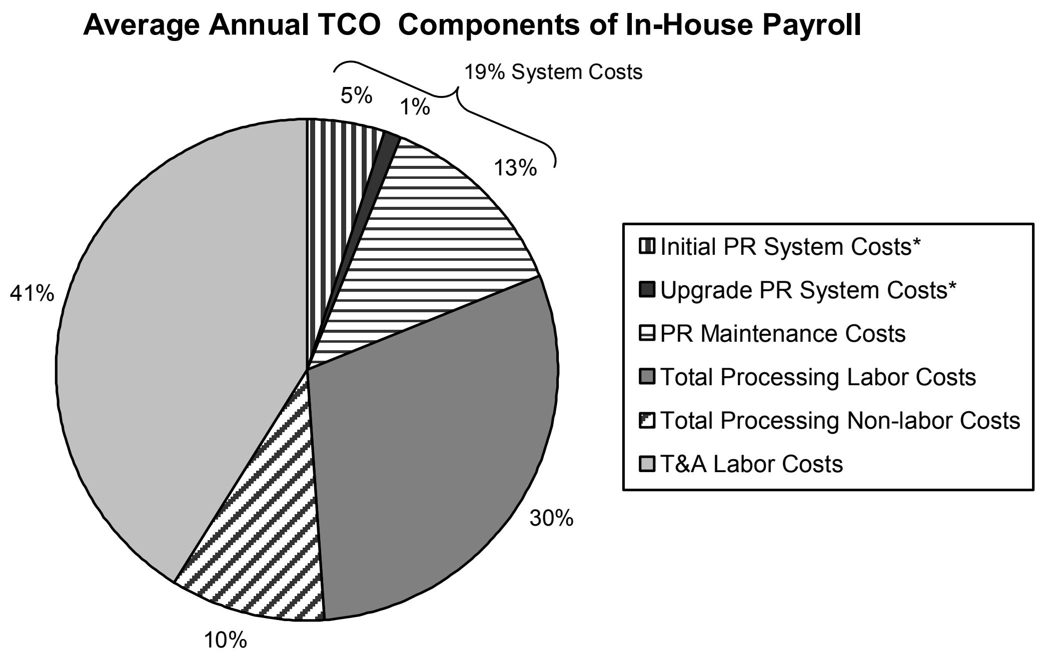
Hidden Costs Account for 60 Percent of the TCO Component Costs for Payroll

As the survey data was calculated, and the individual companies' TCOs were determined, PwC found cost components that may be unaccounted for by many companies' payroll cost calculations. For example, companies that require non-payroll department personnel to perform time collection duties have among the lowest costs per paycheck when payroll department costs alone are considered. However, when the hidden costs, such as those for time collection and approval, are included in the total cost of payroll, those same companies have the highest cost per paycheck.

Two well-known Internet search engines both return 44 results when searching on the term "cost per paycheck" with payroll. Scanning through the results of that search indicates that the cost of producing a paycheck is between $2 and $6. Generally accepted is that the larger the company, the lower the cost, with pay frequency affecting the number by allocating fixed costs over more or fewer checks for the same employee group.

The PwC study, however, showed something quite different. Depending on company size, the actual total cost per check ranges from $13 to $20 per pay, with an overall average cost of $16 per paycheck.

The wide difference in results can be attributed to companies that do not, or cannot, account for the non-payroll costs attributable to time collection activity. In addition the costs associated with ongoing payroll systems maintenance are often considered separately as one-time costs.



** Annual amortized cost for systems purchased or upgraded in last 3 years*

Note: The percentages represent the normalized average component costs for the companies in the study

Figure B

Figure B above shows that, on average, hidden costs account for 60% of the total costs of ownership for payroll. The costs attributable to time collection activity outside of the payroll department account for 41%, and the costs associated with payroll systems account for the other 19%.

Backing these costs out of the analysis leads to costs per paycheck in line with costs provided by the internet search. As will be discussed further in the section on "shifting costs," the ability to pinpoint and accurately account for all hidden costs is critical when focusing on cost management and optimizing the overall payroll process.

New or Upgraded Systems May Only be Redistributing Costs

One of the most striking findings of the PwC study is that the costs of administering payroll reside across multiple departments and respective budgets. None of the 181 payroll survey respondents were able to report their entire payroll-related costs by drawing from a single department budget. As shown in Figure C below, the time and attendance costs and system costs make up a large portion of total costs regardless of company size.

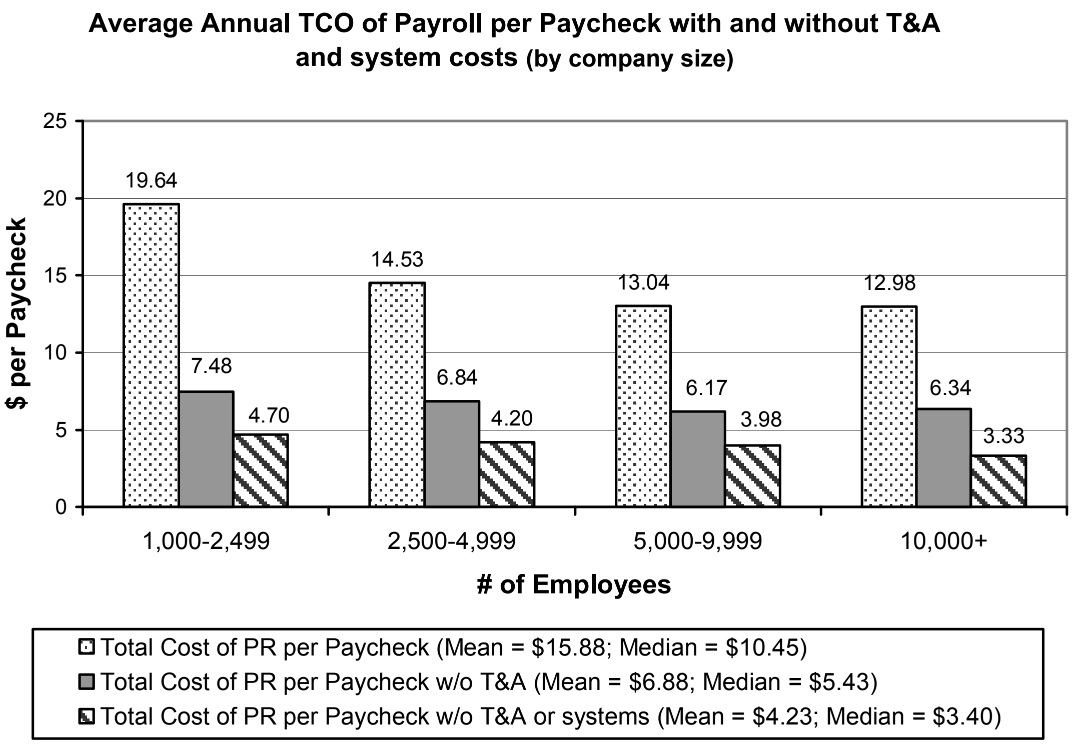
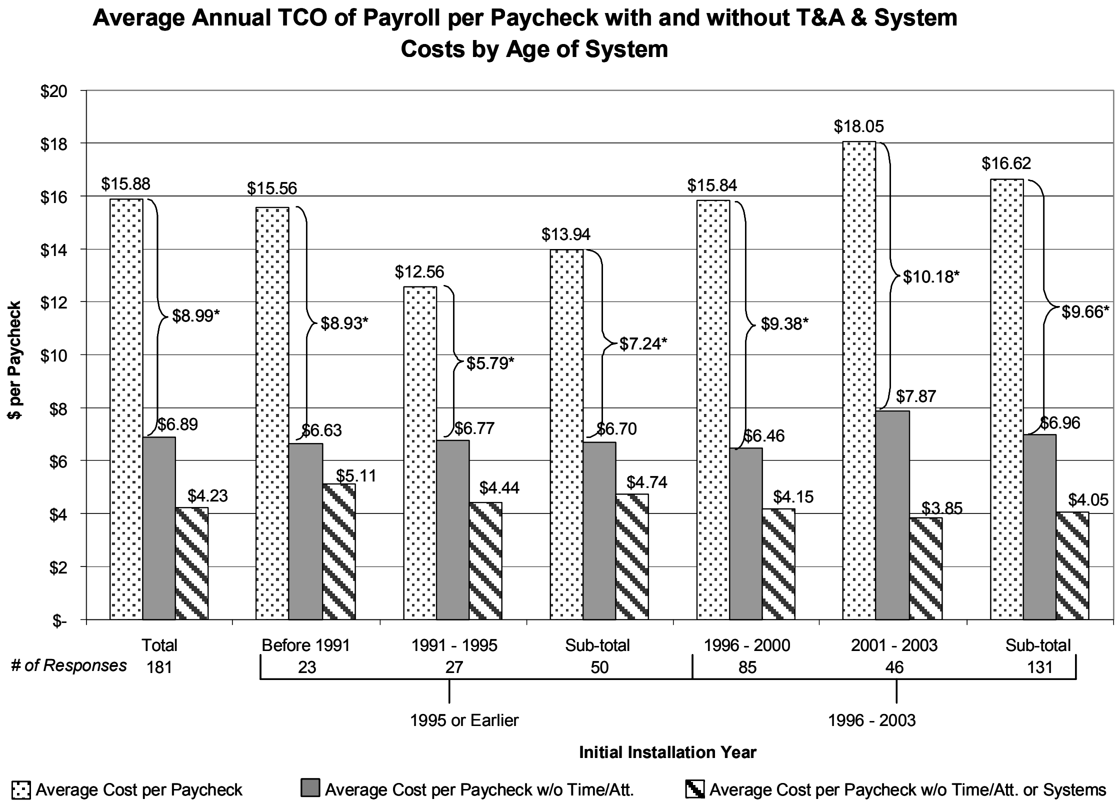


Figure C

Another surprising finding of the study was that more recently installed systems did not reduce the per paycheck processing costs (without T&A and system costs). As shown in Figure D, TCO per check was roughly the same for all participant companies without any noticeable difference based on the initial installation date of their systems. However, there is a noticeable difference in the systems costs of these companies ranging from roughly $1.50 per paycheck for systems installed before 1991 to roughly $2.30 per paycheck for systems installed between 1991 and 2000 and $4.00 per paycheck for systems installed in the last three years. These are costs that companies are likely accounting for in their IT budgets and may not be including in their payroll cost calculations.



* = T&A Costs

Figure D

As shown in Figure D above, costs per paycheck including time and attendance costs remained approximately level over this same period of installation dates with the exception of an increase to $7.87 per paycheck for systems installed between 2001-2003. Personnel who are not part of the payroll department, or its budget, perform these tasks which include collecting and approving employee hours and preparing them for payroll. Because much of the work and associated costs have been shifted outside of the payroll department, a company can look very efficient from a payroll processing standpoint. Even with the advent of new technologies that can streamline the T&A process (e.g., employee and manager self-service), the cost impact of time collection continues to be notable and suggests that companies have not reengineered the T&A process to bring these costs down.

Overall, companies that installed their systems more recently may save on processing labor in the payroll department, but, as shown in Figure D, these lower costs are offset by higher costs in other departments. For instance, with an in-house system IT may take on a significant expense burden supporting system maintenance, customizations and interfaces. The job of the financial executive attempting to capture a comprehensive picture of all the associated costs for payroll is challenging, as costs are frequently allocated across several budgets.

Executives Do Not Expect Cost Savings from Payroll System Upgrades or New Installations

When asked whether they expect to realize cost savings as a result of their next system upgrade or new installation, only 25% of study respondents said "yes". Most (53%) do not expect the payroll system upgrade to change the cost of administering payroll in-house, 15% are unsure, and 7% of respondents expect costs to increase. A majority of survey respondents do not have a clear expectation of what they will gain from their next upgrade or new installation. This finding also suggests that the majority of in-house payroll system upgrades and installations are not resulting in a reduction in cost.

