

NEAT EVALUATION FOR ADP:

Payroll Services

Market Segment: Digital Payroll Capability

Introduction

This is a custom report for ADP presenting the findings of the NelsonHall NEAT vendor evaluation for *Payroll Services* in the *Digital Payroll Capability* market segment. It contains the NEAT graph of vendor performance, a summary vendor analysis of ADP for payroll services, and the latest market analysis summary.

This NelsonHall Vendor Evaluation & Assessment Tool (NEAT) analyzes the performance of vendors offering payroll services. The NEAT tool allows strategic sourcing managers to assess the capability of vendors across a range of criteria and business situations and identify the best performing vendors with overall digital payroll capability, and with specific capability in multi-country payroll and in the Asia Pacific region.

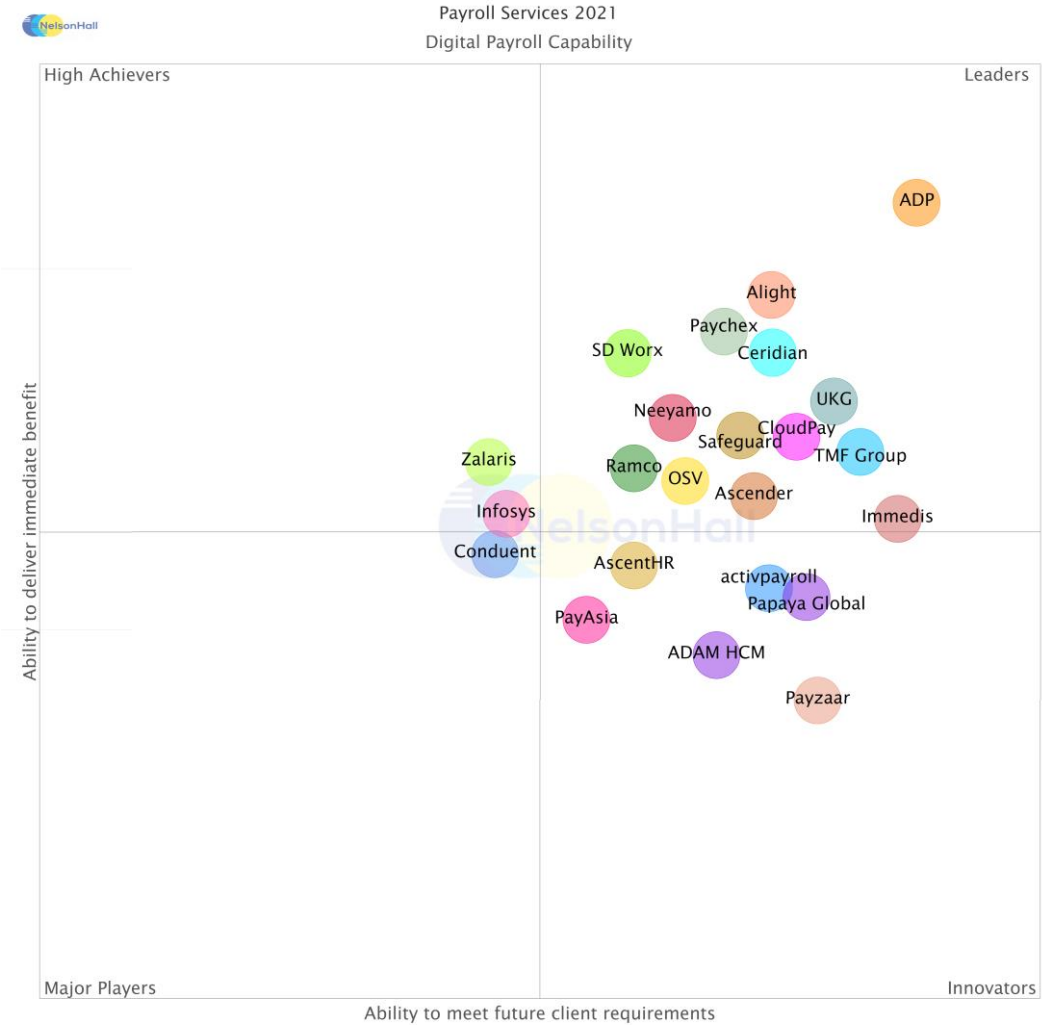
Evaluating vendors on both their 'ability to deliver immediate benefit' and their 'ability to meet client future requirements', vendors are identified in one of four categories: Leaders, High Achievers, Innovators, and Major Players.

