

WHITE PAPER

Cost Reduction, Increased Efficiencies, and New Service Implementations Through HR Business Process Outsourcing

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IDC OPINION

HR business process outsourcing (BPO) continues to grow in popularity and is reaching the mainstream in terms of adoption. In fact, HR BPO is the fastest-growing segment of HR services. IDC forecasts the market to increase at a CAGR of 16% in the United States to almost \$16.5 billion by 2009. This spending is not just at the high end of the market. More mid-market firms are also turning to HR BPO as a strategy to reduce costs and redundancy and to gain access to technology that they do not have today. Automatic Data Processing (ADP) offers mid-market and larger firms an HR BPO solution called Comprehensive Outsourcing Services (COS). Song Airlines, Acuity Brands, and Credit Suisse First Boston have all implemented ADP COS and have realized a variety of quantitative and qualitative benefits:

- ☒ Song was founded by Delta Air Lines in 2003 with the goal of providing a low-cost alternative to other emerging low-cost airlines. Song opted to do things differently than Delta, including its approach to HR management. The key challenge was time. Song had just three months to implement ADP COS in order to produce its first payroll by April 2003. The airline also had an aggressive plan, which it successfully achieved, that called for going live with payroll, benefits, self-service, time-keeping, flexible spending accounts (FSA), and record-keeping simultaneously. Song has realized a variety of other benefits, including a very economical HR-to-employee ratio and a fully paperless environment.
- ☒ Acuity Brands was divested by National Service Industries (NSI), its parent holding company, in 2001. Until 2004, Acuity Brands' two business units — Acuity Brands Lighting and Acuity Specialty Products — ran independent and duplicate HR systems. By consolidating and integrating services, Acuity Brands' HR department can now use a single system to locate an employee, something it was unable to do previously. Additionally, Acuity reports a successful open enrollment with 90% online participation. The benefits team will be able to take on a new role and explore options such as consumer-driven health plans and health savings accounts (HSAs).

- ☒ Credit Suisse First Boston (CSFB) acquired another investment banking firm and needed to consolidate on a single solution. As a result of implementing ADP COS, CSFB was able to reduce its headcount in the payroll department from 50 to 8 employees and reports payroll services savings of 50% compared with the previous year's costs. ADP was able to save CSFB an additional 50% of its multimillion-dollar New York State Unemployment Tax liability in 2004 through adjustments to voluntary unemployment tax payments. CSFB is also utilizing Web-based self-service through ADP COS and is offering services to employees that were previously unavailable.

SITUATION OVERVIEW

Trends in the Human Capital Management Market

The HR function has historically sought to become a more strategic force in the enterprise. To achieve this goal of strategic impact, HR needs to help address executive-level objectives for increasing shareholder value and can contribute to this effort in a number of ways.

HR can reduce costs and redundancy within its own sphere of influence. More organizations are realizing that outsourcing is an effective way of achieving cost reduction. Smart HR executives are realizing that administration is not a core competency of HR and are turning to trusted outsourcing firms to manage HR, benefits, and payroll administration. Outsourcing firms have economies of scale and these processes are core to their business, so they can deliver them more cost-effectively than most employers.

Savvy HR executives are also realizing that much of their staff's time-consuming work involves fielding routine employee inquiries about payroll and benefits. These functions can be and are being outsourced more often as evidenced by the rapid growth seen in comprehensive BPO in the United States.

By seeking services that alleviate administrative burdens, HR teams can focus on the core element of their companies — that is, the workforce. The workforce is increasingly becoming a competitive advantage in the marketplace. An effectively managed and motivated workforce can contribute directly to bottom-line results. Most organizations lack the tools needed to broadly optimize workforce performance because data is trapped in disconnected functional and process silos. Integrated services are enabling HR to assimilate these functions and unlock the human capital data required to achieve a strategic role in the organization.

Enterprises must begin addressing human capital management more effectively today or risk losing share to more aggressive competitors with advanced human capital strategies.

An important environmental factor that also contributes to the drive toward HR business process outsourcing is the prevalence of mergers, acquisitions, and divestitures. Firms that undergo such changes find themselves with either duplication in the case of a merger, or no system in place at all in the case of a divestiture or spin-off. Often, choosing a service provider to assume HR and payroll duties is the most effective way to meet these needs in a timely fashion.