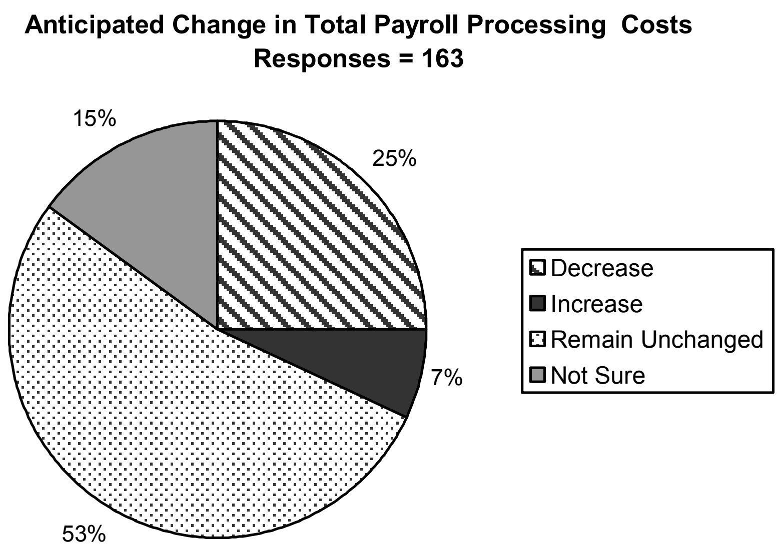


Figure E

As seen in Figure E, in spite of these findings, fifty-two percent of respondent companies plan to upgrade their payroll system or install a new system within the next two years. Forty percent of respondent companies have upgraded their payroll system within the last 12 months, and, of the 27 companies that installed systems in 2002 and 2003, 15 have already upgraded.

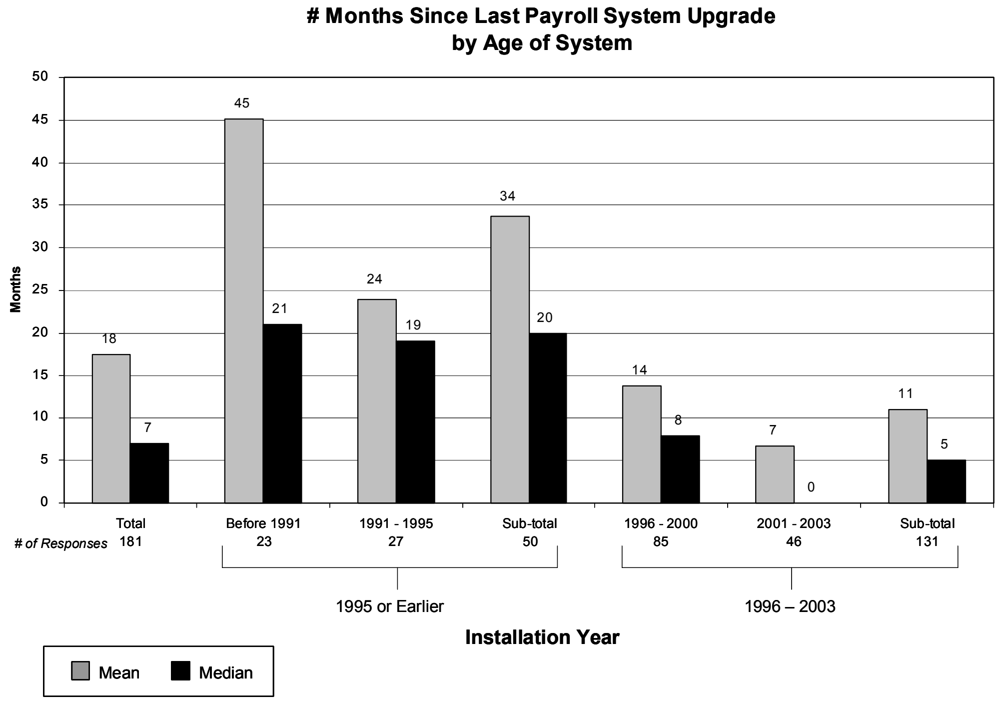


Figure F

Although companies do not appear to expect cost savings as a result of upgrades and new installations, the pace of existing system upgrades and new system installations remains strong. This suggests that many companies who own their own payroll systems frequently deploy internal resources and perhaps even external consultants to assess, acquire and implement system upgrades. Whether or not this additional investment is generating any type of return or not, the recurrence of payroll systems upgrade investment is evident in these results.

The Useful Life of In-house Systems May Be Decreasing

Once the initial installation costs have been depreciated, the study findings suggest that companies seriously consider system replacement rather than upgrades. This would imply a useful life of 4 – 7 years for an in-house system. It also implies that a business case for changing systems is possible even when a comparison is made against upgrade costs only for the current system. Upgrade costs on their own are significant enough that companies are opting to start out fresh rather than continue to invest in their existing systems.

Not surprisingly, there was a spike in participants' system implementations in 1999, most likely in preparation for Y2K compliance. However, the fact that 51% of participants are using systems installed in the past four years cannot be solely attributed to Y2K. In fact, 34% of systems in the study were installed in 2000 or later. Along these same lines, only 15% of the participating companies are using systems installed more than 10 years ago.

This would imply that companies do not stay with a system for a long period of time, even with the option for upgrades.

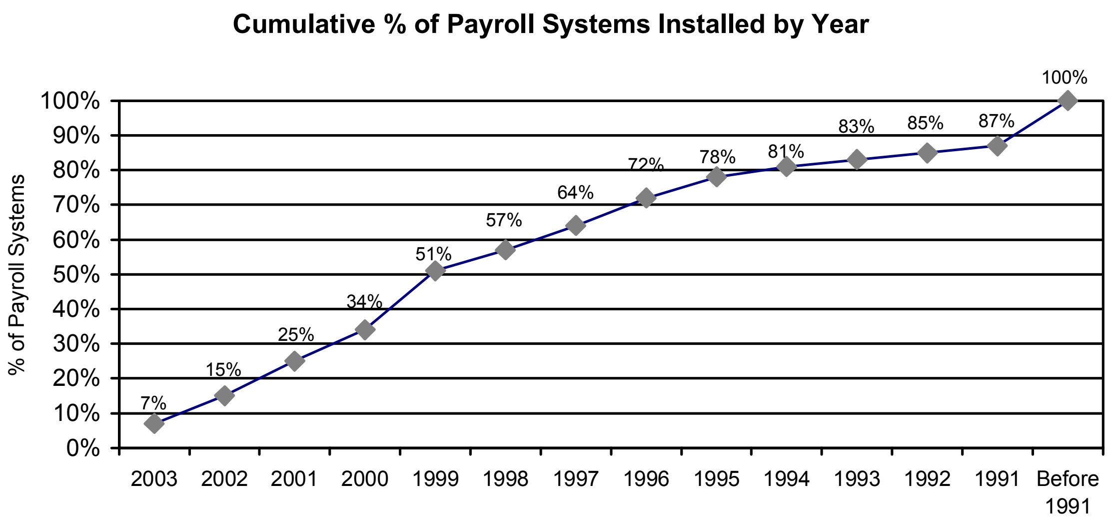


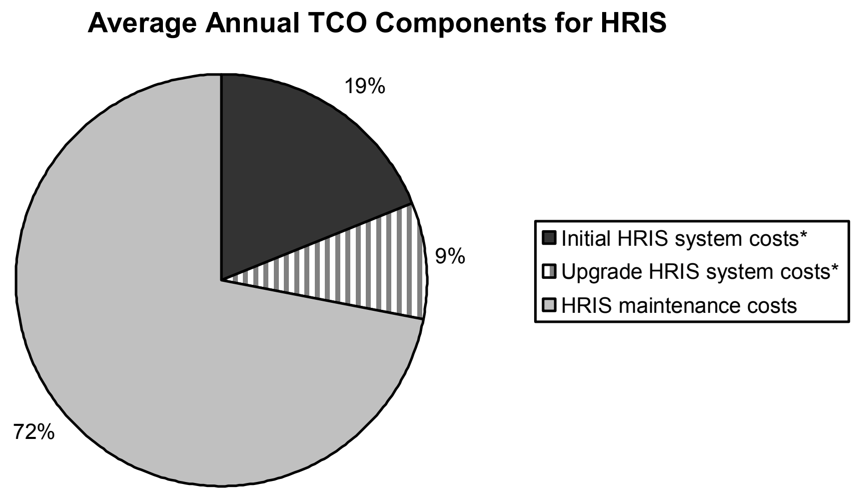
Figure G

The increasing trend toward new systems shown in Figure G above, also supports a shorter useful lifespan of anywhere between 4 – 7 years, but certainly not the 7 – 10 year life expectancy that some might expect. There's a strong probability that if a longer life expectancy is the basis for a company's initial decision, they will most likely not obtain the economic value originally anticipated.

The Average TCO for HRIS is $88 per Employee

For the purposes of the study, HRIS system maintenance included labor and non-labor costs related to: application maintenance, daily application support, database administration, network/communication, help desk/end-user support, as well as facilities and other overhead.

The total average annual systems cost related to HRIS for the 164 participant companies that gave HRIS cost information was $88 per employee. As would be expected, ongoing maintenance expenses were the biggest contributing factor.



* Annual depreciated cost for systems purchased or upgraded in last 3 years

Note: The percentages represent the normalized average component costs for the companies in the study

Figure H

Like payroll, it is likely that HR systems costs often are "unaccounted for" when a company calculates the broader TCO for HR administration. These cost components should be given careful consideration when a company is attempting to manage costs in the HR function.

As with payroll upgrades and implementations, the respondents did not anticipate financial benefits for future HRIS upgrades. Only 19% of the study respondents anticipate decreased costs as a result of future upgrades.

Significant Portions of HRIS Functionality are not Used

A surprising number of the 164 respondents who answered questions on HRIS indicated that they owned HRIS modules which had not been deployed. In the software industry lexicon, this phenomenon is usually referred to as "shelfware" – functionality that has been bought and for which maintenance fees are often being paid, but does not get deployed.

The study shows that, while ownership seems to indicate a high demand for HRIS modules, their actual deployment indicates otherwise. Figure I and Figure J show the modules owned and deployed by the participants; and the modules owned but not yet deployed by the participants.