Vendors evaluated for this NEAT are: ADAM HCM, activpayroll, ADP Employer Services, Alight Solutions, Ascender, AscentHR, Ceridian, CloudPay, Conduent, Immedis, Infosys, Neeyamo, OneSource Virtual, Papaya Global, PayAsia, Paychex, Payzaar, Ramco Systems, Safeguard Global, SD Worx, TMF Group, UKG, and Zalaris.

Further explanation of the NEAT methodology is included at the end of the report.



NEAT Evaluation: Payroll Services (Digital Payroll Capability)



Source: NelsonHall 2021

NelsonHall has identified ADP as a Leader in the *Digital Payroll Capability* market segment, as shown in the NEAT graph. This market segment reflects ADP’s overall ability to meet future client requirements as well as delivering immediate benefits to its payroll services clients with specific digital capability.

Buy-side organizations can access the *Payroll Services* NEAT tool (*Digital Payroll Capability*) [here](#).



Vendor Analysis Summary for ADP

Overview

ADP, founded in 1949 and headquartered in Roseland, New Jersey, is a provider of HCM management software and services.

ADP's business is organized into the following two business segments:

- *Employer Services* (~70% of revenues): provides HR Business Process Outsourcing (BPO) and technology-enabled HCM solutions; offerings include payroll services, benefits administration, talent management, HR management, time and attendance management, insurance services, retirement services, and tax and compliance services to over 850k clients worldwide
- *PEO Services* (~30% of revenues): ADP TotalSource provides employment administration outsourcing services for organizations with 1 to 999 employees, including payroll, benefits administration, and compliance services through a co-employment relationship; servicing over 12.5k clients and over 571k worksite employees in the U.S.

Within Employer Services, ADP's offerings include software and services for:

- Payroll services
- Tax and compliance
- HR administration
- Workforce management (WFM)
- Benefits administration
- Recruitment process outsourcing (RPO)
- Talent management
- Insurance services
- Retirement services
- Payment and compliance solutions
- Pre-employment.

In 1998, ADP launched its first SaaS-based payroll solution, EasyPayNet, and currently has several cloud-based HCM solutions available, including:

- ADP TotalSource: for existing PEO clients
- RUN Powered by ADP: for organizations with <50 employees
- ADP Workforce Now: for mid-market organizations with up to 5k employees in the U.S. and Canada, and offers integration with ADP Global Payroll
- ADPNext-Gen HCM: for U.S. headquartered organizations with >3k employees and outside the U.S. via integration with ADP Global Payroll
- ADP Global Payroll: for multinational organizations of all sizes; available in ~140 countries.



ADP has offered payroll services since its inception in 1949, and as of June 30th, 2020, pays ~36m employees (~22m in the U.S. and ~14m internationally) across ~840k payroll clients (~\$2.2 trillion annually moved on behalf of its clients and client employees) paying one in six U.S. workers. ADP provides payroll services to clients with one employee up to >150k employees.

ADP targets and supports organizations of all market sizes, offering services and solutions to meet each market segment's specific needs. ADP's client base is derived primarily from North American headquartered firms (~97% of its clients).

Financials

ADP's total revenue reported for FY 2020 (period ending June 30, 2020) was ~\$14.6bn, a ~3.4% increase over FY 2019.

NelsonHall estimates that ADP's calendar year (CY) 2020 Employer Services revenues to be ~9.9bn, with payroll services revenues of ~6.5bn, or ~65% of its CY 2020 Employer Services revenues.