The three case studies offered in this white paper were involved, in some way, in a status change. Credit Suisse First Boston went through a merger, Acuity Brands was divested from its parent, and Song was spun off from Delta Air Lines.

Mid-market Challenges

HR business process outsourcing is not just for large multinational firms. Mid-market companies face many of the same challenges and complexities as larger firms, but, in most cases, with fewer resources.

Budget pressures are felt as intensely, if not more so by mid-market firms because funding is shifted and investments in technology are made in other areas believed to be more vital to the core business. As a result, mid-market HR executives benefit from business process outsourcing in the same way as their counterparts in larger firms.

INTRODUCTION TO ADP COMPREHENSIVE OUTSOURCING SERVICES

In response to increasing client demand for greater efficiencies and economies of scale across multiple HR functions, ADP developed its Comprehensive Outsourcing Services (COS) offering. Over the past four years, ADP has implemented its single-source COS solution for over 35 companies.

ADP COS is a fully administered BPO solution that uses ADP's proprietary technology to maximize efficiencies across multiple processes. The goal of ADP COS is to remove the high cost and administrative redundancies of HR, benefits, and payroll processes by bundling them together into an integrated offering. ADP COS also provides multilevel service management and fully integrated CRM and knowledge-base technology, combined with ADP's call center services.

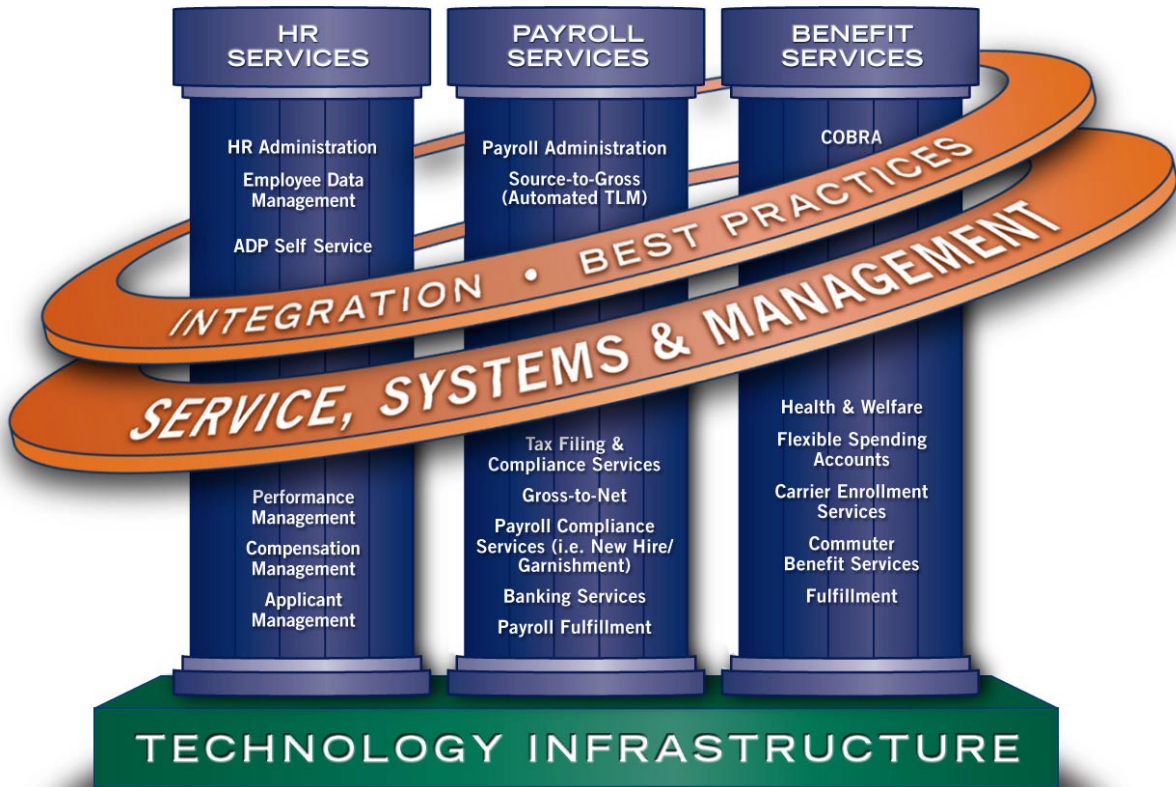
ADP COS

The ADP COS approach provides mid-market companies with the flexibility to choose one of three comprehensive solutions to meet their specific needs (see Figure 1). Organizations may choose from a predetermined combination of fully administered:

1. Payroll and HR services
2. Payroll and Benefit services
3. Payroll, HR, and Benefit services

FIGURE 1

The ADP COS Approach



Source: ADP, 2005

Economies of Scale

Leveraging more than 55 years of experience in the industry, ADP COS combines payroll, HR, and benefits technology into a fully administered solution to provide economies of scale across multiple HR functions. As a result, companies benefit from the efficiencies and cost savings synonymous with a single-source integrated HR solution and eliminate expenses associated with multivendor management.

Domain Expertise

ADP is the largest payroll and HR services provider in the world and the leading provider of benefits administration to companies with fewer than 20,000 employees. Additionally, ADP's Employee Service Center is staffed with more than 500 dedicated Certified Payroll Professionals.

Proprietary Technology

ADP utilizes its proprietary technology platform, which includes integrated HR, benefits, and payroll solutions bundled together, to provide clients with economies of scale. A single-source solution will help organizations avoid the confusion surrounding multivendor management and eliminate process and data redundancies. The solution is automatically upgraded, ensuring that clients always have the latest technology.

Increased Service Levels

With ADP COS, clients will receive a combination of self-service, CRM, and knowledge-base technology, as well as ADP's call center services.

Financial Stability and Security

After the Social Security Administration ADP is the largest mover of funds and is distinguished by its AAA credit rating from Moody's and Standard & Poor's, one of only six nonfinancial companies worldwide that have attained this financial status from leading investment agencies.

Experience

ADP serves more than 32 million employees worldwide every payday and draws on the collective experiences of more than 590,000 customers in 26 countries.

Through its core expertise as the leading provider of comprehensive payroll, benefits, and HR solutions, ADP has developed proven HR processes and proprietary technologies that are integrated, scalable and repeatable. These processes and technologies, combined with ADP's proven best practices and cross-process synergies, allow the vendor to deliver cost savings, measurable business results, and real business value.

DOING THINGS DIFFERENTLY AT SONG

Company Background

Song is Delta Air Lines' low-fare air carrier offering service between the Northeast and Florida, as well as to Los Angeles, San Francisco, and Seattle. Launched in April 2003, Song is Delta's response to the emergence of a new breed of low-fare airlines. Like other lower-priced airlines, Song operates a single aircraft type, the Boeing 757, which keeps maintenance costs low. Since its inception, Song has won numerous awards and was named 2004's Best Low-Cost Airline by *Travel Savvy* magazine. Song has 1,300 employees and, like Delta, is a nonunion employer.

Business Needs and Drivers

Song was essentially a start-up, despite its ownership by Delta. The Song team sought to achieve and maintain a unique but low overhead model that would keep costs down and fares low while distinguishing itself from its parent company. Their decision to outsource HR and Payroll was influenced in part by Delta's drive to have Song act as a change leader for the corporation as well as by the fact that the

HR system in place at Delta was aging and required extensive resources to maintain. A separate, fully administered HR solution gave the Song team the autonomy to make rapid decisions. It also meant that the team was starting with a clean slate.

Achieving a paperless, self-service environment was one of the key drivers for the ADP COS project engagement. It would be a revolutionary change because all of Song's employees were hired from Delta and accustomed to a different HR experience. Flight attendants, who are unique because their offices are in airplanes, were accustomed to HR services that relied on manual paper processes backed up by call center services. Song sought to introduce radical change to this model by both improving Song's HR-to-employee ratio over Delta's and empowering the Song workforce to manage and control its own employee data.

