

**The Total Cost of Ownership:
Impact of Time & Labor Management Systems
On Payroll Outsourcing with ADP**

A study conducted by PricewaterhouseCoopers

September 2004

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Executive Overview & Conclusions

In 2004, Automatic Data Processing, Inc. (ADP) commissioned PricewaterhouseCoopers LLP (PwC) to conduct a study to determine the impact of implementing an automated Time & Labor Management (TLM) system on the Total Cost of Ownership (TCO) of payroll for companies that outsource payroll processing and systems with ADP. This study focused exclusively on companies with 50 or more employees using ADP's payroll service.

For the purposes of this survey, "automated TLM system" was defined as the system or systems respondent companies use to collect, total, and prepare employee hours and attendance data and to apply company work rules to those data in preparation for payroll.

Key findings of the study show that, on average, ADP clients that use an automated TLM system from ADP reap significant cost savings when compared to ADP clients that either do not use any automated TLM system or use an automated TLM system from a vendor other than ADP:

- *Average TCO per paycheck for ADP clients using an automated TLM system from ADP is 28%-35% less than for ADP clients that do not use any automated TLM system.*
- *Average ongoing payroll processing and system maintenance costs for ADP clients using an automated TLM system from ADP are 40%-46% less than for ADP clients that do not use automated TLM systems.*
- *Average combined payroll department and field staff responsible for the end-to-end payroll process, as a function of total employees, is 38%-45% less for companies using automated ADP TLM systems than for companies that do not use an automated TLM system.*

The key findings of this study suggest a compelling argument that companies can realize significant cost savings by utilizing an automated TLM system from ADP in conjunction with ADP's payroll service.

Note: A separate 2004 TCO study commissioned by ADP, and conducted by PwC, found that TCO for ADP payroll clients with 1,000 or more employees averages 35% less than for similarly-sized companies processing payroll in-house, and the average HRIS TCO for ADP clients is more than 50% less. Contact your ADP account manager to obtain a copy of PwC's white paper, "Total Cost of Ownership: Comparative Benefits of ADP Outsourcing vs. In-House Payroll and HRIS", or go to <http://tco.nas.adp.com> to download a copy.

Methodology

The Purpose

Commissioned by ADP, PwC surveyed an extensive cross-section of ADP payroll outsourcing clients with 50 or more employees to determine the following:

- The end-to-end annual TCO of outsourcing payroll processing and systems to ADP
- The impact of automated TLM systems on payroll TCO for ADP clients

The Survey

PwC developed a web-based survey that 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.

Because this 2004 TCO survey looks only at ADP clients, PwC makes no representations that the customers of other outsourced payroll providers can realize the same cost savings as ADP clients. It should be noted that ADP is the market leader (in terms of market share) in payroll outsourcing and most likely represents one of the more mature and efficient payroll outsourcing operations in its industry. Few other payroll outsourcing organizations have as many payroll outsourcing clients within the study's target universe of companies with 50 or more employees. Moreover, few other outsourcing providers offer a fully developed suite of integrated payroll services to the small, mid-sized and large employer markets.

The Data

Recognizing that companies measure costs differently, PwC defined TCO in a manner that broke down total cost into its individual cost elements. Respondents were asked to provide data for all one-time and ongoing costs for payroll processing and systems. For the purpose of this study, the TCO of payroll is annualized and is the sum of the following components:

- Initial payroll system installation – one-time cost incurred within and amortized over three years
- Cost of last major upgrade – one-time cost incurred within and amortized over three years
- Payroll process labor costs – salaries and benefit loads in the payroll department
- Payroll process non-labor costs – corporate overhead, facilities, and other administrative costs associated with the payroll department
- Ongoing ADP payroll processing fees – annualized
- Payroll system maintenance labor costs – salaries and benefit loads for IT professionals supporting the payroll system
- Payroll system maintenance non-labor costs – overhead, facilities, and maintenance contracts
- The labor cost of non-payroll department time collection activity – time spent in the field by Human Resources staff, supervisors, administrative support etc. collecting, approving, and inputting employee hours for payroll
- TLM systems costs – one-time implementation and upgrade costs incurred within and amortized over three years
- TLM system maintenance costs – labor and non-labor costs related to TLM system maintenance (daily application support, database administration, network/communication, help desk/end-user support, as well as facilities and other overhead)

Data were normalized where necessary (*e.g.*, amortizing installation and last major upgrade costs incurred during the last three years and clarifying data that fell outside the normal range of responses). This methodology allowed PwC to calculate a consistent TCO across all survey participants. In total, more than 200 e-mails and telephone 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 and TLM
- 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.

Profile of Participants

Companies — 251 companies are represented in the study results. Of these respondents, 104 reported using an automated TLM system and 147 reported having no automated TLM system. Of the 104 respondents using an automated TLM system, 44 indicated that they have deployed an automated TLM system from ADP and 60 indicated that they have deployed a non-ADP automated TLM system.