Strengths

- Deep history, capability, and brand recognition as the largest payroll provider in the U.S., providing payroll and HCM solutions to 36 million employees globally and paying 1 in 6 American workers
- Ability to offer firms of all sizes a comprehensive suite of technology-enabled payroll services, including a range of outsourcing service levels for adoption, and underpinned by a deep set of digital solutions to modernize payroll operations
- Able to provide a full suite of complementing HR outsourcing and technology, spanning beyond payroll to provide buyers of all sizes a one-stop-shop for HCM solutions
- Provides one of the most mature digitally-enabled payroll services offerings in the marketplace, inclusive of next-generation capabilities, including mobile-first design (including Apple Watch integration), artificial intelligence, machine learning, and natural language processing-enabled UX, including chatbots, geofencing capability, and analytic reporting and benchmarking through its ADP DataCloud offering
- Provides one of the deepest and most robust HCM data sets, drawn from across its pool of ~840k client organizations through its ADP DataCloud solution, enabling clients with actionable HR and payroll insights for proactive decision support and benchmarking
- Open HCM approach through the ADP Marketplace has opened up access to developers, system integrators, and other HRM applications, providing clients with access to a broad range of service providers beyond ADP's solutions to meet specific client needs. Offers one of the largest and most comprehensive marketplaces in the HCM space for seamless integration to partners and third-party vendors (>430 ADP Marketplace partners)
- A strong commitment to HR and payroll innovation, supported by leadership vision, a defined roadmap with steady, sizable investments (~\$947m in systems development and programming in FY 20) focused on bringing to market next-generation payroll and HR capabilities, and digital enablers (e.g., Next Generation Payroll engine).



Challenges

- Continued differentiation in a crowded marketplace, particularly in recent years as the payroll technology and services space has seen the emergence of multiple cloud payroll technology offerings. However, ADP continues to sustain its position as the largest payroll provider in the U.S. through significant investments in HCM technology and service innovation to broaden its portfolio and engage buyers with deeper capabilities
- ADP's extensive portfolio of platforms delivers a competitive advantage by offering a range of solutions to meet buyer needs as they grow. However, the presence of so many options can create confusion for uninformed buyers. Further, maintaining multiple solutions creates a strain on its resources and negatively impacts ADP's deal margins
- Offering does not include support for data management, which may deter clients seeking a high-touch, end-to-end service. However, ADP offers a dedicated payroll support team for practitioners and employee support through ADP MyLife Advisors for ADP Comprehensive Services and the Participant Service Center for ADP Comprehensive Outsourcing Services. ADP Comprehensive Outsourcing Services clients have a designated payroll support team or HCM team that does not share responsibility for any other clients
- ADP's client base slants heavily toward the U.S. SMB buyers (>90% of its client population) and may be overlooked by larger non-U.S. firms unfamiliar with ADP's full capability and seeking managed payroll service partners. However, with its comprehensive solution portfolio expanding to support additional localizations, a deep global capability in ADP Celergo, and increased international targeting, it is growing its adoption and support for larger, non-U.S. footprints.

Strategic Direction

ADP remains committed to maintaining its dominant position in the payroll services marketplace. While payroll services remain at the core of ADP's broad offering, it is more commonly engaging buyers of all sizes seeking broader HCM capabilities and services beyond managed payroll only.

To further the adoption and growth of its payroll services, ADP is focused on developing and delivering a comprehensive portfolio of digital solutions and technology-enabled managed services. It will seek to drive adoption for its technology and service offerings by continuing to invest heavily in advancing its platform functionality and capability, in line with its rebranding and mantra of "Always Designing for People".

It will do this by continuing to introduce more digital capabilities within its platforms and services that align to and support the "future of work", including expanding its use of artificial intelligence, machine learning, and natural language processing across its modules and platforms to enable deeper personalization, advance its automation and touchless capability, and provide more actionable insights leveraging its DataCloud and benchmarking capabilities.

Further, it will continue to advance its mobile-first design capability to include support for additional employee and manager self-service use cases, including advancing its SmartWatch use cases. ADP is also keenly focused on expanding its Wisely solution to include a native, mobile-enabled on-demand payroll capability to meet the growing demand for financial wellness solutions in the workplace.

Additionally, it will continue to advance its ADP Marketplace by expanding its partner integrations to offer clients a diverse set of products and services that extend the capability of its solutions, filling white spaces to address unique client needs.



ADP is also keenly focused on enabling deeper global capabilities and support for additional country localizations across its solutions. A key element to its global capability is its federated development model, continued integration of Celergo with the broader ADP portfolio, and advancing its next-generation payroll platform with additional native continuous calculation capability (e.g., Canada, Mexico, Australia, Ireland, and New Zealand).