Choosing a Provider

The Song selection team issued an RFP and reviewed four vendors, including both software and outsourcing services providers. The most important factors in terms of vendor selection were:

- Integration
- Vendor reputation
- Breadth and comprehensive scope of services
- Ability to reduce or contain costs
- Price

Song started its selection process in October 2002 with the involvement of the highest levels of management from HR, finance, and IT from both Delta and Song. The team executed an RFP with four vendors, representing both outsourcing and licensed software solutions. Relatively early in this process, Song came to the conclusion that HR business process outsourcing would be the delivery model of choice to achieve its goal of minimizing overhead.

Song selected ADP not only because it offers a unique mid-market HR BPO service but also because it shines in other areas that were of most importance to the team. For example, integration of HR processes was ranked as a 5+ on a scale of 1 to 5 in terms of importance to Song. ADP COS met and exceeded this critical need. Vendor reputation was also of high importance, and ADP receives high marks for its market position and industry leadership. Last but not least, a commitment to service was vital to Song, and ADP demonstrated that commitment prior to selection, throughout implementation, and thereafter during ongoing operations.

Results

In January 2003, after a rigorous evaluation, Song selected ADP to be its HR outsourcing partner. The timing of the selection left ADP just three months to implement the services in time for the April 2003 unveiling of the new airline and to produce the "all-important" first payroll.

Song was up and running on ADP COS in April 2003, as projected. This milestone was attained in an impressively short amount of time. Song had an aggressive plan that called for payroll, benefits, self-service, time-keeping, flexible spending administration (FSA), and record-keeping to go live together, and it also achieved this goal within the desired time frame. In addition to this milestone, Song has realized a variety of other benefits, including:

- ☒ Use of newer best-practice technologies such as paperless payroll services made possible through 100% direct deposit and Web-based self-service (Song's payroll is produced without paper forms of any kind.)
- ☒ A lower cost per paycheck than that of its parent
- ☒ Its goal for just three permanent full-time equivalents (FTEs) in its HR department
- ☒ A call center with just one person covering the payroll desk

Song is highly complimentary to ADP for its service and level of commitment to the project, particularly the speed in which the service was implemented and "live."

Lessons Learned

Song characterizes ADP COS as exceeding expectations and would choose ADP again "in a heartbeat." In terms of lessons learned, the project manager for Song would have allowed more time for implementation. He also would have ramped up benefits a little later in the implementation cycle rather than on day one as employees were "terminated" from Delta in order to be hired by Song, resulting in unnecessary termination activities, such as issuance of COBRA letters. He also advises others to make their own process in order to preserve the spirit of the company. As he says, it is ADP but feels like Song. Employees are not aware that the ADP employees don't work for Song, and that's the way HR likes it.

ENSURING EFFICIENCY AT ACUITY BRANDS

Company Background

Acuity Brands Inc., with fiscal year 2005 net sales of approximately \$2.2 billion, comprises Acuity Brands Lighting and Acuity Specialty Products. Acuity Brands Lighting is a leading provider of lighting fixtures and includes brands such as Lithonia Lighting®, Holophane®, Peerless®, Hydrel®, American Electric Lighting®, and Gotham®. Acuity Specialty Products is a leading provider of specialty chemicals and includes brands such as Zep®, Zep Commercial™, Enforcer®, and Selig™. Headquartered in Atlanta, Georgia, Acuity Brands employs approximately 10,000 people and has operations in North America, Europe, and Asia.

Business Needs and Drivers

In November 2001, holding company National Service Industries (NSI) divested Acuity Brands Lighting and Acuity Specialty Products into a separate entity. The two business units managed separate HR systems until January 2004, at which time the decision was made to consolidate and eliminate the redundancy. Both units were managing independent on-premise systems, but the lighting business unit was the larger of the two and represented two-thirds of the total organization.

The initial key drivers for the decision to consolidate were benefits and benefits administration. Escalating medical costs contributed to Acuity's need to proactively strategize benefit plan design and plan options. To manage this process internally, Acuity would have had to make a considerable investment in IT resources to program the systems in support of annual enrollment. Acuity was looking for a business partner that could support and manage the annual enrollment effort and provide the company with more creative design opportunities that could be delivered through advanced technology. It also required multilevel call center support. Acuity hoped to find a business partner that would allow it to expand possibilities in the area of employee benefit options.

