NEAT EVALUATION FOR ADP:

Payroll Services 2015

Payroll Services: Market Summary

Buy-Side Dynamics

The top three drivers of Payroll Services are:

- Process efficiency and agility to support a cloud HR system enablement and to support ongoing business changes

- Improved compliance and risk management

- Payroll processing cost and cost agility in support of changing business volumes.

Payroll Services contracts average four years in length, however, contracts with scope of >50 countries can be as long as ten years.

Market Size & Growth

The global payroll services market was valued at $15.6bn in 2014, expected to grow at +6.2% in 2015 to reach $16,5bn, and is forecast to grow at +6.6% CAAGR for the next five years to reach $21.4bn in 2019. Growth is driven by demand for multi-country and for integrated HCM/payroll cloud integration.

For calendar year (CY) 2014, NelsonHall estimates that ADP's payroll service revenues were ~$5,072m, equivalent to 32.6% of the global market.

Payroll services growth is expected to come from:

- Western markets, driven by HR-cloud migrations

- The emerging economies where companies are investing (Latin America, Asia Pacific)

- Countries with aging workforces where, rather than rehire, it is easier to outsource in a fully serviced model (e.g. Japan)

- Countries with growing workforces (e.g. India and Brazil).

The largest purchasers of Payroll Services are manufacturing, retail and financial services, jointly representing 37% of the market. Retail and energy and utilities are likely to show the greatest growth as margin pressures drive these industries to maximize payroll efficiencies through greater digital services.

Success Factors

The leading vendor selection criteria are:

- Compliance, with quality of service offering high payroll accuracy and timeliness

- HR/payroll integrated technology capability, particularly to support HCM SMAC (Social, Mobile, Analytics, Cloud) or integration with HCM system

- Ability to provide the best value for money, typically taking into account the HR technology bundled with the payroll service

- With the risk of project overruns, particularly on T&M projects, buyers look for ability to execute and deliver a project within expected timeframes.

The critical success factors for Payroll Services Outsourcing are:

- Close alignment between HR software/provider and payroll software/provider to keeping up to date with integrations between products

- Invest in user experience and mobile solutions, measure and manage user adoption with client engagement

- Invest in a case management system to effectively service clients from remote locations and to support continuous efficiency improvements

- To demonstrate using client metrics, the percentage reduction of tickets and cases raised by the HR administration/payroll function. Such metrics can support a business case for the benefits of mobile and self-services. Many vendors still report benefits from pure technology consolidation (an IT transformation benefit), and not necessarily a HR process improvement benefit

- Build scale in target geographies and avoid third parties due to the additional management fees that are otherwise incurred.

Future

Over the next few years:

- Payroll Services growth will continue at ~6.6% CAAGR from 2014 - 2019, and is solid across all regions, but highest in Asia Pacific and Latin America, followed by EMEA. Growth will be driven by the need to drive increased efficiencies in HR/payroll service delivery through HR transformation projects

- Continued focus on compliance and greater demand for cloud integrated HR/payroll transformation

- Continued appetite for governments to add e-filing capability and digital services, likely to drive greater acceptance of cloud based payroll services as organizations move away from on-premise model

- Mid-market to represent ~10bn by 2019, based on a 6.8% CAGR, primarily driven by globalization and compliance needs

- In the next year, we are likely to see retail and energy and utility sectors with the greatest growth, as margin pressures drive these industries to maximize payroll efficiencies through greater digital services. Manufacturing to sustain its growth and service industries to show moderate growth as they look for payroll consolidations

- Full payroll services market will represent ~$5.2bn by 2019, driven by multi-country and compliance needs. The partial payroll market will show slightly lower growth at CAGR 5.8%, however the market size will represent ~16bn by 2019

- In the next three years, the cloud HR software market will be crowded with vendors lacking payroll capability in key local markets, spurring increased acquisition activity and a demand for integration services as part of the payroll service

- Selection criteria will increasingly include agility to support business changes, and variable volumes. Moving to cloud based technologies commonly offers just technical agility, however expect second generation payroll cloud service buyers to look for more agility to support volumetric changes

- As custom developments are limited in cloud HR products, buyers will require greater due diligence of the functional fit, which drives up the length of the sales cycles for both HR and payroll

- Increase in complementary offerings expected for time and benefits, recognition and recruitment

- Industry offerings to deepen as cloud based services allow for greater scope for specialization; this is expected in service specific industries as well as where high compliance needs arise, including employee certifications for high tech and pharmaceuticals.