Outlook

In recent years, ADP has focused on, and invested heavily in, advancing its technology offering, capability, and market perception as more than a simple payroll processor. Through these investments, ADP has made substantial progress in advancing its existing platform capability, introducing multiple next-generation solutions to support its vision and brand focus of "Always Designing for People" and aligning its platform capabilities to the future of work.

While its focus in 2020 was supporting its clients with advisory services, data, and tools to drive business resiliency and continuity, its investments in expanded digital capabilities proved to be well-positioned in meeting the challenges of the pandemic and should drive increased adoption moving ahead, as firms of every size seek to future-proof payroll operations globally.

With its next-generation platforms now formally launched and actively being sold in select countries, and plans to deepen its localizations to include support and targeting to additional countries, its new solutions should slowly drive increased opportunities amongst multinational companies seeking modern HCM solutions.

Payroll Services Market Summary

Overview

With payroll now a critical, core element in the employee experience, global footprints creeping, and compliance risks rapidly intensifying, organizations of every size are keenly focused on payroll as a key area of investment and modernization moving ahead.

The aftereffects of the pandemic further strained and exposed operating models up and down market, leaving many firms across sectors realizing investments to futureproof payroll operations for greater resiliency and strategic value can no longer wait. Thus, payroll services adoption is being driven by the need to futureproof payroll operations globally, providing a modern employee experience, and leveraging digital technology to enhance payroll outcomes: timely, accurate, and compliant.

Managed payroll service offerings are no longer exclusively offered by traditional 'pure payroll' providers, and are now more commonly offered by three primary vendor types: traditional managed payroll providers, HRO/HR BPaaS providers, and HCM technology providers.

Offerings are commonly being scaled to meet a wide range of buyers, sectors and geographies, with the midsize buyer currently the largest adopter. Providers are increasingly positioning payroll service offerings in support of multi-national footprints as platform-based solutions, incorporating technology and services within a single vendor offering globally.

Buy-Side Dynamics

Top drivers for payroll service adoption include:

- Support for increasingly complex and intensifying global compliance requirements
- Enhancing the overall employee experience and financial wellness
- Enabling business continuity and resiliency by de-risking payroll operations globally
- Integration, consolidation, and unification of payroll data globally
- Improvements to payroll timeliness, accuracy and consistency of results
- Access to modern, scalable payroll operating models capable of supporting business growth
- Adoption of modern cloud HCM technology
- Access to digital enablers and capabilities to modernize, automate, and futureproof payroll operations
- The lack of skill or expertise within the organization to support payroll operations independently for the countries of operation
- Overall cost control for payroll operations globally.



The top 5 vendor selection criteria sought by buyers of payroll services are:

- Delivery personnel expertise and qualifications
- Ability to enable digital payroll transformation
- Offering innovative pricing and commercial terms
- Analytic reporting capability
- Use of design thinking to reimagine payroll processes and operating models.

Market Size & Growth

The global standalone payroll services market is estimated to be worth ~\$21.4bn in 2020, and is forecast to grow at 4.3% CAGR to reach \$26.3bn in 2025.

Managed payroll service offerings are commonly being scaled to meet a wide range of buyers, sectors and geographies, with the midsize buyer currently the largest adopter.

Multi-country service adoption growth is currently outpacing single country adoption ~5x and being driven by the demand to modernize, consolidate, automate and digitalize payroll solutions to a common operating model globally.

Challenges & Success Factors

Key challenges faced by payroll service providers include:

- Differentiating offerings in a crowded marketplace
- Buyers lacking a defined global payroll strategy
- Lack of buyer organizational readiness to undertake transformation
- Meeting buyer pricing expectations.

Key success factors for payroll service providers include:

- Proven experience and demonstrated expertise in payroll administration and execution in support of each country in scope, validated through referenceable client case examples
- Providing a platform-based, digitally-focused, technology-enabled solution that offers a modern, intuitive, and engaging client/user experience while ensuring timely, accurate, and compliant payroll results
- Enabling a best-in-class client and user experience, inclusive of an omnichannel support model, dedicated account managers, and underpinned by a proactive client engagement model focused on client satisfaction, value creation, partnership, and recurring revenue retention
- Offering a one-stop-shop of payroll and compliance solutions, through a curated marketplace of integrated (API) partner services and technology to fill offering white spaces and extend client value beyond core services
- Establishing and curating a deep pool of partners for integrated services and technology, as well as expanded sales channels for continued growth
- Offering simplified, transparent pricing with flexible service adoption options.



