

## WHITE PAPER

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# Increased Efficiencies and New Services 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 \$18.9 billion by 2010. This spending is not just at the high end of the market. More midmarket 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 midmarket and larger firms an HR BPO solution called Comprehensive Outsourcing Services (COS). Acuity Brands and Credit Suisse have implemented ADP COS and have realized a variety of quantitative and qualitative benefits:

- ☒ 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 acquired another investment banking firm and needed to consolidate on a single solution. As a result of implementing ADP COS, Credit Suisse 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 Credit Suisse an additional 50% of its multimillion-dollar New York State Unemployment Tax liability through adjustments to voluntary unemployment tax payments. Credit Suisse is also utilizing Web-based self-service through ADP COS and is offering employees services that were previously unavailable.

## SITUATION OVERVIEW

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### **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. It 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. 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 do so more cost-effectively than most employers.

Savvy HR executives are also realizing that much of their staffs' 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 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, which 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.

Given the aging workforce and the renewed war for talent, enterprises must begin addressing talent 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 case studies offered in this white paper were involved, in some way, in a status change. Credit Suisse went through a merger and Acuity Brands was divested from its parent.

## Midmarket Challenges

HR business process outsourcing is not just for large multinational firms. Despite a difference in size, midmarket firms are not much different from their larger counterparts.

Over the past few years, business process outsourcing has gained more widespread acceptance across a range of company sizes and industries. IDC observed vibrant contract activity and, notably, a pickup in deals in 2005 and 2006. A closer examination of these deals showed that a growing number of midmarket companies are embracing outsourcing as a way to manage their business processes.

In 2006, IDC conducted a survey of 100 HR executives to assess their current and planned adoption of HR BPO. The results reveal that midmarket companies face many of the same business challenges as larger firms, but, in most cases, with fewer resources (see Figure 1).

**FIGURE 1**

Top Business Challenges for Midmarket Firms, 2006



n = 100

Source: IDC, 2007

Half of the survey participants indicated that they are already using or are considering HR outsourcing and BPO in 2007 and 2008. Of those outsourcing today, 41% plan to broaden those engagements to include more HR functions. This finding echoes the upswing in contract activity that IDC has observed and demonstrates that midmarket firms are increasingly looking to HR BPO as a viable way of helping them address their business challenges.

The midmarket HR executives cited the following expected benefits of HR BPO, listed in order of importance:

- Cost savings
- Improvement of process efficiencies and effectiveness
- Access to outside process and technology expertise
- Redeployment of personnel to higher value work
- Greater visibility into process operations and data management and therefore greater control

Budget pressures are felt as intensely if not more so by midmarket firms because funding is often shifted and scarce investments in technology are made in other areas believed to be more vital to the core business. As a result, midmarket HR executives cite cost savings as the top benefit of HR BPO. Along with cost savings, however, buyers also see access to outside processes and technology and the ability to redirect their internal resources on business strategy as compelling reasons for adopting HR BPO.

## **INTRODUCTION TO ADP COMPREHENSIVE OUTSOURCING SERVICES**

In response to increasing client demand for optimized efficiencies and economies of scale across multiple HR functions, ADP developed the ADP Comprehensive Outsourcing Services (COS) HR BPO offering. To date, ADP has implemented its single-source HR BPO solution for more than 40 companies.

ADP COS is a fully administered cross-functional solution that uses ADP's proprietary technology and maximizes 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 HR BPO offering. ADP COS also provides multilevel service management and fully integrated CRM and knowledge-base technology, combined with ADP's call center services. All of these additional services are inclusive, built-in elements of the ADP COS solution.

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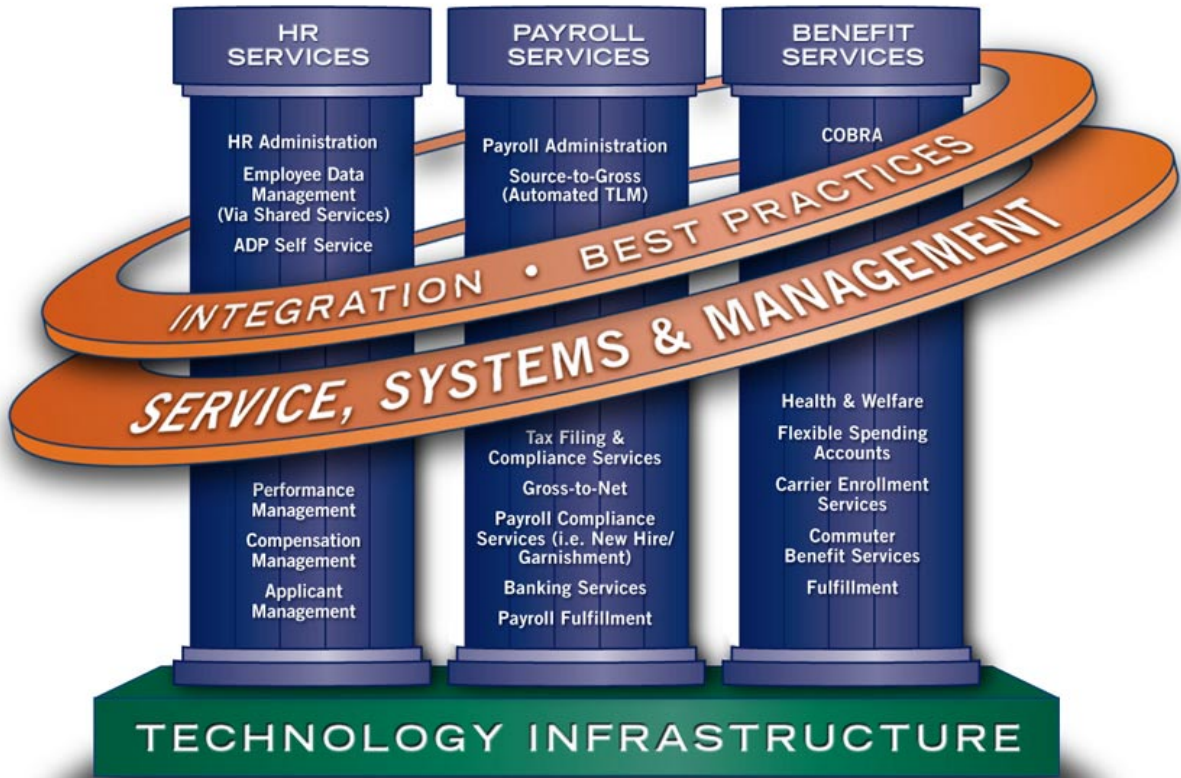
### **ADP COS**