# NEAT Evaluations for Payroll Services

Below are the Payroll Services NEAT graphs showing vendor evaluations for the market segments *Overall*, *Multi-Country Focus*, and *Analytics & Reporting Focus,* with ADP identified as a 'Leader' in all three segments.

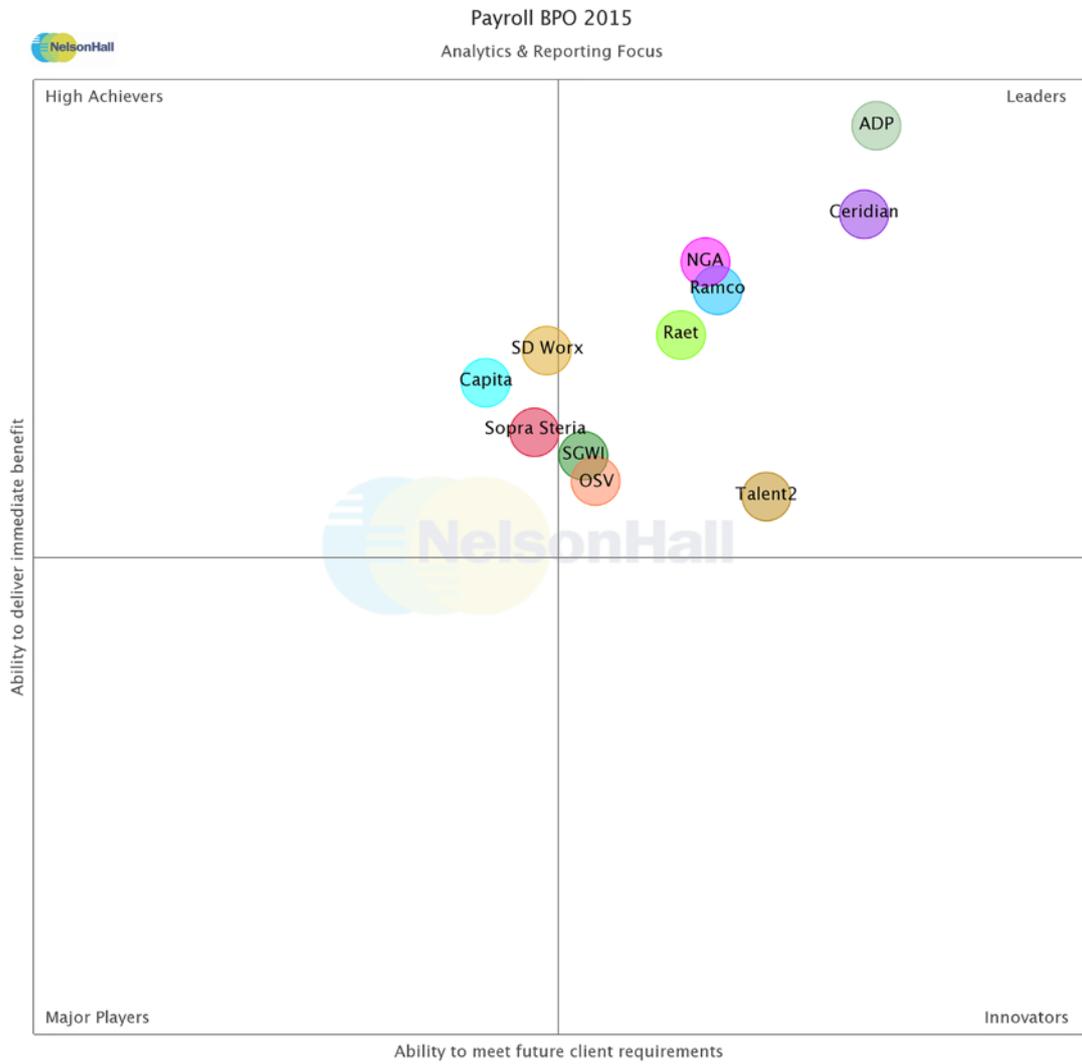Buy-side organizations can access the Payroll Services NEAT tool online here.