HRIS Modules Owned and Deployed

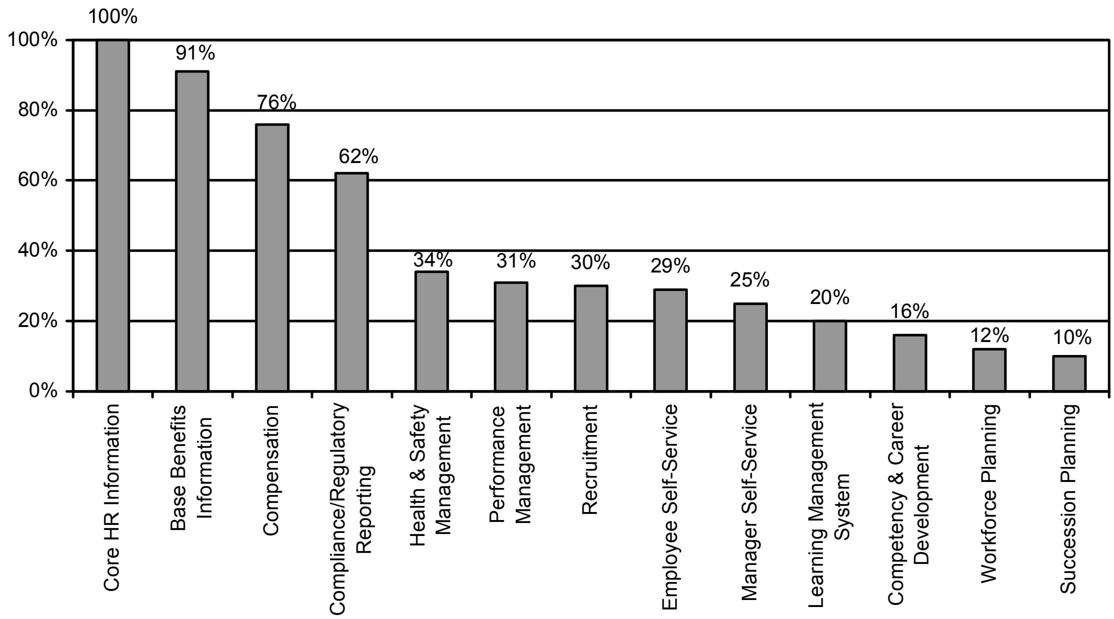


Figure I

HRIS Modules Owned but Not Deployed

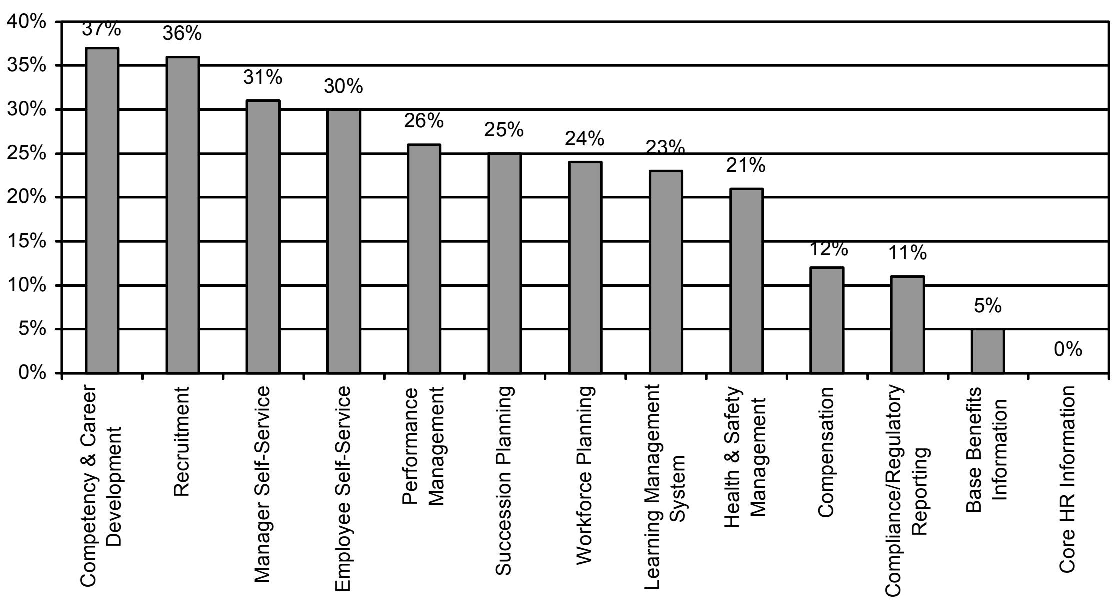


Figure J

Among the most notable modules that are owned but not yet deployed are Recruitment, Employee and Manager Self-Service, and Competency & Career Development, with the shelfware incidence of each module at 30% or higher.

A quarter (23%) of the 164 respondents who provided HRIS cost information use only the four core modules – Core HR, Base Benefits, Compensation, and Compliance and Regulatory Reporting – and none of the other nine; 45% use any of the four plus only one or two others; and only 32% use any of the four core modules plus three or more others.

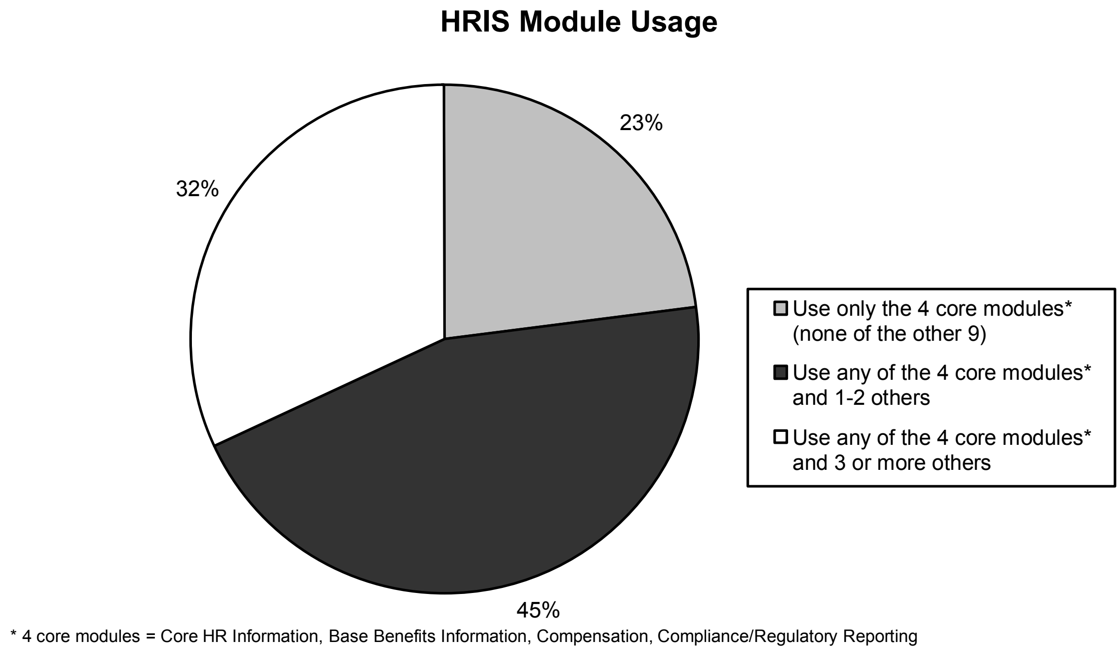
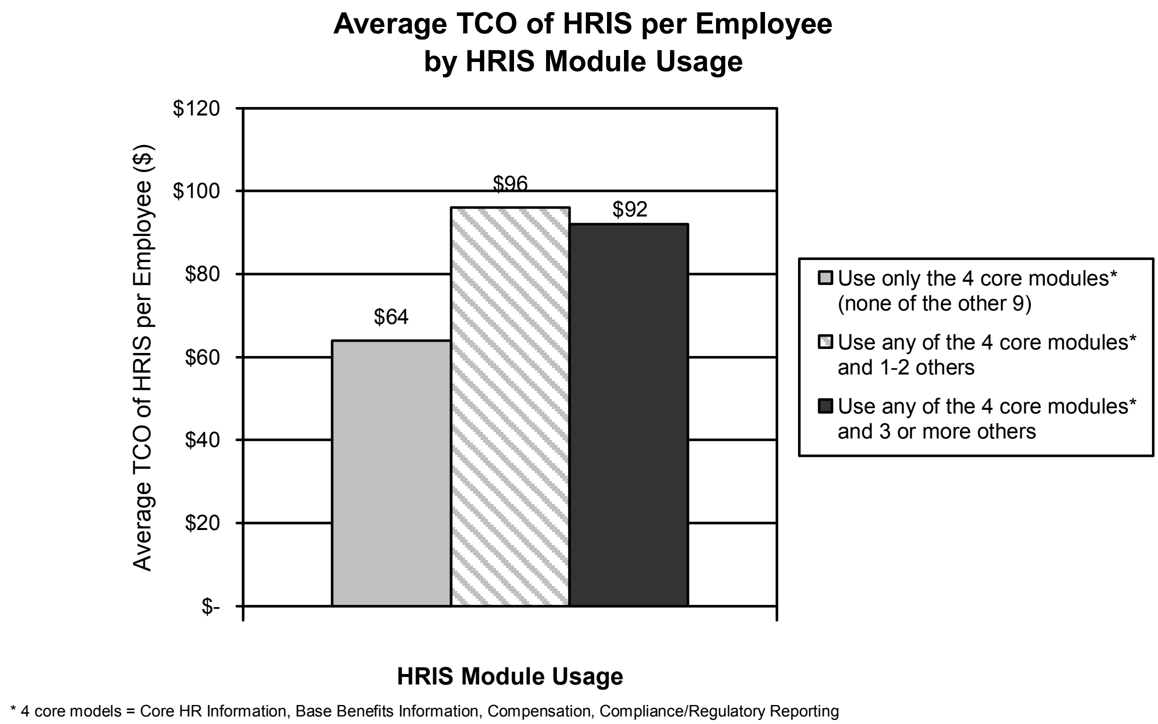


Figure K

Shelfware Impacts the Bottomline

The total system cost for HRIS varies significantly, which can be attributed to the wide disparity in the modules that are owned and deployed. On average, the system cost related to owning any combination of the nine additional modules is nearly $30 higher per employee per year than for those who just use the four core modules.



<u>Figure L</u>

Companies are either not adept at implementing new modules or the expected benefits are not what they had anticipated at the time of purchase. In either case, this highlights a need for increased diligence at the time of purchase.

Conclusions and Recommendations

Overall, given the complexity of in-house systems on the market today, and the increased frequency of system installations, financial and other corporate executives may need to re-evaluate their methods of calculating total payroll and HR administration costs. It is clear from this study that the cost of owning HR and payroll systems, as well as administering payroll in-house, resides in multiple cost centers and is not easy to measure for the purpose of managing costs.

The study suggests that executives need to focus on two areas in particular to get a clear picture of current and potential future costs:

- Before considering the installation of a new system or upgrading an existing system, be certain to consider the impact on systems costs, in addition to any expected returns in the payroll or HR departments.

- Assess the time and attendance processes out in the field, how many FTEs are required, process documentation and efficiency, and the use and cost of technology tools to gather and reconcile time and process exceptions.

Additionally, executives might consider a closer look at the useful life of their HRIS and payroll systems before projecting the expected return on investment. Before making a decision about either a new installation or an upgrade, they need to have a realistic estimate of the number of years of system service. This study suggests that companies implement upgrades and even install completely new systems more frequently than we would have expected. Although there may be other mitigating factors driving the decision, a realistic estimate of system life remains a significant part of any assessment.

For HRIS systems specifically, executives need to be aware of adding “shelfware” to their system – namely, modules that our study suggests many companies either do not execute well within the organization, or even deploy after purchase.

Gaining a solid understanding of the *total costs* related to payroll and HRIS may be the first step toward a major cost-cutting initiative in any organization.

# # #

Total Cost of Ownership

In-House Payroll and HRIS

National Account Services
Outsourcing for HR, Benefits and Payroll

PROMISES ... AND PROOF

Is your in-house system costing more than you think?

The results of a recent PricewaterhouseCoopers study on Total Cost of Ownership of in-house payroll and human resources solutions offers evidence that such systems are more expensive and less strategic than buyers may have realized. In fact, responses from financial executives at 181 large companies revealed that in-house systems have consistently failed to deliver the promised high productivity and low TCO.

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 opportunity for improving service levels. As the study reveals, those additional costs are the danger zone where low TCO becomes elusive and increased productivity becomes expensive. What's more, the expertise and best practices companies need to gain strategic advantage are not being delivered.

When contrasted with the advantages of outsourcing payroll and HR functions, the findings are startling. With this one key study, the promises of in-house systems are making way for proof that outsourcing is more efficient.

Employee Population	%
1,000- 2,499	35
2,500- 4,999	33
5,000- 9,999	17
10,000- 14,999	8
15,000- 50,000+	7

Industry	%
Business Services	5
Communications	4
Educational Services	6
Finance, Insurance, Real Estate	7
Healthcare	12
Manufacturing	29
Miscellanous Services	6
Other	14
Professional Services	4
Retail	9
Utilities	4

METHODOLOGY

PricewaterhouseCoopers conducted this extensive study in order to measure the Total Cost of Ownership (TCO) associated with in-house payroll and human resources information systems.[1] PwC sent invitations to participate via letter and e-mail to Controllers, CFOs and Financial VPs of companies with more than 1,000 employees.