The breakdown of participants by company size was as follows:

- Fewer than 500 employees — 185
- 500 or more employees — 66 (including 46 companies with 1,000 or more employees)

The average number of employees for all companies participating in the study was 1,427. For companies with fewer than 500 employees, the average number of employees was 148. For companies with 500 or more employees, the average number of employees was 5,010.

Respondents — Respondents identified themselves as members of the finance, payroll, accounting or human resource functions within their respective organizations and had knowledge of their company's payroll processing and TLM system usage and costs.

Key Findings and Analysis

Average TCO per Paycheck for ADP Clients Using Automated ADP TLM Systems is 28%-35% Less Than for ADP Clients That Do Not Use Automated TLM Systems

Using an automated system to replace the manual and time-intensive process of collecting, totalling and inputting employee time data appears to result in substantial savings in the overall TCO per paycheck for ADP outsourcing clients. These data have been broken out by company size to allow the reader to view these results for companies within their own size category.

Companies with fewer than 500 employees

The study showed that mid-sized ADP payroll outsourcing clients benefited from the use of any automated TLM system – either one of ADP’s automated TLM systems or a system from another vendor. However, the savings were much more pronounced for those using an automated TLM system from ADP. As Figure A on the following page shows:

- Companies with fewer than 500 employees using an ***ADP automated TLM system*** had a payroll TCO per paycheck that was 35% less than their counterparts that do not use any automated TLM system.
- Companies with fewer than 500 employees using a ***non-ADP automated TLM system*** experienced, on average, only a 23% lower payroll TCO per paycheck than their counterparts that do not use an automated TLM system.

Companies with 500 or more employees

The results were similar for larger companies: companies using any automated TLM system had a lower TCO per paycheck, but the savings were much more pronounced for companies using an automated TLM system from ADP compared to an automated TLM system from vendor other than ADP.

- Companies with 500 or more employees using an ***automated TLM system from ADP*** saw a 28% lower payroll TCO per paycheck than their counterparts that do not use an automated TLM system.
- Companies with 500 or more employees using a ***non-ADP automated TLM system*** experienced, on average, only a 10% lower payroll TCO per paycheck than their counterparts that do not use an automated TLM system.

The additional cost-effectiveness appears to result from the synergy of having a single vendor for, and seamless data integration between, outsourced payroll processing and automated TLM systems.

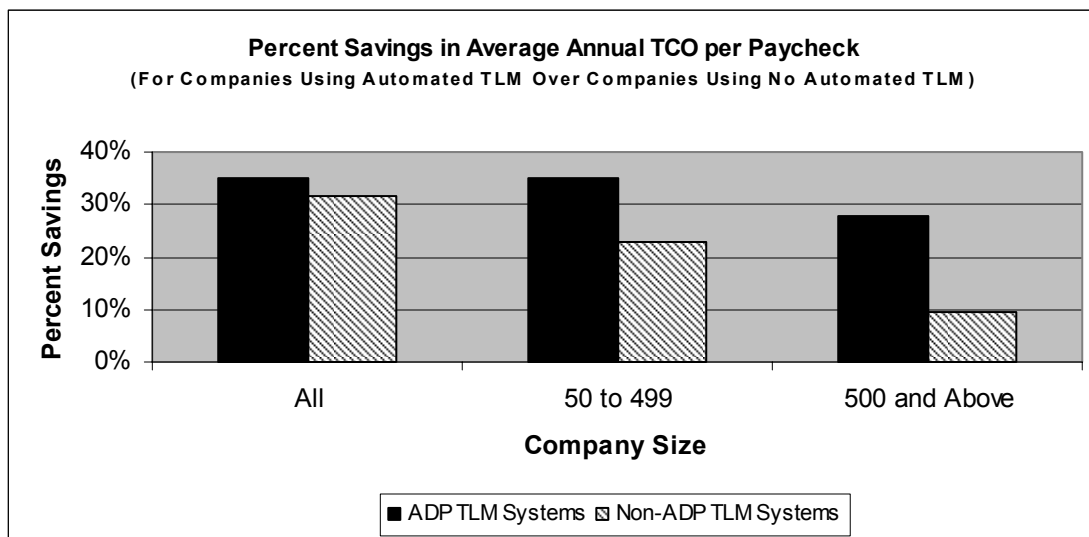


Figure A

Note: Payroll TCO was calculated for all survey respondents, and respondents were grouped according to company size and type (if any) of automated TLM system. The percentages shown represent the differences in average cost per paycheck for companies using an automated TLM system, either from ADP or from a vendor other than ADP, when compared to companies that do not use any automated TLM system.