Other Acuity business challenges included the duplication of efforts across the business units as well as site-specific practices and some manual processes that needed streamlining. Acuity also had consistency and compliance challenges associated with disconnected policies and procedures and a fragmented delivery system. Specifically, Acuity was looking to ensure consistency and streamline efforts to support ERISA and HIPAA compliance.

Choosing a Provider

Acuity formed a cross-functional team consisting of finance, IT, and HR representatives from both business units. In March 2004, the team developed an RFP for benefits and an RFI for HR and payroll, which it then issued to seven vendors. After the responses to the RFP and RFI were received, the team examined the options and built a business case for an integrated solution rather than just a benefits solution. The most important factors in terms of overall vendor selection were:

- Technical expertise to support and maintain benefit system requirements
- Integration with Acuity Brands' systems and external vendors (touch points)
- Mature service delivery model
- Comprehensive breadth and scope of services
- Establishment and adherence to best practices
- Ease of system use for employees and managers

In addition to these factors, Acuity considered cultural fit a factor of high importance in its selection. In August 2004, the Acuity team chose ADP.

Results

Acuity Brands went live on ADP COS benefits solution, and other HR processes are in active implementation. Thus far, Acuity has seen improvements in a number of areas:

- ☒ Acuity now has single-system access for all employee benefits with consolidated premium billing reporting and single-carrier eligibility files.
- ☒ ADP COS delivered a successful active enrollment for Acuity with 90% of all employee enrollments collected via the online Web system, including new dependent and beneficiary information.
- ☒ ADP COS has enabled Acuity to explore options such as consumer-driven health plans and health savings accounts (HSAs) with confidence that ADP will be able to support both the technical enrollment and customer service support requirements.
- ☒ Ease of use has dramatically improved for employees. The benefits team has received much unsolicited positive feedback.

The Acuity team also reports that ADP met a very aggressive schedule and team members are pleased with their partnership with ADP, especially in the area of creative issue and problem resolution.

Lessons Learned

Acuity's director of benefits recommends that other organizations consider the importance of engaging from the bottom up and the top down, directly involving the people that will be impacted by the decision to outsource. Also, it is important to recognize that this type of project needs total organizational support — not just from HR, but from all levels of management. At the same time, Acuity suggests that companies should not underestimate the effort around change management and training. Acuity recommends that a professional change management team be engaged to work in tandem with the project. A successful HR BPO project delivers both a new work environment for the organization and new ways to perform old tasks.

LOWERING COSTS AT CSFB

Company Background

Credit Suisse First Boston (CSFB) is a leading global investment bank serving institutional, corporate, government, and high net-worth clients. CSFB's businesses include securities underwriting, sales and trading, investment banking, private equity, alternative assets, financial advisory services, investment research, and asset management.

CSFB's services rank in the top tier in virtually all major business segments, including investment banking, capital markets, and financial services. CSFB's organizational structure focuses on providing the highest quality of client-centric services.

CSFB has 10,000 employees in the United States and 19,000 worldwide.

Business Needs and Drivers

In 2000, CSFB acquired Donaldson, Lufkin and Jenrette, a leading United States–based investment bank. The merger of the two firms led to redundancy in a number of areas, including payroll services. Prior to the merger, both firms had their own systems and services in place along with staff to support and administer them. To eliminate this redundancy, CSFB selected an outsourcing service provider shortly after the merger in 2000. In 2002, CSFB determined the current provider was not meeting its needs and chose to outsource to ADP.

In 2004, CSFB realized it could further reduce redundancy and achieve additional cost savings by increasing its outsourcing relationship with ADP and adopting ADP COS. CSFB's industry has higher-than-average compensation even at the administrative level, so payroll administration costs were very high and payroll itself proved to be costly to produce.

In addition to achieving direct departmental cost savings, CSFB saw that it could lower costs in other areas by implementing self-service capabilities that had not been offered in the past. As a result, CSFB would both improve employee interaction and save costs associated with repetitive employee inquiries.

Choosing a Provider

The CSFB selection team issued an RFP as part of the original 2002 process to choose a new full-service BPO provider. The team reviewed four vendors, all of which were outsourcing providers. Although CSFB did not release an RFP in 2004, it spent a lot of time performing a formal cost-benefit analysis to ensure that the decision was right for the firm and would yield the desired results. CSFB gave the green light to go with ADP COS in 2004.