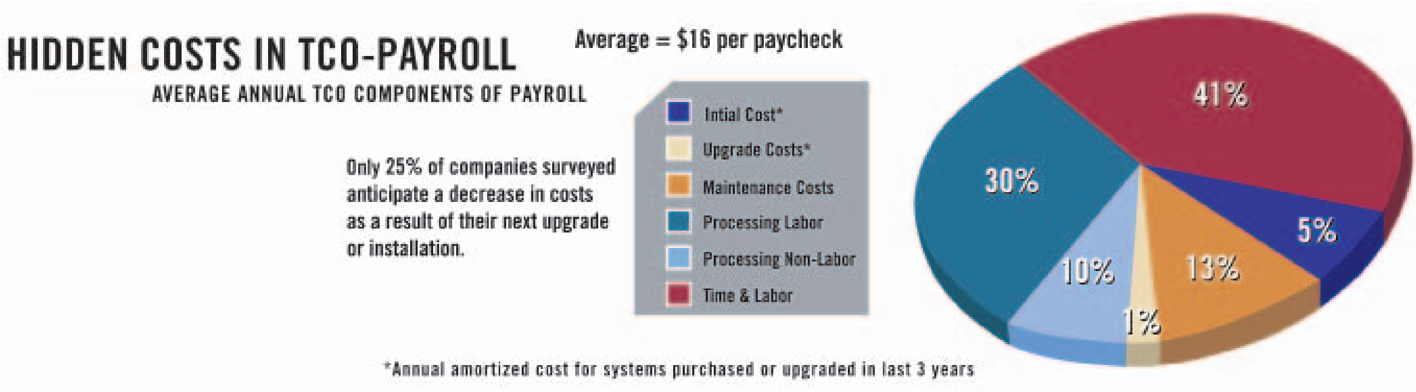
With 181 companies participating, this study is one of the most extensive of its kind. The respondents represent many industries and company sizes, with an average size of 6,500 employees. At the time of the survey, 44 percent of the participating companies were using a major ERP system, and 56 percent were using other systems. In order to accurately compare TCO across such diverse companies and systems, PwC collected base data so that the individual pieces could then be used to build the components of total cost. The initial surveys were then followed by more than 400 e-mails and phone calls to clarify responses.

The study brings some surprising facts to light - information that leads to questions about the overall value of in-house and ERP systems. But just how does your system and company compare, and what is the actual total cost of ownership for your solution?

1 While commissioned by ADP, PwC conducted this TCO study independently, and safeguards were in place to ensure data integrity. ADP received only aggregate data, and in no way influenced either the implementation or outcome of the study. The PwC study did not evaluate outsourcing services and any conclusions about its relative value are solely those of ADP.

HIDDEN COSTS IN TCO

Are you accounting for all your expenses or only the most obvious?



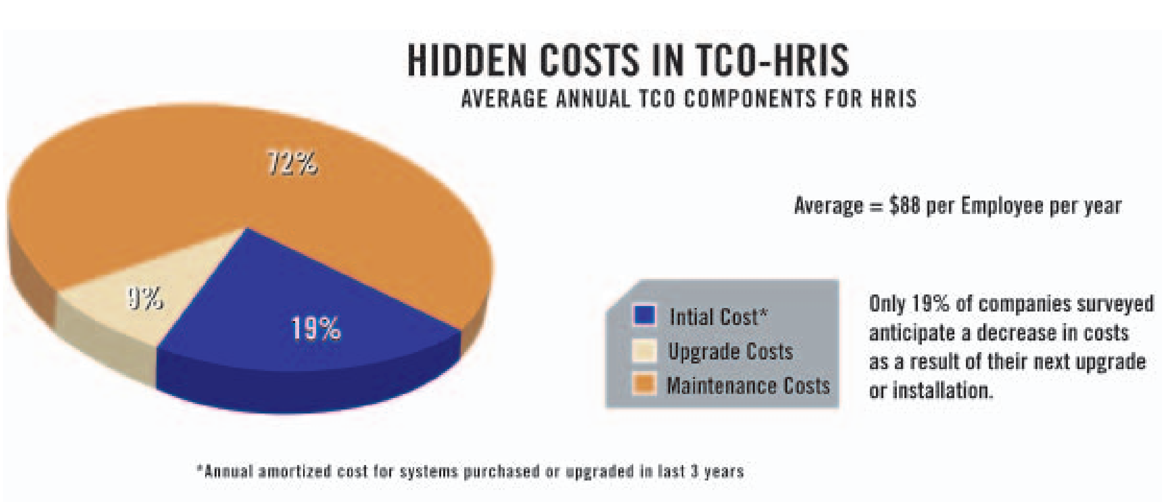
The PwC study reveals that the mean annual payroll TCO per paycheck for in-house systems is now at $16, which averages out to $459 per employee per year, and does not decrease significantly over the life of the system. How can this startling figure be true? When identifying the cost components associated with payroll systems and processing, many companies appear to have overlooked a substantial portion of costs.

The most common hidden costs identified by the PwC study include the following:

- Recurring system upgrades
- Labor costs incurred while processing payroll (salaries and payroll loads)
- Non-labor costs incurred while processing payroll (corporate overhead, facilities, third party fees, etc.)
- Labor costs incurred for maintaining systems (salaries and loads for IT professionals)
- Non-labor costs incurred for maintaining systems (overhead, facilities, maintenance contracts, etc.)
- The cost of time and labor management not borne by the payroll department (collecting, approving, and preparing employee hours for payroll)

The lessons are clear. When calculating TCO, financial executives must look not only at the cost of producing a paycheck, but also at installation costs, system upgrades, ongoing maintenance, and time and labor management. Many of these hidden costs are split across various budgets and are difficult to measure. But you can't afford not to…these not-so-obvious costs eat away at the promised efficiencies and economies. Worst of all, decisions based on skewed TCO calculations will affect profitability over time.

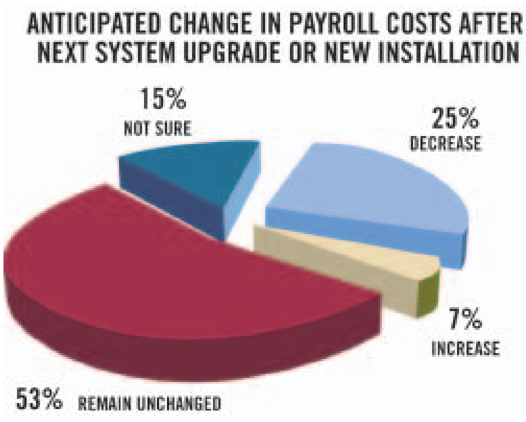
Outsourcing with ADP can reduce your TCO per paycheck by an average of 30 percent. For example, by letting ADP host and maintain the technology, you can remove IT-related labor and non-labor costs from the equation.



IN-HOUSE DOES NOT MEAN EVA

Are you realizing the promises of efficiency and economies of scale?

When evaluating the purchase of a payroll or HR system, companies have generally accepted the premise that adopting an in-house system provides efficiencies that will translate into economies and savings. But these executives think differently down the road. In fact, among TCO study respondents, only 25 percent expect to realize any economic value added as a result of their investments in upgrading current systems or installing new systems.

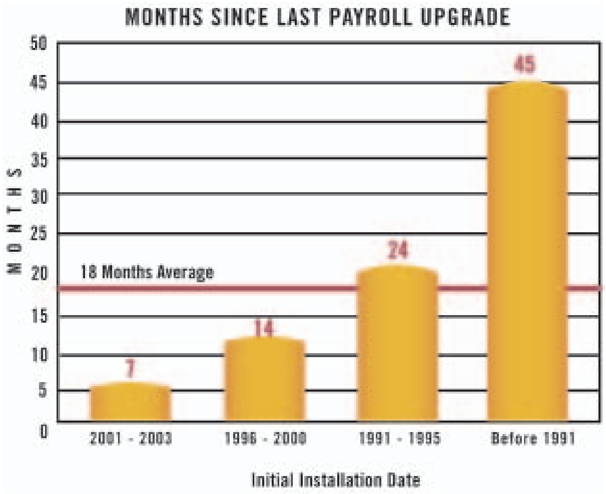


This low expectation may be largely due to costs that were hidden during the original purchase process - many of which are ongoing rather than one-time. What was regarded as a one-time investment that would realize efficiencies with time and economies with a growing employee base, turns into an ongoing series of upgrade, maintenance and processing expenses.

Outsourcing with ADP removes those unpleasant financial surprises - no hidden costs or unrealized expectations. Rather than spending on upgrades, maintenance fees and other non-value-added expenses, you can make investments in your core business.

UPGRADE TREADMILL

Do you have what it takes to stay on the treadmill?



Outsourcing with ADP gets you off the upgrade treadmill. When you let ADP host and maintain your payroll or HR solution, upgrades are seamless, transparent, and included. You also mitigate the risk associated with maintaining tax compliance.

Many companies base purchasing decisions on the expected life of the system. An extended life helps to justify the purchase decision. But the life of in-house payroll and HRIS systems may be declining. PwC found "a shortening of cycles in the purchasing decision."[2] Typically, decisions have been made by projecting over a 7-10 year time horizon. Results indicate that the decision is now being made every 4-7 years. Two-thirds of companies made a change within the last five years, and only 15 percent of companies surveyed are using systems installed more than 10 years ago.

The survey reveals that 75 percent of executives do not expect their costs to decrease as a result of upgrades. This is due in large part to the frequency and associated expense. 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[3]- not including the opportunity costs associated with downtime and learning curves.

What happens to the companies that can no longer keep up the upgrade pace? Some continue to rely on outdated, often non-compliant systems, essentially delaying hard costs but potentially incurring costs associated with non-compliance. Many find it so expensive to catch up after having fallen behind by more than two upgrades, that the proposition of moving to a new platform becomes an attractive alternative once the system is fully depreciated. The decision to delay upgrades can quickly turn a huge investment into a sunk cost as the company looks elsewhere for solutions.

2 "The Total Cost of Ownership: Warning Signs of Hidden In-House Systems Costs," August 2003, PricewaterhouseCoopers.
3 Costs reported by companies that have upgraded in last 3 years.

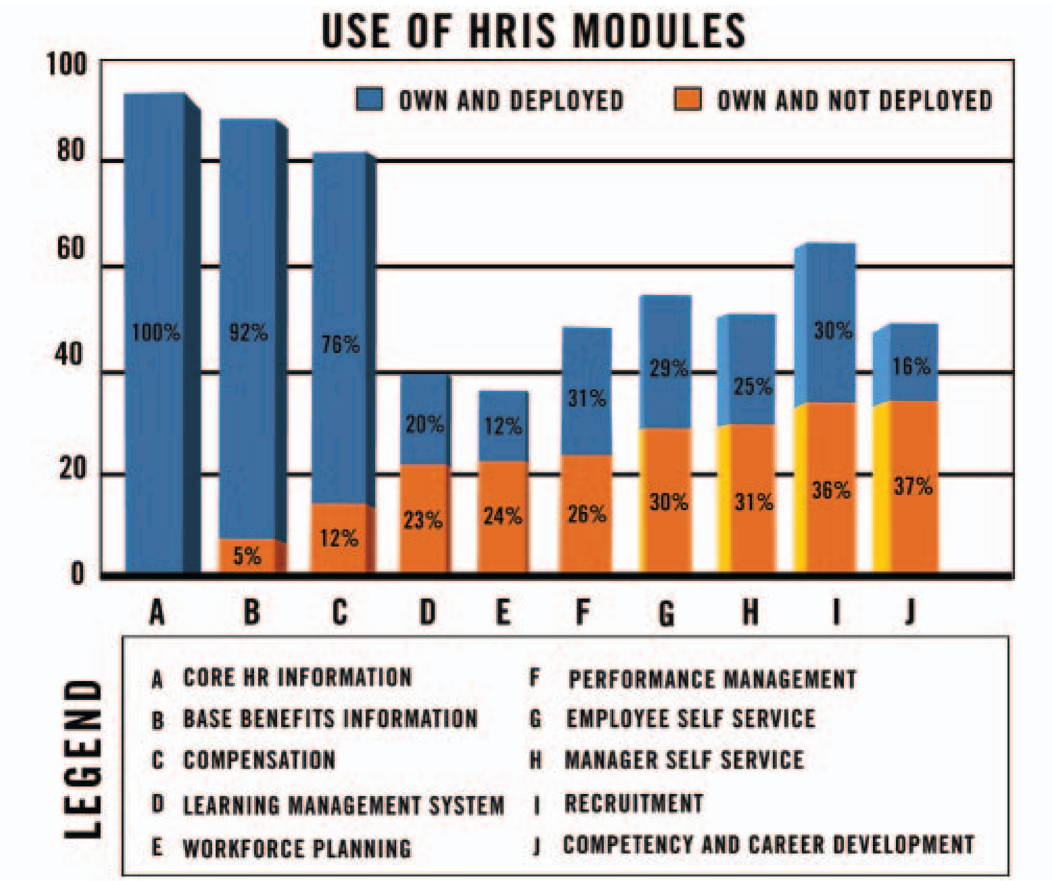
HRIS SHELFWARE

Do you have a strategic tool or a data repository?