Average Ongoing Payroll Processing and System Maintenance Costs for ADP Clients Using Automated ADP TLM Systems are 40%-46% Less Than for ADP Clients That Do Not Use Automated TLM Systems

Savings in average on-going payroll processing and system maintenance costs are a significant driver of cost savings for ADP payroll clients using an ADP automated TLM system. As Figure B on the following page shows, these companies realize some of their greatest cost savings, as compared to those companies who do not use an automated TLM system at all in this area.

Companies with fewer than 500 employees

- Companies with fewer than 500 employees using an **ADP automated TLM system** saw, on average, a reduction of 46% in their ongoing payroll processing and system maintenance costs as compared to their counterparts that do not use an automated TLM system.
- Companies with fewer than 500 employees using a **non-ADP automated TLM system** saved much less on their costs. These companies experienced, on average, only a 28% savings in ongoing payroll processing and system maintenance costs compared to their counterparts that do not use an automated TLM system.

Companies with 500 or more employees

- Companies with 500 or more employees using an **ADP automated TLM system** experienced, on average, 40% lower ongoing payroll processing and system maintenance costs than their counterparts that do not use an automated TLM system.
- Similar to the smaller employers, companies with 500 or more employees using a **non-ADP automated TLM system** saved much less on ongoing payroll processing and system maintenance than those using an ADP TLM system. These companies experienced only a 20% savings over their counterparts that do not use an automated TLM system.

Ongoing payroll processing costs and system maintenance costs are two of the areas that are most positively impacted by the synergy of having a single vendor for, and seamless data integration between, outsourced payroll processing and automated TLM systems.

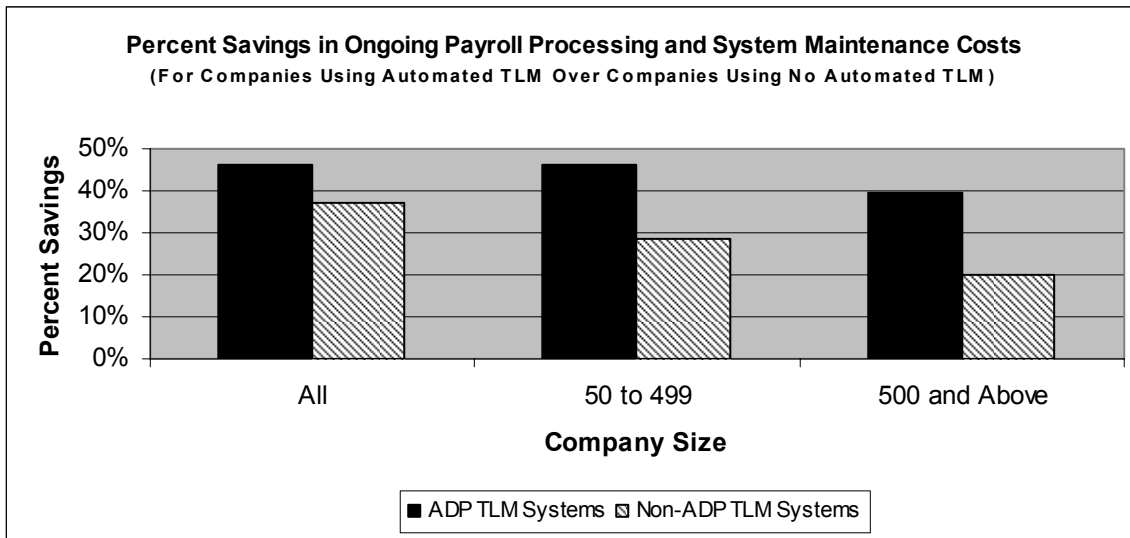


Figure B

Note: Ongoing payroll processing and system maintenance costs include all payroll labor and non-labor costs, payroll processing fees paid to ADP and payroll system maintenance labor and non-labor costs. The percentages shown represent the differences in these average costs for companies using an automated TLM system, either from ADP or from another vendor, when compared to companies that do not use an automated TLM system.

Average Combined Payroll Department and Field Staff Responsible for the End-to-End Payroll Process* is 38%-45% Less for ADP Clients Using Automated ADP TLM Systems Than For ADP Clients That Do Not Use Automated TLM Systems

Implementing an automated TLM system also provides benefits in the form of increased efficiency of employees responsible for processing payroll, both in the payroll department proper and out in the field, as Figure C on the following page illustrates.

Companies leveraging ADP automated TLM systems realized additional reductions in the combined payroll department and field staff responsible for the end-to-end payroll process, relative to those using non-ADP automated TLM systems.