The most important factors in terms of overall vendor selection were:

- Vendor reputation
- Ability to reduce and contain costs
- Price

In addition, CSFB wanted access to a single point of account management and self-service and were impressed with the online, real-time capabilities of ADP's Self-Service portal.

Results

CSFB was able to reduce its payroll staff from 50 to 8 employees as a result of using ADP COS and reports payroll services savings of 50% compared with the previous year's costs. ADP was also able to save CSFB an additional 50% of its multimillion-dollar New York State Unemployment Tax liability in 2004 through adjustments to voluntary unemployment tax payments. In addition, ADP's single authentication self-service Web site allows CSFB to offer online services it was unable to offer previously, including:

- Paperless payroll advice statements
- Online tax withholding for both federal and state taxes
- Override to supplemental tax rates, which is valuable to its highly compensated workforce
- W-2 reconciliation (breakdown of W-2 Box 1)
- Payroll and overtime schedules
- Employee surveys
- The ability to make online changes to direct deposits (96% of employees have chosen direct deposit)

In addition to these gains, CSFB benefits from ADP's seamless tax filing services, garnishment services, and unemployment claims management. Last year, ADP saved CSFB \$1 million through advising and adjustment to voluntary unemployment tax payments.

Lessons Learned

CSFB's director of payroll suggests that the transition from its previous service bureau to ADP could have been improved if some continuity could have been put in place; for example, some staff, knowledgeable about CSFB's unique needs, could have been transitioned to ADP at least on a temporary basis in order to streamline the changeover process.

CHALLENGES/OPPORTUNITIES

HR business process outsourcing was the right decision for the organizations discussed in this paper. HR BPO continues to grow in popularity and makes good sense for companies looking to ensure efficiencies, reduce costs, and leverage focused expertise. Service providers such as ADP can offer economies of scale that are not easily duplicated by individual companies, and therefore it is sound business to consider outsourcing.

However, software has become more sophisticated, powerful hardware is more affordable than ever, and the ubiquitous nature of the Internet makes it easy to connect from anywhere. Newer alternative delivery models such as software as a service (SaaS) make it more affordable for mid-market firms to maintain a quasi on-premises solution. These are the challenges that outsourcing firms will face in the market.

However, being able to have access to an HR system on premises or by network doesn't mean companies have the needed skills to deal with multifaceted compliance issues or the complexities of integrating HR modules from different vendors. The opportunity for outsourcing lies not in technology but in expertise.

METHODOLOGY

The purpose of this study was to educate the market on HR business process outsourcing versus traditional outsourcing, including the pain points that HR BPO addresses, the decision criteria associated with choosing HR BPO, the decision makers who evaluate HR BPO solutions, the challenges and benefits of HR BPO, and how the ADP COS solution is providing incremental business value to customers. As such, the study methodology entailed in-depth qualitative case study interviews with three client companies supplied by ADP.

Companies were selected from those that have implemented ADP COS and were able to articulate:

- Challenges faced before implementing the ADP solution
- Decision criteria for choosing HR business process outsourcing
- Business value realized
- Best practices/lessons learned

CONCLUSION

The experiences of the firms profiled in this white paper highlight some of the benefits of HR business process outsourcing.

Song set out to change the way things were done in every facet of the business, including HR management. By choosing to outsource, Song was able to go live on time for its first flights and has kept HR overhead low.

Acuity Brands consolidated its two business units onto ADP COS and reported 90% participation in a recent online open enrollment. The company is able to use a single system to locate any employee and is receiving positive, unsolicited feedback from its workforce. Reducing redundancies will help Acuity's benefits team explore other options, such as offering HSAs, which it was not able to do prior to implementing ADP COS.

For CSFB, the merging of two organizations with duplicate processes meant high payroll costs. By outsourcing, these ongoing costs were reduced by 50% compared with the previous year's costs of similar services. ADP was also able to save CSFB an additional 50% of its multimillion-dollar New York State Unemployment Tax liability in 2004 through adjustments to voluntary unemployment tax payments. In addition, CSFB is now able to offer self-service benefits to its workforce, further reducing paper and complexity.

For these three firms, outsourcing with ADP COS was clearly the right decision.

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