Because in-house systems generally offer broad-based integrated functionality, many companies believe these efficiencies outweigh the advantages of having a best-of-breed solution. Yet according to the PwC findings, much of that functionality is never implemented. Respondents reported that a high percentage of purchased HR functionality (roughly 30%) goes unused. All too often companies are using their systems as data repositories rather than strategic tools.

Unused functionality becomes expensive "shelfware" which continues to require expensive upgrades and ongoing maintenance fees. Furthermore, because much of the HRIS shelfware is focused on employee development and workforce planning, companies experience opportunity costs by electing not to implement this functionality.

Outsourcing with ADP gives you the flexibility of choosing only the functionality you need - when you're ready for it. No more paying for "shelfware" ... ADP delivers the solution that makes the most strategic sense.

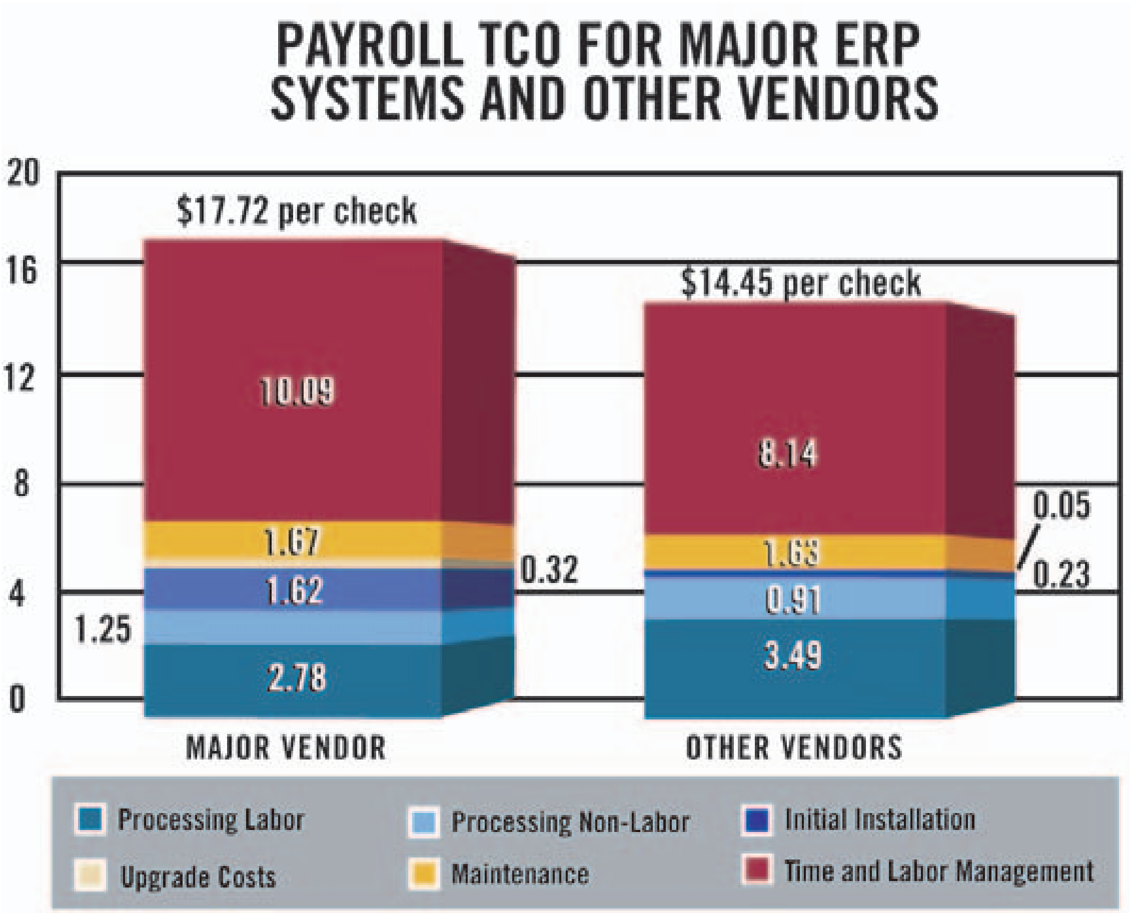


SHIFTING COSTS

Are you saving money, or simply shifting costs?

Today's larger in-house software systems hold out the promise of TCO advantages over other software packages. But the PwC study provides evidence that these applications do not offer total cost of ownership advantages over other software packages, including smaller vendors and homegrown systems. They simply redistribute the costs across budgets. The average TCO per paycheck for major ERP systems and all others was roughly the same at $16.

ERP systems promise to capture and share data between components, creating economies of scope. This promise comes with a trade-off. The bigger systems do not focus on best-of-breed functionality or strategic best practices. In trying to accommodate entire enterprises, ERP system modules are best at facilitating complex, administrative tasks. But such functionality does not necessarily translate into Economic Value Added. Users may be left with expensive systems that fall short of promised economies and redistribute component costs rather than truly lowering TCO.



Outsourcing with ADP lets you redistribute costs in a way that makes financial sense. By hosting your solutions, ADP displaces hard IT costs and allows you to rip administration expenses from your infrastructure.

THE ALTERNATIVE: OUTSOURCING WITH ADP

An attractive alternative

Promises…promises….are you getting what you paid for? The PwC study provides strong evidence that in-house systems are more expensive and less strategic than buyers predicted. Increasingly, executives are turning to outsourcing as a means to streamline their HR, payroll and benefits operations - and capture a lower total cost of ownership.

Companies outsourcing with ADP National Account Services, will see an average 30 percent decrease in TCO. By choosing an outsourced, hosted solution from ADP, you eliminate a substantial portion of the hidden costs in each paycheck. Transparent upgrades provide new functionality and compliance without the associated costs. As payroll administration becomes streamlined, you will also see a reduction of labor costs associated with processing payroll. IT professionals may be redeployed as the need for maintaining and upgrading systems disappears. 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 companies are taking advantage of outsourcing with ADP. Now that you know the true Total Cost of Ownership for in-house systems, isn't it time to talk to 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.

The Total Cost of Ownership: Comparative Cost Benefits of ADP Outsourcing vs. In-House Payroll and HRIS

A study conducted by PricewaterhouseCoopers

June 2004

The Total Cost of Ownership: Comparative Cost Benefits of ADP Outsourcing vs. In-House Payroll and HRIS

Executive Overview

The 2003 landmark *"The Total Cost of Ownership: Warning Signs of Hidden In-House Systems Costs"* study conducted by PricewaterhouseCoopers LLP (PwC) in 2003 uncovered some often overlooked costs associated with processing employee paychecks. The study revealed that executives generally do not always measure two key factors that add considerably to the total cost of ownership (TCO) of in-house payroll:

- *Costs associated with the payroll system itself*
- *Non-payroll department (or "Field") time collection activity costs associated with the front-end of the payroll process (i.e., "Time-to-Gross")*

As a result, companies that might expect their in-house cost per paycheck to range between \$2 - \$6 will more likely have an average total cost of \$16 per paycheck when the aforementioned "unaccounted for" costs are considered . Further, the study found the average cost for owning and maintaining an in-house HRIS was \$88 per employee.

Automatic Data Processing, Inc. (ADP) commissioned PwC to conduct a follow up study in 2004 in order to determine whether companies outsourcing payroll and HRIS to ADP have a comparatively lower TCO than those companies performing these functions internally. For this second study, PwC surveyed a cross-section of ADP payroll outsourcing clients, including a sampling of clients that also use ADP for hosted HRIS.

Key findings of this companion study demonstrate that, on average, companies outsourcing payroll and HRIS to ADP benefit from lower overall TCO in comparison to the 2003 study of companies performing these functions internally:

- *TCO for ADP payroll outsourcing clients averages 35% less than similarly-sized companies processing payroll in-house.*
- *Average TCO per paycheck for the largest ADP payroll outsourcing clients surveyed in 2004 (i.e., 10,000 employees or more) continues to decrease. This is counter to a key finding in the 2003 study that showed average TCO per paycheck levelling off for companies with 10,000 or more employees.* This suggests that, contrary to popular belief, the additional cost benefits associated with economies of scale continue, and potentially grow, as companies with increasingly large employee populations outsource payroll processing and systems to ADP.

- *ADP payroll outsourcing clients experience substantially fewer "hidden costs" than the companies surveyed in the 2003 "In-House" TCO study: (1) payroll systems costs (i.e., installation, upgrade, and ongoing maintenance) and (2) non-payroll department (or "Field") costs associated with time collection activities at the front-end of the payroll process (i.e., "Time-to-Gross").* This suggests that unlike their in-house counterparts, who often experienced "cost shifting" from the payroll to information technology (IT) department after moving from one internal payroll system to another, ADP payroll outsourcing clients appear to have more potential to achieve *genuine* cost savings. This also suggests that ADP payroll outsourcing clients can more easily identify and understand all of the costs associated with payroll because of greater transparency in overall cost structure.

- *Average "one-time" systems costs (i.e., initial installation/last major upgrade) were 90% lower for those ADP clients surveyed in the 2004 TCO study of ADP payroll outsourcing clients versus the 2003 "In-House" TCO study.* Unlike their in-house counterparts, ADP payroll and HRIS outsourcing clients appear to avoid the "upgrade treadmill" since the majority of upgrades are transparent and do not burden ADP's clients with significant costs and labor resources.

- *Average TCO per paycheck for ADP payroll outsourcing clients leveraging an ADP automated time and labor management (TLM) system is lower than for ADP payroll outsourcing clients using another supplier's TLM platform.* This suggests that integration synergies between ADP's payroll and TLM systems create a potential opportunity for additional cost reductions above and beyond those gained by outsourcing payroll processing and systems to ADP.

- *Average TCO of HRIS per employee for the sampling of ADP's hosted HRIS clients in the 2004 TCO study is 50% lower than for the companies in the 2003 TCO study that installed and maintained an in-house HRIS.* Like ADP's payroll outsourcing clients, ADP hosted HRIS outsourcing clients appear to be in a better position than their in-house counterparts to more easily identify, understand and manage *all* of the costs associated with the HR function. Similarly, this suggests greater transparency in overall cost structure for companies that outsource HRIS to ADP than for companies performing these functions internally.

The findings of the 2004 survey of ADP outsourced clients demonstrates a compelling argument that outsourcing payroll and HRIS can result in a significantly lower Total Cost of Ownership for those companies who have outsourced to ADP.

Because this 2004 TCO survey of outsourced payroll/HRIS looks only at ADP clients, PwC makes no representation that the comparative key findings of these surveys can be generalized to other payroll outsourcing providers. Any such generalization would not necessarily be supported by this survey or any future surveys. It should be noted that ADP is the market leader (in terms of market share) in payroll outsourcing and likely represents one of the more mature and efficient payroll outsourcing operations in its industry. Few other payroll outsourcing organizations have a sufficient number of large payroll outsourcing clients from which to draw a statistically valid survey sample. Moreover, few other outsourcing providers offer a fully developed suite of integrated payroll services to the large employer market.

Methodology

The Purpose
Commissioned by ADP, PwC surveyed a broad sample of ADP payroll processing and systems outsourcing clients. More than 650 survey responses were returned, including 46 companies with 1,000 or more employees, which was the universe for the 2003 "In-House" TCO study. The primary objectives of the 2004 TCO study of ADP payroll and HRIS outsourcing clients were twofold:

- To determine the end-to-end annual TCO of outsourced ADP payroll delivery (system and **administration**)
- To determine the annual TCO of outsourced ADP HRIS (system only).