Overall

Payroll BPO 2015
Overall

Multi-Country Focus

Payroll BPO 2015
Multi-Country Payroll Focus

Analytics & Reporting Focus
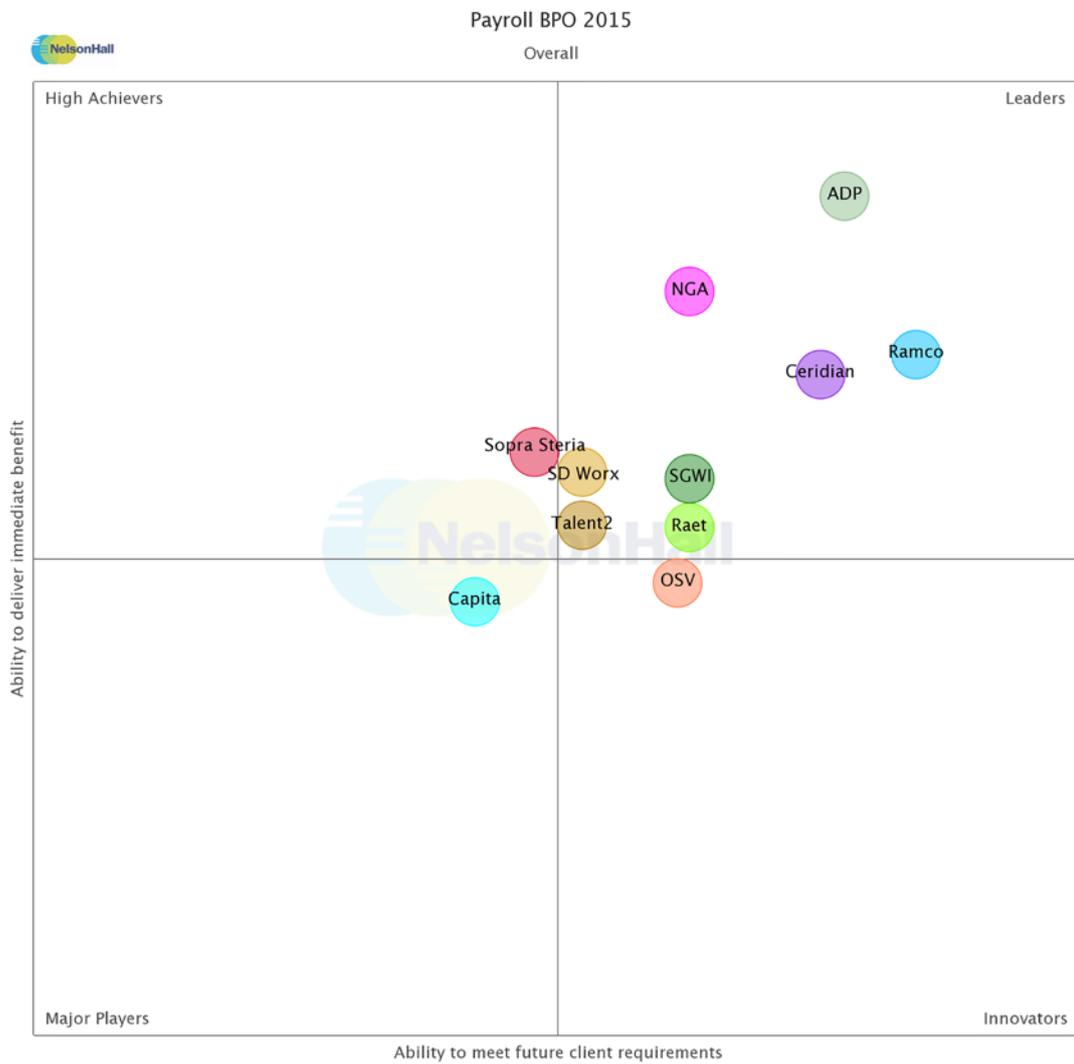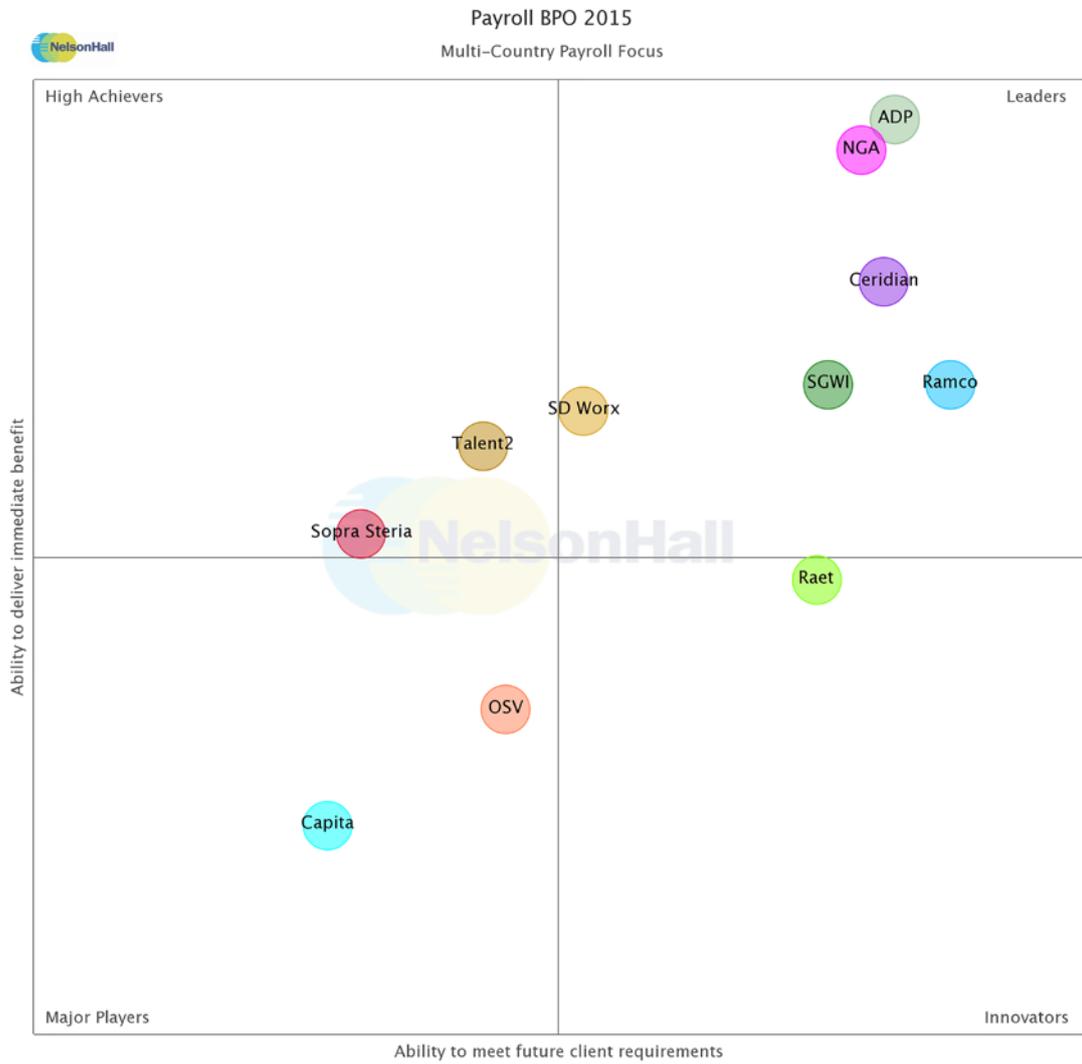
Payroll BPO 2015
Analytics & Reporting Focus

