Exposing the Hidden Costs

CIO Executive Brief
Technology alone fails to deliver results

Businesses in all industries are under constant pressure to achieve efficiency savings – to do more with less. In response, many have automated and outsourced core HR processes such as payroll, time & attendance, HR data administration, and talent management. But have these projects, typically led by senior IT professionals, achieved the savings and productivity improvements that were expected? Probably not.

Some estimates put the failure rate for new technological solutions at 60 to 70 percent. A recent survey by Panorama Consulting\textsuperscript{1} confirmed that most technology implementations go over budget, take too long and fail to deliver measurable benefits.

One reason why so many IT projects fail is that companies often apply technology to HR processes without first looking at the processes themselves or the people who operate them. An added problem is that not enough thought goes into integrating software solutions to existing processes.

The cost analysis is too complicated with our current system.

Breakdown of TCO by Cost Type

1. 2014 ERP Report, Panorama Consulting
The price of software seams

Companies often automate or outsource isolated processes. They may, for example, use one outsourcing provider for payroll, another for time & attendance, while keeping HR data administration in-house. But this piecemeal approach can be expensive. According to research by ADP, companies using a variety of software solutions face ‘seams’ costs of around £150 per employee per year.\(^2\) Much of this money is spent on transferring data from one system to another.

A 2011 PwC study\(^3\) sponsored by ADP shows how these seams costs can increase total spending on HR. The study found that companies with software seams spend, on average, 21 percent more per pay check than those that have outsourced a range of core HR processes to a single provider.

Some businesses, however, have not yet grasped the importance of integrating software solutions. New research by Harris Poll commissioned by the ADP Research Institute found that less than half of the 1,004 executives surveyed thought it essential to integrate some or all HR processes into one system. On the other hand, two-thirds of the mid-sized companies in the survey had already integrated two or more of their HR processes. Payroll was the most likely to be currently integrated with other functions, and talent management the least likely.

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\(^2\) All currency conversion rates used are pre-UK referendum to the European Union held in June 2016.

\(^3\) The Hidden Reality of Payroll & HR Administration Costs: Exploring Hidden Cost Drivers and Characteristics of Cost-effective Organizations, PricewaterhouseCoopers, January 2011
Measuring the total costs of HR processes

IT leaders need to understand how the systems used to operate HR processes relate to each other. They also need to know exactly how much the business is spending on these processes, how much its peers are spending and the likely return on any investment in new solutions.

Unless you have answers to all those questions, there is a risk that outsourcing or automation will just shift the costs of running HR processes from one area of the business to another – from HR to IT.

ADP has developed a method of measuring the total cost of ownership (TCO) of payroll and other HR processes. The company has been carrying out TCO studies with clients for more than 10 years, using anonymous data from these studies to build up a unique benchmarking resource. This points to a growing gap between businesses that take a holistic approach to managing their HR processes and those that focus mainly on technology or outsource isolated functions. The database shows that companies with the highest costs are those that operate HR processes in-house or rely on a patchwork of technologies. The clear winners are companies that consider how people use technology, and whether the underlying processes still work with new systems or need to be replaced.

Do you know your big number?

- Familiar with the concept of TCO: 58%
- Consider all factors when estimating TCO: 27%
- Believe their company spends the right amount on TCO: 66%
- Formally analysed TCO accurately in the past 12 months: 22%
Controlling costs

TCO studies identify both the visible and hidden costs of running HR processes. Visible costs include the amount of money spent on buying and installing new systems. Hidden costs include those linked to software seams, as well as the direct and indirect labor costs associated with maintaining and upgrading systems.

But a TCO study does more than highlight costs. It also gives businesses insights into the current or ‘as is’ state of their HR processes, looking at factors such as:

- **IT functionality and requirements** (i.e. technology, scope)
- **Workload of people operating HR systems** (i.e. manual tasks, training)
- **Risks and challenges** (i.e. versioning, errors, system availability)
- **Productivity** (i.e. level of automation, systems integration)

Armed with this information, IT and HR teams can work together on building a business case for investment in new solutions. This business case will include their future - ‘to be’ - scenario, showing how cost savings and process improvements could be delivered by making better use of technology, people and processes.

Understanding your TCO

Comments from the ADP Research Institute survey reveals how poorly people understand their TCO.

"That is a cost that is very hard to track..."

"We do not keep track of TCO..."

"The top people keep some of that confidential..."

"I’d have to look into QuickBooks to figure it out..."

"The cost analysis is too complicated with our current system..."

Sounds familiar?

Call ADP, it’s time to know your big number.

ADP has developed a dedicated approach to help you understand your real HR TCO numbers. You will benefit from more than 10 years of experience in building HCM TCO business cases, you will access a unique worldwide database of 926 audited HR organisations to benchmark your HR organisation against and will get your detailed numbers to start driving your HR performance.
About ADP (NASDAQ-ADP)

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