The Survey
PwC developed a web-based survey that was similar to the 2003 TCO study in order to allow for sound comparisons. The survey was administered from April 7, 2004 through May 14, 2004. Senior financial executives (CFOs, VPs of Finance and Controllers) from ADP payroll outsourcing clients were invited to participate. In return for their participation, PwC prepared and distributed an individualized findings report to each respondent.

The Data
Recognizing that companies measure costs differently, PwC defined TCO in a manner that broke down total cost into its individual cost elements. Asking respondents to provide base data for these individual cost elements allowed PwC to calculate a consistent TCO using the base data and normalizing data where necessary (*e.g.,* amortizing installation and last major upgrade costs incurred during the last three years). Respondents were asked to answer questions that quantified all one-time and ongoing costs for payroll processing and systems and HRIS (system only). Detailed individual cost elements descriptions were provided in the TCO survey itself, as well as via personal follow-up from PwC (when necessary).

For the purpose of this study, TCO of payroll is annualized, and is the sum of the following components:

- Initial payroll system installation cost[1] – amortized over three years
- Cost of last major upgrade[1] – amortized over three years
- Payroll process labor costs – salaries and benefit loads in the payroll department
- Payroll process non-labor costs – corporate overhead, facilities, other administrative costs
- Ongoing ADP payroll processing fees – annualized (including hosting and HRIS module costs, if applicable)
- Payroll system maintenance labor costs – salaries and benefit loads for IT professionals
- Payroll system maintenance non-labor costs – overhead, facilities, maintenance contracts
- The labor cost of non-payroll department time collection activity associated with the front-end of the payroll process – time spent in the field by HR, supervisors, administrative support *etc.* collecting, approving, and inputting employee hours for payroll.

[1] For survey participants who installed or upgraded a system more than three years ago, $0 was used to reflect the system installation/upgrade costs in the TCO calculation. For participants who installed or upgraded a system during the last three years, 1/3 of the cost of their installation/upgrade was used to annualize the TCO calculation. This methodology is consistent with the previous study of in-house systems.

PwC contacted participants directly when data fell outside the normal range of responses. In total, more than 200 e-mails and phone calls were made to clarify participant data. Items that required follow up included: verification of full-time equivalent (FTE) counts and average salaries, clarification of how respondents segregated costs between payroll, TLM and HRIS, and confirmation of missing non-labor systems costs. Data corrections were made to the appropriate study records with approval from the participants. This approach ensured that PwC captured total costs, rather than only certain components of cost.

While it may be assumed that best practices have an impact on TCO, the study made no attempt to identify and measure this impact specifically. The study focused on cost only. Areas such as the quality of payroll administration or a comparison of costs between respondent companies were not included.

Profile of Participants
Companies — 46 companies with 1,000 or more employees are represented in the payroll portion of the 2004 TCO study. Of those respondents, 25 reported having an automated TLM system and 10 also outsourced their HRIS to ADP. This group provides the basis for drawing meaningful points of comparisons with the results of the 2003 "In-House" TCO study.

The breakdown of participants by company size was as follows:

- 1,000-4,999 employees — *27*
- 5,000- 9,999 employees — *10*
- 10,000 or more employees — *9*

The average size of companies participating in the ADP payroll outsourcing clients 2004 TCO survey was 6,900 employees, comparable to the average size of 6,500 employees for the 2003 "In-House" TCO survey. The participant companies all outsource payroll processing and systems to ADP and each administers payroll processing for at least 1,000 US employees using the ADP payroll system.

Individuals — Respondents identified themselves as members of the finance, payroll, accounting or human resource functions within their respective organizations.

Key Findings and Analysis

Total Cost of Ownership for ADP Payroll Outsourcing Clients is $10 per Paycheck versus $16 per Paycheck for "In-House" Counterparts

The 2003 "In-House" TCO survey opened some eyes about true cost of ownership when it comes to payroll processing. For example, companies that thought their cost per paycheck ranged between $2 and $6 more likely had an actual cost of $16 per paycheck if they considered two often overlooked or "hidden" factors:

- Costs associated with the payroll system itself
- Non-payroll department (or "Field") costs attributable to the front-end of the payroll process (*i.e.,* "Time-to-Gross")

The average TCO for ADP payroll outsourcing clients amounted to $10 per check or 35% less than the 2003 "In-House" TCO survey. Notably, the 2003 "In-House" TCO study seemed to back the popular belief that as companies increase in employee size, they benefit from their own scale advantages, thereby diminishing the potential financial benefits of payroll outsourcing. As Figure A below illustrates, TCO per paycheck for internal payroll processing and systems companies levelled off at $13 per paycheck. However, the data in Figure A below suggest that, on average, for ADP outsourcing clients, the cost savings in TCO per paycheck grows as companies increase in employee size. ADP payroll outsourcing clients with 10,000 or more employees average TCO of $7 per paycheck or roughly 50% less than their 2003 "In-House" TCO survey counterparts.

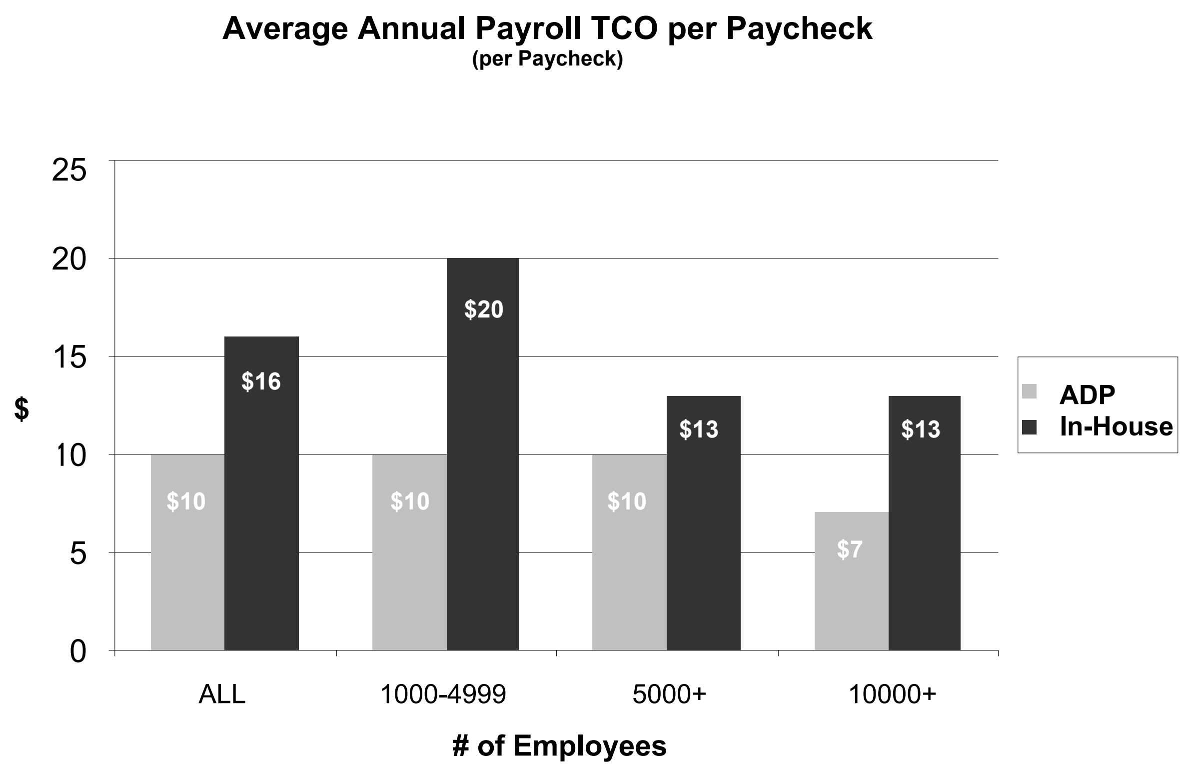


Figure A

ADP Payroll Outsourcing Clients Experience Actual Costs Reductions Rather Than "Cost-Shifting"

Comparing the results of the 2003 and 2004 ADP studies shows that the average company considering switching from an in-house system to ADP can save money on a total cost basis. This contrasts with the finding of the 2003 study that showed switching from one in-house system to another can lead to costs shifting between budget centers (*i.e.,* from payroll to IT). For example, in-house processors may achieve lower processing costs (*i.e.,* labor productivity gains) by implementing a system from one of the "major vendors" versus systems from the "other vendors" represented in the study. However, the 2003 "In-House" TCO study also demonstrated that there was a parallel spike in costs attributable to IT as a result of switching (*e.g.,* initial installation and upgrade costs). Another way to interpret this data is that companies on "legacy" platforms incurring minimal IT costs and higher than average processing costs can expect their overall costs to remain the same, or even go up, as a result of installing a newer system.

In contrast, the ADP payroll outsourcing clients surveyed had substantially lower payroll systems costs versus the companies surveyed in the 2003 "In-House" TCO study. The data in Figure B below show that, on average, the annual costs associated with payroll systems fell considerably from 19% to 6% of the average cost per paycheck. Moreover, Figure C below demonstrates that, on average, one-time payroll systems costs (*i.e.,* initial installation costs and last major upgrade) were a fraction of the costs for in-house systems.

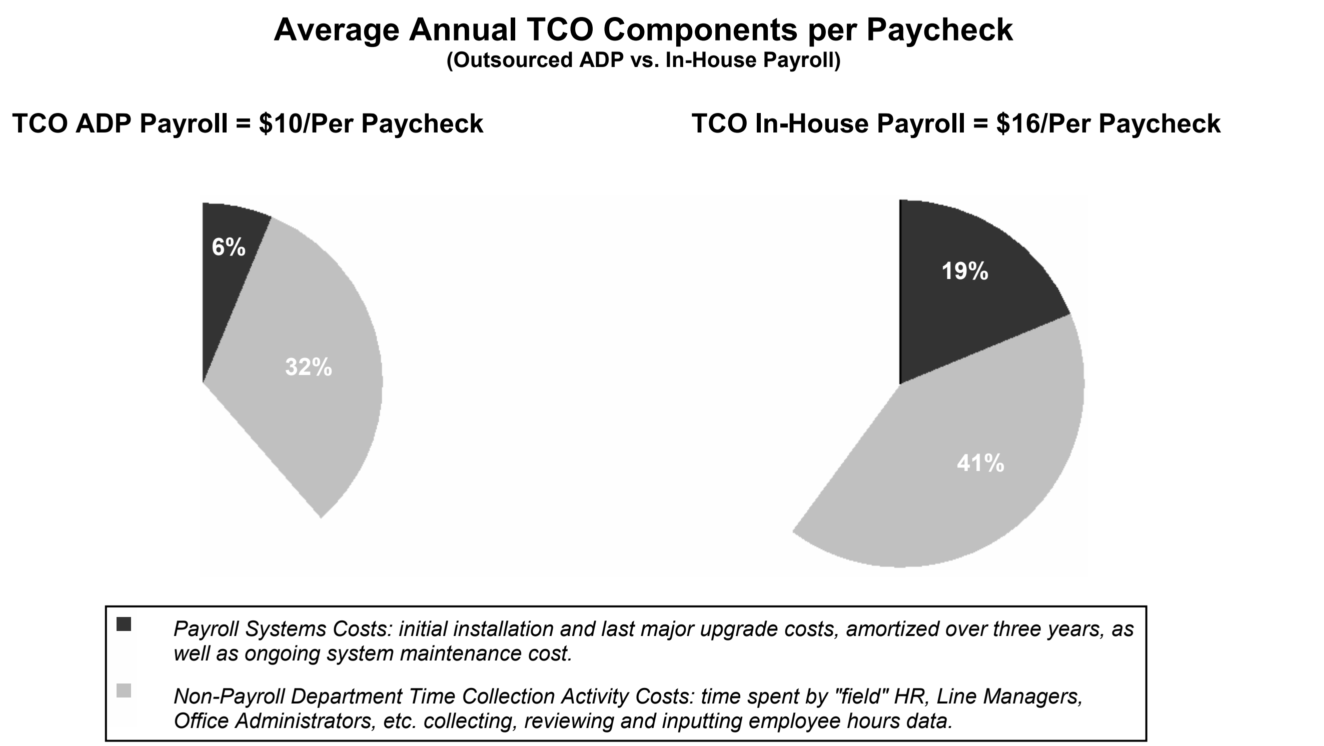


Figure B

Note: "Payroll Systems Costs" include initial installation and last major upgrade costs, amortized over three years, as well as ongoing system maintenance cost. "Non-Payroll Department Time Collection Activity Costs" include time spent by "field" HR, Line Managers, Office Administrators etc. collecting, reviewing, and inputting employee hours data.