NEAT Methodology

NelsonHall's (vendor) Evaluation & Assessment Tool (NEAT) is a method by which strategic sourcing managers can evaluate outsourcing vendors and is part of NelsonHall's *Speed-to-Source* initiative. The NEAT tool sits at the front-end of the vendor screening process and consists of a two-axis model: assessing vendors against their 'ability to deliver immediate benefit' to buy-side organizations and their 'ability to meet client future requirements'. The latter axis is a pragmatic assessment of the vendor's ability to take clients on an innovation journey over the lifetime of their next contract.

The 'ability to deliver immediate benefit' assessment is based on the criteria shown in Exhibit 1, typically reflecting the current maturity of the vendor's offerings, delivery capability, benefits achievement on behalf of clients, and customer presence.

The 'ability to meet client future requirements' assessment is based on the criteria shown in Exhibit 2, and provides a measure of the extent to which the supplier is well-positioned to support the customer journey over the life of a contract. This includes criteria such as the level of partnership established with clients, the mechanisms in place to drive innovation, the level of investment in the service, and the financial stability of the vendor.

The vendors covered in NelsonHall NEAT projects are typically the leaders in their fields. However, within this context, the categorization of vendors within NelsonHall NEAT projects is as follows:

- **Leaders**: vendors that exhibit both a high ability relative to their peers to deliver immediate benefit and a high capability relative to their peers to meet client future requirements

- **High Achievers**: vendors that exhibit a high ability relative to their peers to deliver immediate benefit but have scope to enhance their ability to meet client future requirements

- **Innovators**: vendors that exhibit a high capability relative to their peers to meet client future requirements but have scope to enhance their ability to deliver immediate benefit

- **Major Players**: other significant vendors for this service type.

The scoring of the vendors is based on a combination of analyst assessment, principally around measurements of the ability to deliver immediate benefit; and feedback from interviewing of vendor clients, principally in support of measurements of levels of partnership and ability to meet future client requirements.

'Ability to deliver immediate benefit': Assessment criteria

Assessment Category	Assessment Criteria
Payroll offerings	Range of processes covered
	Payroll compliance delivery maturity
	Range of mobile offerings
	Scalability of payroll technology
	Application of analytics
	Usability and end-to-end process experience
	Interfaces/integration with HR cloud platforms
	Willingness to take over client payroll operations
	Wider HR service provision beyond payroll
Payroll delivery capability	Payroll process change management
	Delivery capability in support of U.S. payroll
	Delivery capability in support of U.K. payroll
	Delivery capability in support of Continental European payroll
	Delivery capability in support of Rest of EMEA payroll
	Delivery capability in support of LATAM payroll
	Application of payroll benchmarking
	Multi-country payroll delivery
Customer presence in payroll	Scale of large company presence (more than 15k employees)
	Scale of mid company presence (500-15k employees)
	Scale of small company presence (less than 500 employees)
	Scale of payroll presence in U.S.
	Scale of payroll presence in U.K.
	Scale of payroll presence in Continental Europe
	Scale of payroll presence in Rest of EMEA
	Scale of payroll presence in APAC
	Scale of payroll presence in LATAM
Payroll benefits achievement	Level of cost savings achieved
	Multi-channel approach to employee interaction
	Speed to apply regulations
	Single governance

Exhibit 2

'Ability to meet client future requirements': Assessment criteria

Assessment Category	Assessment Criteria
Suitability to deliver future benefit	Payroll market momentum
	Perceived mechanisms in place to deliver innovation
	Perceived suitability to meet future needs
	Achievement of service and delivery innovation
	Ability to challenge and be proactive
	Level of focus on payroll operations development
	Level of focus on payroll technology development
	Vendor service culture
	Flexibility to support client specific configuration of client rules
	Level of investment in analytics and payroll reporting
	Momentum of rollout of mobile integrated HR/payroll process improvement
	Support for new country entry and investments in multi-country solutions
	Perception of ability to make technology improvements to support client needs

Vendor Analysis Summary for ADP

Overview

ADP has been providing payroll services since its inception in 1949. Today it pays ~34m employees supporting ~555k organizations and has local payroll presence in 30 countries. ADP pays approximately ~24m of these in the U.S. It offers both single country and multi-country payroll services, and offers three levels of payroll service (with approximate proportion share of payroll business):

- Partial payroll services (~80% revenue share) are provided alongside the technology. Commonly this is treasury services, managing checks and pay advices, garnishments and payroll tax services

- Full payroll services (~10% revenue share): ADP becomes the client's payroll department; while the client owns the data input, ADP manages the end to end processing including managing incoming and outgoing files, balance checking, and year-end support, with a Tier 2 helpdesk

- Full payroll services with an employee contact center (~10% revenue share): known as 'Payroll Services' or 'comprehensive outsourcing service (COS)' in ADP. In addition to the managed services described above, ADP also provides a Tier 1 employee payroll contact center for answering employee queries.