Companies with fewer than 500 employees

- Companies with fewer than 500 employees using an automated TLM system from ADP saw an average reduction of 38% in the combined payroll department and field staff responsible for the end-to-end payroll process over their counterparts that do not use an automated TLM system.
- Once again, savings were much less for companies using an automated TLM system from a vendor other than ADP. Companies with fewer than 500 employees using a non-ADP automated TLM system saw only a 12% reduction in their combined payroll department and field staff responsible for the end-to-end payroll process over their counterparts that do not use an automated TLM system.

Companies with 500 or more employees

- Companies with 500 employees or more using an **ADP automated TLM system** saw an average reduction of 45% in the combined payroll department and field staff responsible for the end-to-end payroll process over their counterparts that do not use an automated TLM system.
- The combined payroll department and field staff responsible for the end-to-end payroll process in companies with 500 employees or more using a **non-ADP automated TLM system** was, on average, only 27% less than for their counterparts that do not use an automated TLM system.

In the entire payroll staffing area, companies using an automated TLM system from ADP along with ADP’s payroll service appear to benefit from the synergies of having a single vendor for both their payroll processing and TLM system and the seamless data integration between the two applications.

**Note: The combined payroll department and field staff is measured as a percentage of total employees*

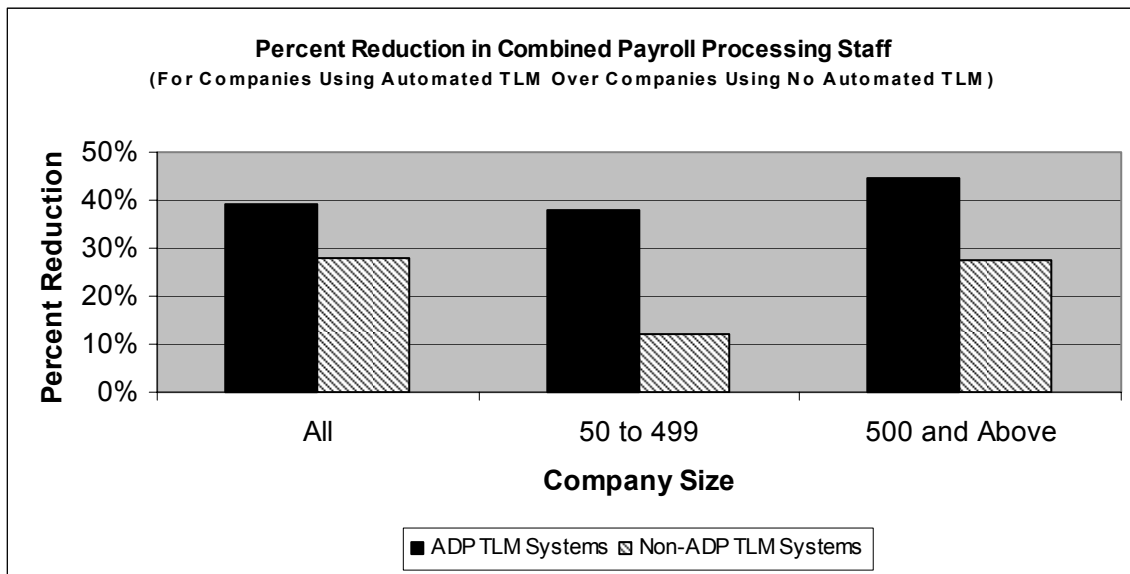


Figure C

Note: Combined payroll department and field staff is the combined total of full-time equivalents in the payroll department proper and out in the field calculated as a percentage of total employee population in each company. The percentages shown represent the reduction in payroll processing staff as a percentage of all employees for companies using an automated TLM system from either ADP or another vendor, when compared to companies that do not use an automated TLM system.

Conclusions and Recommendations

ADP clients that implemented one of ADP's automated TLM systems enjoyed a significantly lower payroll TCO than those that implemented an automated TLM system from another vendor. Therefore, this study presents a compelling case that companies outsourcing payroll to ADP that do not implement an automated TLM are potentially leaving a considerable amount of money on the table.

In particular, cost savings for ADP payroll outsourcing clients leveraging automated TLM systems from ADP can be seen in the form of:

- *Lower labor and non-labor costs associated with ongoing payroll processing and systems maintenance - 40%-46% less than for companies without an automated TLM system*
- *Smaller staffs responsible for the end-to-end payroll process, both in the payroll department proper and out in the field - 38%-45% less than for companies without an automated TLM system*
- *Lower average TCO per paycheck - 28%-35% less than for companies without an automated TLM system*

Suggested Further Reading

For additional information on the Total Cost of Ownership related to payroll processing see the following studies available at <http://tco.nas.adp.com>:

The Total Cost of Ownership: Cost Advantages of ADP Outsourcing versus In-House Payroll Processing/Systems and HRIS - A study conducted by PricewaterhouseCoopers, June 2004

The Total Cost of Ownership: Warning Signs of Hidden In-House Systems Costs – A study conducted by PricewaterhouseCoopers, September 2003