Similarly, ongoing payroll systems maintenance costs (*i.e.,* IT labor/non-labor) in the 2004 study decrease significantly in comparison to the results of the 2003 TCO "In-House" study. ADP payroll outsourcing clients had an average cost per paycheck of $0.61 attributable to payroll system maintenance charges versus $1.66 for the companies that installed and maintained payroll systems internally. This seems to support the conclusion that the "cost-shifting" from payroll department to IT department key finding of the 2003 "In-House" TCO survey is not a concern for ADP payroll outsourcing clients.

ADP Payroll Outsourcing Clients Avoid the "Upgrade Treadmill" and One-Time Systems Costs Decrease 90% versus "In-House" Counterparts

A key finding in the 2003 "In-House" TCO study demonstrated that companies with internal payroll systems and processing are exposed to frequent and costly upgrades. This was not the case in the 2004 study of ADP clients. Figure C below shows that, although some upgrades require involvement of ADP client resources, on average, ADP payroll outsourcing clients in the 2004 study incurred only a $0.09 charge on a per paycheck basis versus a $1.00 charge on a per paycheck basis for the in-house companies in the 2003 study.

Since the majority of ADP payroll outsourcing system upgrades occur on the host system, without any need to involve their own IT resources, ADP payroll outsourcing clients experience, on average, only a fraction (or roughly 10%) of the costs associated with internal payroll systems upgrades. This key finding is amplified when it is considered that many companies that own their own payroll systems frequently deploy internal resources, and often external consultants, to assess, acquire and implement system upgrades.

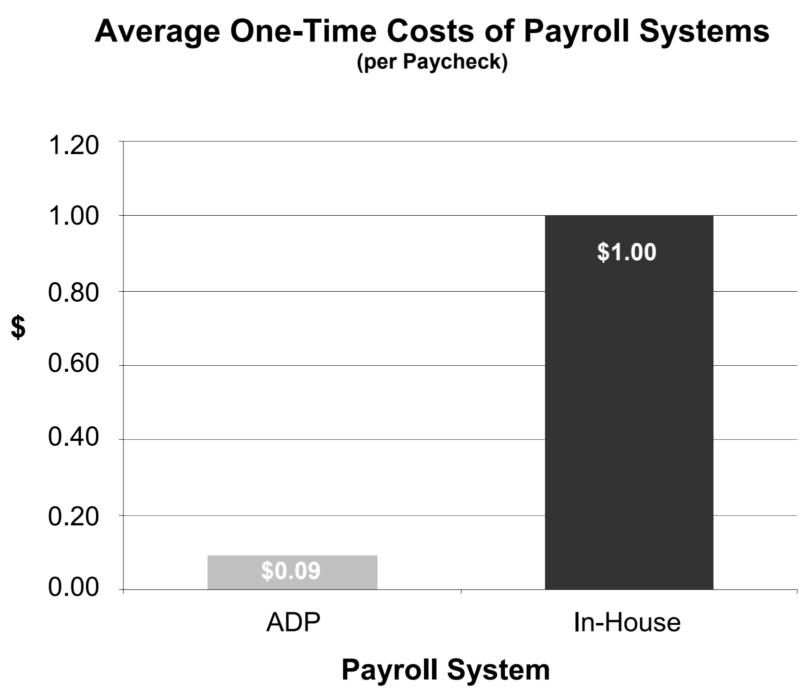


Figure C

Note: One-time costs include any license fees and internal or external fees for design and implementation and major upgrade costs incurred over the last 3 years. These costs were then amortized over a 3 year period.

ADP Payroll Outsourcing Clients Leveraging ADP TLM Have Lower Payroll TCO Than ADP Payroll Outsourcing Clients Using Another Supplier's TLM

The 2004 TCO study of ADP outsourcing clients yielded an interesting new finding related to the apparent integration synergies of leveraging an automated TLM system from ADP. The data in Figure D below suggest that, on average, ADP payroll outsourcing clients using an automated ADP TLM system reap additional cost savings beyond the considerable potential cost benefits of merely outsourcing payroll processing and systems to ADP.

The average annual Payroll TCO per paycheck for companies using ADP as the sole provider for payroll processing and TLM systems is $9.63 per paycheck in comparison to $10.26 paycheck for ADP clients using another supplier for TLM systems. The additional 6% overall payroll cost reduction is most likely attributable to ADP-delivered integration and ongoing connectivity between its TLM and payroll systems. This suggests that additional payroll process efficiencies and cost reductions may be gained by implementing sole source payroll processing and TLM systems with ADP. PwC will release an additional study in the Summer of 2004 (also commissioned by ADP) which will evaluate the impact of TLM system usage on overall TCO of payroll.

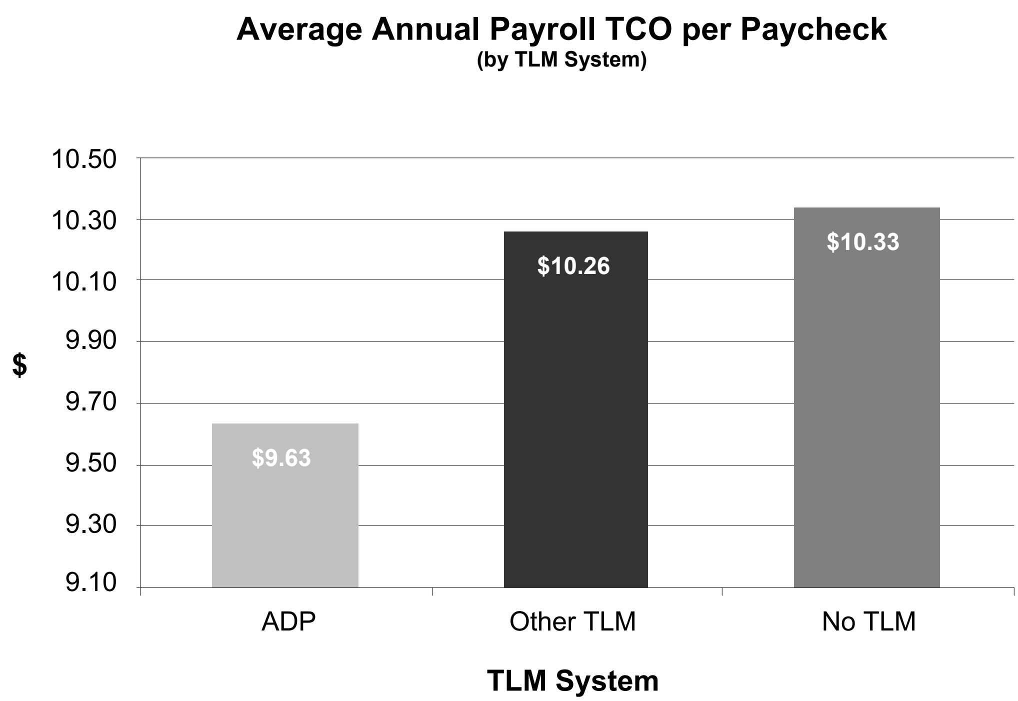


Figure D

Note: The above graph represents the Average Annual Payroll TCO per Paycheck observed when viewed by type, if any, of automated TLM system also used by survey respondents. Please refer to page 4 of this study for a detailed description of the component costs used in calculating Annual Payroll TCO per Paycheck.

TCO of HRIS per Employee for ADP Outsourcing Clients Is 50% Less Than "In-House" Counterparts

For purposes of both the 2003 "In-House" and 2004 ADP client TCO surveys, HRIS maintenance included labor and non-labor costs related to application maintenance, daily application support, database administration, network/communication, help desk/end-user support, as well as facilities and other overhead. It did not include the HR labor costs associated with using the HRIS.

Figure E below suggests that, on average, the participating companies outsourcing HRIS to ADP incur sharply lower one-time (*i.e.,* installation/upgrades), as well as lower HRIS maintenance costs than their in-house counterparts. The sampling of ADP HRIS outsourcing clients had average costs of $8.35 per employee for HRIS installation and upgrades and $31.50 per employee for HRIS maintenance versus $24.64 and $63.36 per employee, respectively, for the companies that hosted or maintained HRIS internally during the 2003 "In-House" TCO study. The more than 50% reduction in overall costs experienced for hosted ADP HRIS clients is likely due to the fact that ADP -- not the client -- assumes most of the one-time and ongoing maintenance costs associated with HRIS.

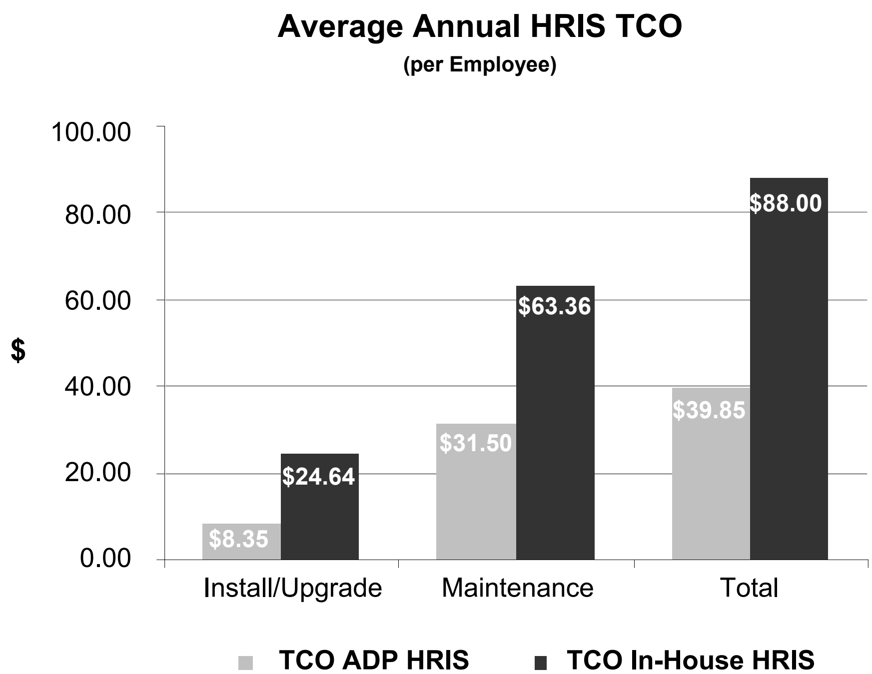


Figure E

Note: "Install/Upgrade" costs are one-time costs that include any license fees and internal or external fees for design and implementation and major upgrade costs incurred over the last 3 years. These costs were then amortized over a 3 year period. "Maintenance" costs included labor and non-labor costs related to application maintenance, daily application support, database administration, network/communication, help desk/end-user support, as well as facilities and other overhead. It did not include the HR labor costs associated with using the HRIS.

Conclusions and Recommendations

The 2003 "In-House" TCO study uncovered often overlooked costs associated with processing employee paychecks that can add significantly to the total cost of ownership for internal payroll processing and systems. The results of the 2004 companion ADP client TCO study re-emphasize that executives should focus on two areas in particular to get a clear picture of their total costs associated with performing the payroll function:

- The impact of total payroll systems costs (*i.e.,* installation/upgrades)

- The impact of non-payroll department (or "Field") time collection activity costs associated with the front-end of the payroll process (*i.e.,* "Time-to-Gross")

Taken in combination, both PwC TCO studies seem to validate that outsourcing payroll processing and systems provides a superior economic value proposition over performing the payroll function in-house on leased or purchased systems.