All clients use ADP's payroll software provision including SaaS payroll (for ~500k clients) and on premise delivery (~125k clients); this includes application support and hosting, and technical and functional help for payroll managers and client IT.

In 2014 ADP continued to develop its global data management capability which supports its global payroll through feeding into the ADP Streamline system. With the global data management system, ADP offers managed payroll services across ~104 countries.

ADP offers services using its own hosted and managed systems. It has 16 proprietary systems, designed for different market sizes. Its own payroll systems can support large clients in 42 countries, and small/mid-sized clients across 29 countries using its national payroll systems. Additional country payrolls are processed through its partner network, supporting ~100 countries. ADP developed its payroll offering in 2014 through:

- ADP released the ADP tablet app in April 2014, available for the U.S. based products

- ADP is integrating Streamline across multiple products; its integration with Workforce Now is now also available

- Adding analytics for company and industry benchmarks with ADP DataCloud

- Expanding mobility integration through a partnership with KPMG to support expatriate processing

- Development of an M&A offering to support rapid onboarding

- Launching its iHCM product, which supports non-U.S. headquartered organizations with HR software needs. Payroll is supported in Germany, U.K., Netherlands and China through standard interfaces to the iHCM product

- New industry specific offerings for retail and restaurants.

Key delivery enhancements in 2014 include:

- In 2014 ADP continued implementing Siebel CRM software to support case management across clients. It plans to further roll this out to all multinational clients in 2015

- ADP launched the ADP Marketplace which offers clients and partners and application developers access to its APIs

- Delivery centers: a new Barcelona center opened offering capacity for 700 seats, and a Bucharest center opened in 2015 to add language capability. El Paso ADP recently announced an expansion, opening another building which will support greater capacity.

2014 also saw an acquisitions in Germany, when ADP acquired Perkura, to expand its HR services footprint in Germany.

ADP also offers payroll services to support cloud HR technology integration to third party cloud HR technologies including:

- SuccessFactors (SFSF) integration with GlobalView: offered for up to 28 countries. ADP supports a user experience with one place for global payroll and HR data, with near real-time data replication (using iFrame technology)

- Workday certified interfaces across 15 countries: U.S., Japan, China, Singapore, Korea, India, Australia, Philippines, France, U.K., Italy, Germany, Spain, Mexico and Ireland. It plans to add more countries over the next year. The interface with Workday is bio-directional and ADP offers user guides for integration (with country-specific nuances itemized), a data scope document, and a Workday consultant guide on how to interface with ADP's Global Payroll.

As part of its payroll services, ADP also offers ancillary services:

- Compliance: ADP provides local compliance support in ~104 countries

- Tax services or lodgments (can supplement the payroll software provision above)

- Change management: change management and implementation programs support the projects, both pre-engagement and post go-live

- HR software provision is increasingly being bundled with payroll services and comprehensive outsourcing services.

Strengths

- Strong brand name in the U.S. and globally

- ADP's size, financial strength and global capability; it provides payroll services in ~100 countries

- One multi-tenant U.S. net payroll system, enabling more effective ongoing maintenance of tax laws than if multiple payroll systems had to be maintained. Furthermore, this supports a cost effective payroll solution as clients can leverage the scale and volume of ADP's client base

- Presence in MNC market; ADP has ~1.2k MNC payroll outsourcing clients

- Depth of client base in the small, mid and large markets

- Ability to provide multi-country payroll and multilingual support across time zones, with a strong local presence

- Multi-shore service delivery model

- Maturity and range of technology offerings to support different markets, including:

  - Multi-tenant platforms (e.g. GlobalView): first launched in 2005 with 42 country payrolls offered and supporting ~140 clients with ~2.2m payslips

  - Hosting capability:

  - Single country payroll technologies designed for small and mid-market companies: the Workforce Now product for the mid-market had the most investment days allocated in 2014, and recently launched new product features such as providing industry KPI metrics embedded in the product, and compensation planning across 33 countries

  - HR functionality: offered in all geographies serviced

- Ability to provide talent management SaaS alongside payroll within proprietary technology like Vantage, Workforce Now and iHCM, as well as through GlobalView integration with SFSF

- Investments in analytics, with 32 standard reports being developed for KPIs

- Continuous improvement of its technology and service offerings, with continued commitments through the opening of the second innovation center in Manhattan in 2014.