The ADP COS approach provides midmarket companies with the flexibility to choose one of four comprehensive solutions to meet their specific needs (see Figure 2). Organizations may choose from a predetermined combination of fully administered:

1. Payroll administration services
2. Payroll and HR services
3. Payroll and benefit services
4. Payroll, HR, and benefit services

**FIGURE 2**

The ADP COS Approach



Source: ADP, 2007

***Economies of Scale***

Based on ADP's 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 easy access to the modern functionality and services they require for their workforce. A single-source solution will help organizations avoid the costs and confusion surrounding multivendor management and third-party technology integration.

### ***Increased Service Levels***

With ADP COS, clients receive the combination of self-service, CRM, and knowledge-base technology and call center services that is expected from an organization dedicated to employee support and employer satisfaction.

### ***Financial Stability and Security***

ADP pays one of every six Americans; electronically moves more than \$1 trillion in client tax, direct deposit, and related client funds annually; and is distinguished by a triple A (AAA) rating, one of only six nonfinancial companies worldwide that have attained this financial status.

### ***Experience***

ADP serves more than 32 million employees worldwide every payday and delivers proven, best-practice processes that are drawn from 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 allow midmarket organizations to successfully realize the promise of HR BPO solutions. These processes and technologies, combined with ADP's built-in efficiencies, proven best practices, and cross-process synergies, allow the vendor to deliver cost savings, measurable business results, and real business value.

## **ENSURING EFFICIENCY AT ACUITY BRANDS**

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### **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.

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## **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.

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## **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 COS.

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## Results

Acuity Brands is now live on ADP COS benefits, and other HR processes are in active implementation. 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 HSAs with confidence that ADP will be able to support both 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.

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## 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.

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## LOWERING COSTS AT CREDIT SUISSE

### Company Background

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

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

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

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## **Business Needs and Drivers**

In 2000, Credit Suisse 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, Credit Suisse selected an outsourcing service provider shortly after the merger in 2000. In 2002, Credit Suisse determined the current provider was not meeting its needs and chose to outsource to ADP.

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

In addition to achieving direct departmental cost savings, Credit Suisse 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, Credit Suisse would both improve employee interaction and save costs associated with repetitive employee inquiries.

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## **Choosing a Provider**

The Credit Suisse selection team issued an RFP as part of the original process to choose a new full-service HR BPO provider. The team reviewed four vendors, all of which were outsourcing providers. Although Credit Suisse did not release a formal RFP, 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. Credit Suisse made the final decision 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, Credit Suisse wanted access to a single point of account management and self-service and was impressed with the online, real-time capabilities of ADP's Self-Service portal.

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## Results

Credit Suisse 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 able to save Credit Suisse an additional 50% of its multimillion-dollar New York State Unemployment Tax liability through adjustments to voluntary unemployment tax payments. In addition, the single authentication self-service site allows Credit Suisse to offer online services it was unable to offer previously, including:

- Paperless payroll advice statements with a 96% direct deposit rate
- 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

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

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## Lessons Learned

Credit Suisse'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 the unique needs of Credit Suisse, could have been transitioned to ADP at least on a temporary basis to streamline the changeover process.

## CHALLENGES/OPPORTUNITIES

HR business process outsourcing was the right decision for the organizations discussed in this white paper. HR BPO continues to grow in popularity and makes good sense for all of the reasons discussed — ensuring efficiencies, cost reduction, and rapid implementation. It is a core competency for organizations such as ADP that have built multibillion-dollar businesses around their payroll and HR expertise. These skills are not core to the business of employers, such as those highlighted in this document. Most employers cannot claim the same level of economies of scale as service providers, and therefore it is sound business to outsource.

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 midmarket 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 two 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.

Acuity Brands consolidated its two business units onto ADP COS and reported 90% participation in a recent online open enrollment. The company has also received unsolicited positive feedback from its workforce and is able to use a single system to locate any employee. 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.

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

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

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