By insulating themselves from the "upgrade treadmill" and substantially mitigating "hidden costs", as opposed to merely shifting costs from the payroll to the IT department, executives at companies outsourcing payroll processing and systems to ADP have achieved a more transparent and lower overall cost structure than similarly-sized companies processing payroll in-house.

Moreover, the study challenges the assumption that as firm size grows so do the advantages of economies of scale from processing in-house on internal systems. The 2004 ADP payroll outsourcing client study found that companies with 10,000 or more employees on ADP payroll systems can expect to achieve greater cost benefits from ADP's economies of scale versus what they could achieve on their own.

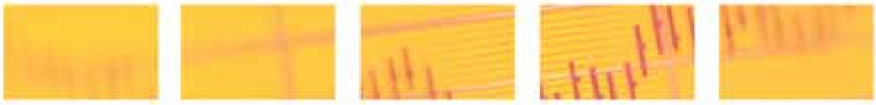
To gain additional payroll process efficiencies and cost savings, executives might consider taking a closer look at implementing sole source payroll processing and TLM systems with ADP. PwC will release an additional study in the Summer of 2004 (also commissioned by ADP) which will evaluate the impact of TLM system usage on overall TCO of payroll.

Additionally, before making a decision about either a new HRIS installation or an upgrade, executives should be aware that the TCO of HRIS appears to follow many of the same rules as the TCO of Payroll. To avoid the "upgrade treadmill" and "cost-shifting" from the HR to IT department, they should consider taking advantage of the cost benefits of outsourcing HRIS to ADP.

The strong points of comparison between the 2003 "In-House" and 2004 ADP payroll outsourcing client TCO studies stress the importance of gaining a solid understanding of the *total costs* related to payroll and HRIS and may remove some of the perceived barriers toward implementing a major cost-cutting initiative through outsourcing.

# # #

Total Cost of Ownership



ADP Payroll and HRIS

ADP National Account Services
Outsourcing for HR, Benefits and Payroll

PROMISES ... AND PROOF

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]

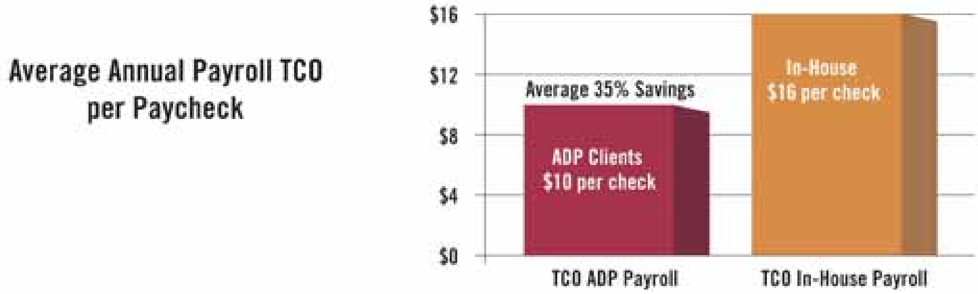
In order to accurately compare TCO across such diverse companies and industries, PwC collected base data that was used to build a consistent picture of total cost. The initial surveys were then followed by more than 200 e-mails and phone calls to clarify responses that fell outside the normal range.

Like it's 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.
2 "The Total Cost of Ownership: Comparative Cost Benefits of ADP Outsourcing versus In-House Payroll and HRIS," June 2004, PricewaterhouseCoopers.

TCO FOR ADP CLIENTS IS 35% LESS THAN IN-HOUSE COUNTERPARTS

Are you accounting for all your expenses or only the most obvious?



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

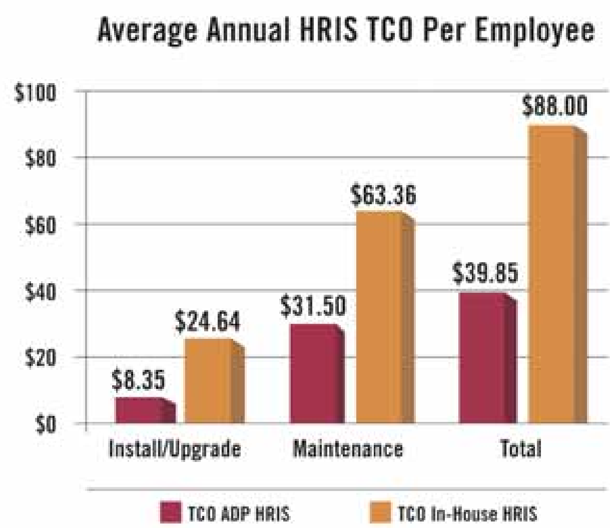
In short, ADP saves the average company 35%, providing increased flexibility and control of payroll costs.

HRIS COSTS HALVED BY OUTSOURCING

Are you paying for best practices or just maintenance?

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.



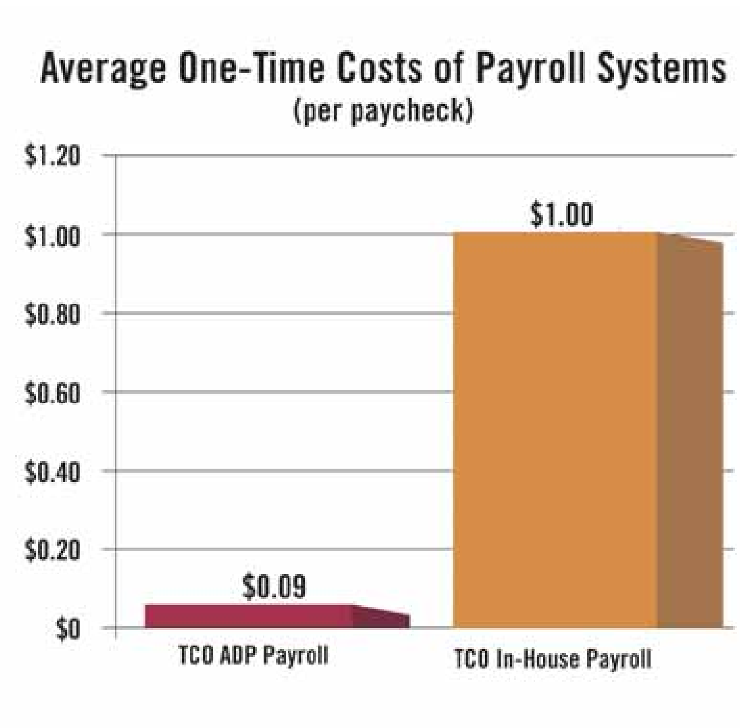
OUTSOURCING WITH ADP GETS YOU OFF THE UPGRADE TREADMILL

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."[3] 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 [4]- not including the opportunity costs associated with downtime and learning curves.

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.

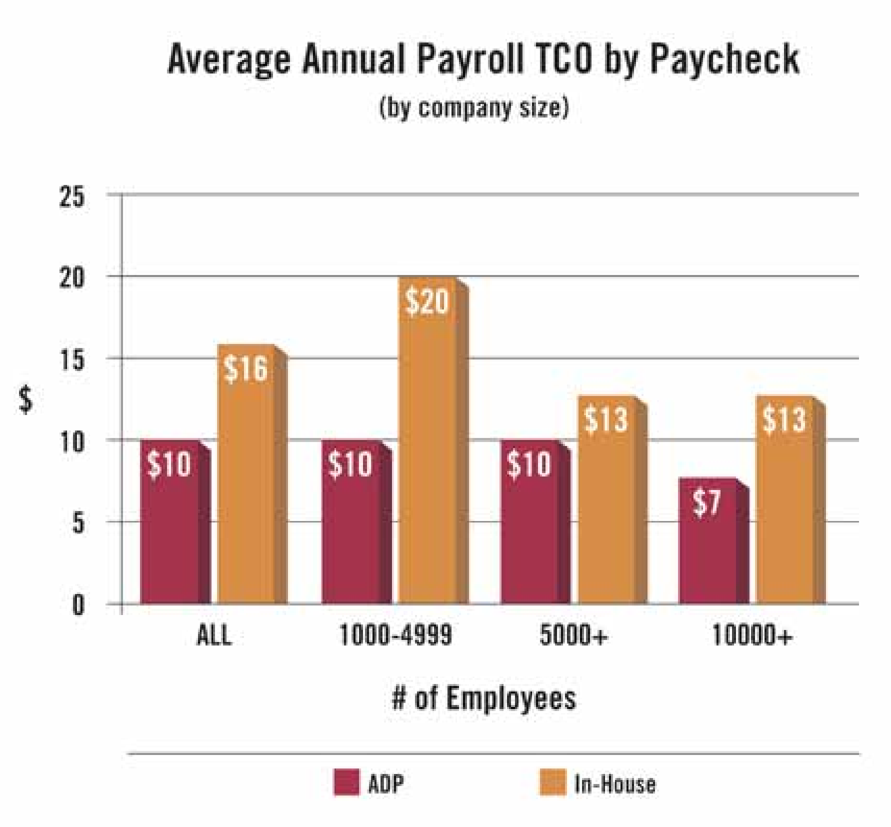


Outsourcing with ADP gets you off the technology treadmill. ADP hosts and maintains your payroll or HR solution, so upgrades are seamless, transparent, and included. You also mitigate the risk associated with maintaining tax compliance.

3 "The Total Cost of Ownership: Warning Signs of Hidden In-House Systems Costs," August 2003, PricewaterhouseCoopers.
4 Costs reported by companies that have upgraded in last 3 years.

TCO FOR LARGE ADP CLIENTS IMPROVES AS COMPANY SIZE INCREASES

Do you have room to move or are you hemmed in?



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.

COSTS REDUCED, NOT SHIFTED

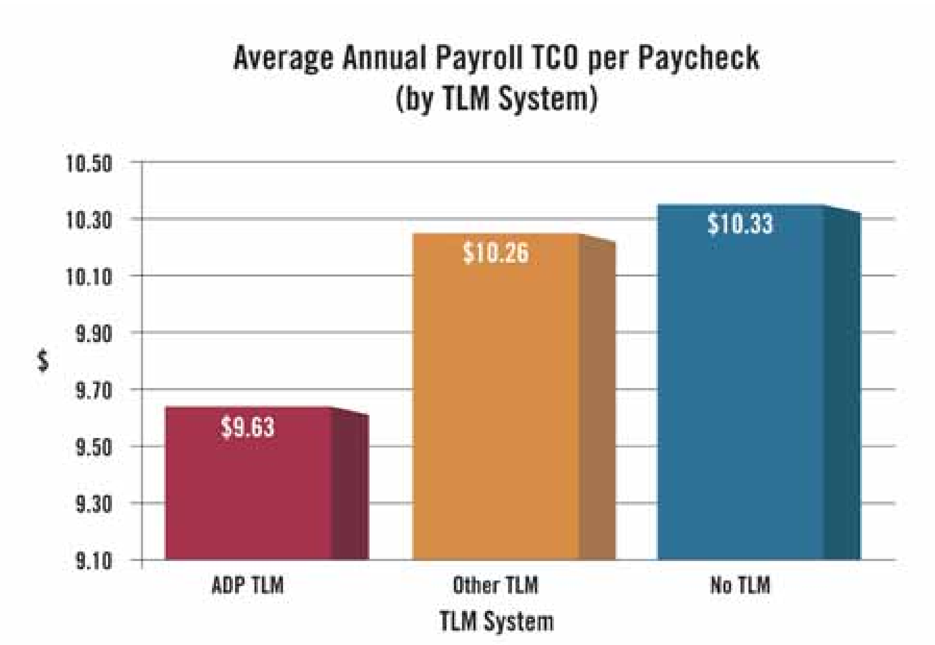
Are you saving money, or simply shifting costs?

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.

COST SYNERGIES WITH ADP PAYROLL AND TIME & LABOR MANAGEMENT

Are your systems working for you or against you?



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.

OUTSOURCING WITH ADP

An attractive alternative to In-House

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.