Challenges

- Expanding into HR software and talent brings a different nature of project and requires a different skill set

- Limited ability to support technologies other than ADP technologies and a reluctance to manage lift and shift which, for large clients, is sometimes critical to support a smooth transition involving multiple go-lives

- With its multitude of HCM and payroll platforms, organizations can easily get confused over which is suitable for their needs; furthermore, there is a risk that product knowledge is not uniformly shared among the sales teams

- The adoption of GlobalView's self-service is limited amongst the client base

- ADP has a large install base on a multitude of technologies with the need for wide technical skills, migrating clients and retraining technical teams to newer technologies is likely to absorb significant management attention to support the retention of clients. Some of these clients where they are not getting this attention are likely to see a lack of innovation from ADP as it applies to them

- Limited support for data entry

- Limited case studies and announcements of ADP's payroll contracts. The majority of ADP's contract announcements relate to HCM software

- Market perception of ADP as primarily a U.S. focused payroll provider.

Strategic Direction

ADP is focusing on offering expansion, business development and delivery improvements:

Offerings expansion:

- Evolving ADP HCM Talent Management functionality to support additional countries (rolling out additional languages and localizations of fields for Vantage and iHCM) to attract organizations looking for integrated HR/payroll systems, where payroll services can be added

- Broadening its analytics offerings across BPO towers and geographies with ADP DataCloud

- Building more certified interfaces to Workday, to support ~50 countries by the end of 2015

- Leveraging SuccessFactors' partnership and integration with GlobalView including rolling out its single user experience to additional countries (28 in total)

- Rolling out new user experience, analytics, mobile apps (ADP Mobile and Tablet Apps) and document storage technologies across its products and client base.

Business development:

- Building alliances with systems integrators to collaborate on pipeline opportunities and co-marketing initiatives

- ADP has followed an approach of partnering with a company prior to acquiring it. It is continuing to evaluate acquisitions for the expansion of its partner network; this could include a Streamline partner.

Delivery development:

- Improving CRM and service reporting across clients using Siebel software, and planning to roll this out to its GlobalView clients by end of 2015.

Outlook

NelsonHall expects that ADP will continue to be a market leader in payroll, being the largest payroll provider globally, with a significant client base. ADP has supported its growth partly through acquisitions resulting from opportunities from partner payroll programs. Through its payroll partner program and its continued engagement with local providers, as well as its strong financial position, the momentum experienced to date is expected to continue and ADP is likely to make further payroll acquisitions. These acquisitions will help ADP secure capability in growing markets and will increase its multi-country capability. It is likely to look to increase its ability to directly support payroll service delivery (currently in 30 countries); NelsonHall expects this to increase to ~35 countries in the next three years, through further acquisitions.

ADP's multi-country payroll business has been its growth engine for the last few years and this is expected to continue, supported by the advent of cloud HR projects. It is supported by ADP's investments in integrations with SuccessFactors as well as Workday. SAP expects 32 countries to integrate to SuccessFactors global payroll by the end of 2015, and ADP is one of the few payroll providers which has credibility in supporting large SAP payroll projects. Assuming that ADP continues to invest in this integration (which is expected), ADP will benefit in attracting new clients as well as supporting existing clients to transition to cloud HR systems, as organizations look for greater visibility of global operations, one user experience (mobile enabled), and improved global reporting.

ADP's investment in document management and analytics will also attract new clients as the digitization of processes grows across industries, and as it becomes more common practice for organizations to simplify, automate and reduce costly and inefficient paper flows. Its analytics offering, ADP DataCloud, is also expected to attract significant market interest, particularly as global data becomes more available to executives through mobile enablement; however, ADP will need to support this offering with effective case studies to demonstrate its value, capability and product completion.

With ADP's significant U.S. presence, large U.S. headquartered global companies will look to ADP first. Furthermore, ADP's continual expansion of service offerings will accelerate the payroll business opportunities, since business cases with wider HR scope are significantly easier to achieve.

For more information on other NEAT evaluations, please contact the NelsonHall relationship manager listed below.

research.nelson-hall.com

Sales Enquiries

NelsonHall will be pleased to discuss how we can bring benefit to your organization. You can contact us via the following relationship manager:

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