Outlook

Over the next five years, NelsonHall expects:

- The standalone payroll services market is expected to grow at ~4.3% CAAGR, reaching ~\$26.3bn by 2025, driven by the continued digitalization and globalization of this critical process
- While the middle market buyer will remain the largest adopter of managed payroll services globally, large/enterprise sized late adopters of cloud-based core HR platforms will increasingly seek to extend cloud investments with integrated modern global payroll solutions
- Multi-country service adoption growth will continue to outpace single country adoption as firms of all sizes and sectors will continue to see their footprints pulled to new countries of operation, particularly as work from home/anywhere and talent is sourced globally
- Highly localized managed payroll service capabilities and in-country expertise will be favored over heavy offshore delivery models, as vendors seek to differentiate through the customer and employee experience
- Formal payroll API marketplaces, offering certified HCM integrations to most major platforms, and a broad range of curated, complementing third-party solutions, will be standard in managed payroll offerings
- Alternative payment methods and digital wallets will become a standard offering globally, as employers seek to differentiate for talent, and enable employee financial wellness and transparency
- Payroll automation will continue to mature through cognitive, intelligent technology infused into solutions at the core, and by design, advancing toward fully augmented, touchless processing
- Continued advances in payroll digitalization, automation, and predictive capabilities will empower payroll practitioners with the tools and capability to pivot from simple processor to strategic COE and business advisor
- Long-term success in the payroll services space will require providing a modern platform-based offering (tech and services), paired with a proven in-country expertise, and supported by a strong UX and CX.



NEAT Methodology for Payroll Services

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

Note that, to ensure maximum value to buy-side users (typically strategic sourcing managers), vendor participation in NelsonHall NEAT evaluations is free of charge and all key vendors are invited to participate at the outset of the project.



Exhibit 1

‘Ability to deliver immediate benefit’: Assessment criteria

Assessment Category	Assessment Criteria
Offering	- Overall managed payroll services offering and scope - Maturity and scale of proprietary payroll technology - Managed payroll services capability leveraging leading cloud HCM platforms - Extent and maturity of integrations to HCM technology and third-party applications - Extent and maturity of analytic payroll reporting - Extent and maturity of mobile ESS/MSS functionality - Extent and maturity of digital payroll enablers - Ability to provide additional managed HR services beyond payroll - Ability to provide a proprietary HCM technology platform with managed payroll service
Delivery	- Delivery capability in support of North America - Delivery capability in support of Latin America - Delivery capability in support of EMEA - Delivery capability in support of APAC - Multi-country payroll services execution and processing - Caliber/expertise of delivery personnel - Multi-channel client and employee inquiry support - Extent and maturity of intelligent technology to automate payroll
Presence & Scale	- Total clients/employees supported - Large/enterprise client/employee presence (>15K employees) - Mid-sized client/employee presence (500 -15K employees) - Small business client/employee presence (< 500 employees) - Client/employee presence in North America - Client/employee in Latin America - Client/employee in EMEA - Client/employee in APAC
Benefits Achieved	- Improved reliability for payroll results (timely, accurate) - Improved compliance with legislative changes and statutory requirements - Improved analytic payroll reporting (consolidated across countries) - Improved employee/user experience - Improved payroll integration with critical business systems - Improved payroll operating cost (savings, more predictable)



Exhibit 2

‘Ability to meet client future requirements’: Assessment criteria

Assessment Category	Assessment Criteria
Service Innovation	- Perceived suitability of the vendor to meet client future needs - Vendor approach to enabling process improvement and re-imagination - Vendor approach to enabling payroll innovation - Impact of digital payroll enablers - Ability to transform payroll operations in line with company strategy - Client strength of partnership with vendor
Investments	- Overall level of R&D investments in managed payroll service offerings - Level of commitment and investments in payroll service delivery capability - Level of commitment and investments in multi-country payroll capability - Level of commitment and investments in developing digital payroll enable
Market Momentum	Volume and size of deals won in past 12-18 months

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



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:
Beth Lindquist at beth.lindquist@nelson-hall.com

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