

NEAT EVALUATION FOR ADP:

Payroll Services

Market Segment: **Overall**

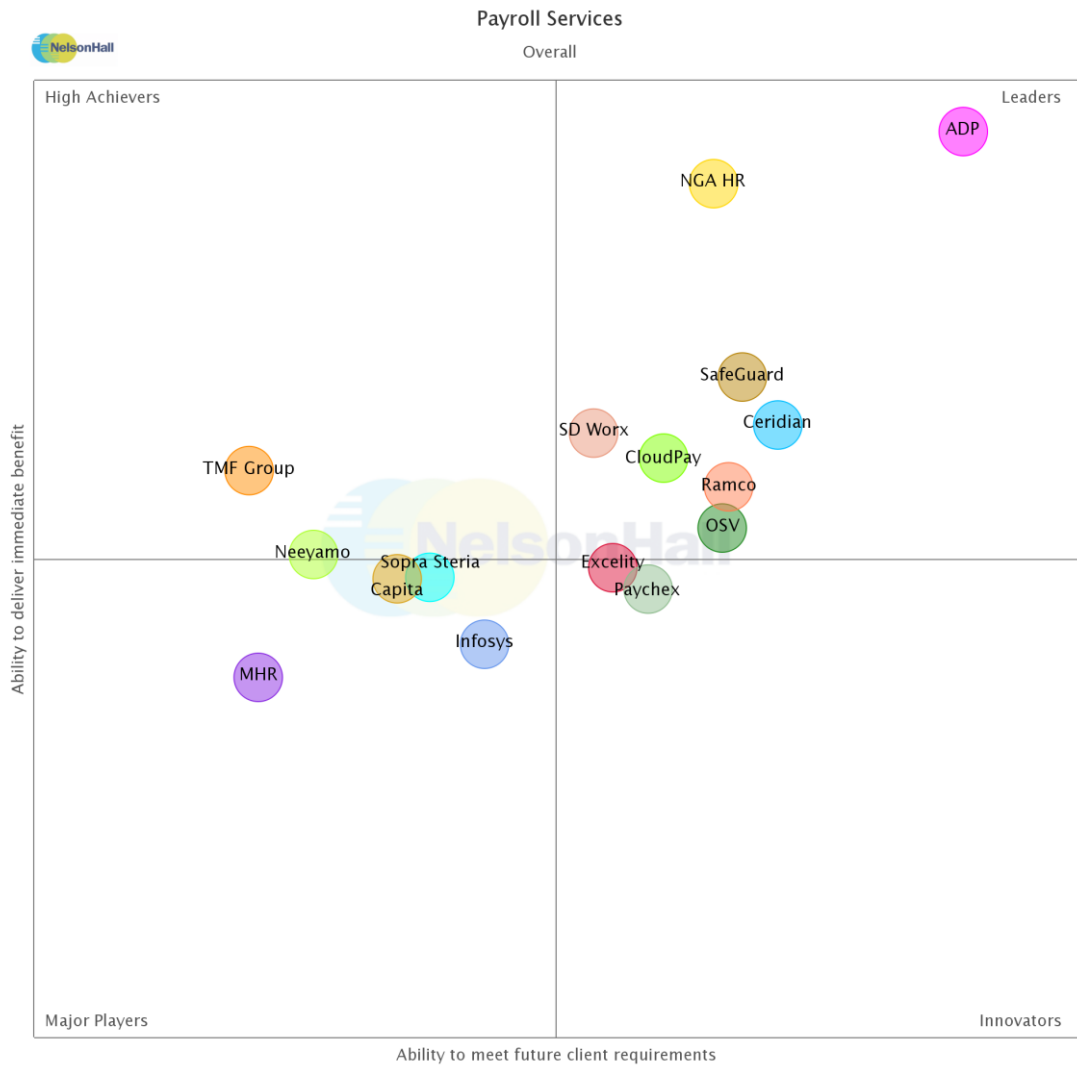
This document presents ADP with the NelsonHall NEAT vendor evaluation for Payroll Services (Overall market segment). It contains the NEAT graph of vendor performance, a summary vendor analysis of ADP in Payroll Services, and the latest market analysis summary for Payroll Services. An explanation of the NEAT methodology is included at the end of the document.

The vendors researched are: ADP Employer Services, Capita, Ceridian, CloudPay, Excelity Global, Infosys, MHR, Neeyamo, NGA Human Resources, OneSource Virtual, Paychex, Ramco Systems, SafeGuard World International, SD Worx, Sopra Steria, and TMF.

Introduction

NelsonHall has assessed and evaluated ADP's proposition against demand for Payroll Services, and has identified ADP as a Leader in the Overall market segment, as shown in the NEAT graph on page 2. This represents an overall view of ADP's positioning, reflecting its ability to meet future client requirements as well as delivering immediate benefits to payroll services clients.

NEAT Evaluation: Payroll Services (Overall Market Segment)



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

Vendor Analysis Summary for ADP

Overview

ADP has been providing payroll services since its inception in 1949. Today it pays ~36m employees supporting ~630 organizations across 111 countries, providing payroll services directly in 30 countries. ADP 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), one or more additional service offerings listed in Exhibit 4 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 BPO' 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.

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 2015 through:

- A launch of a benchmarking product to its DataCloud platform which helps clients evaluate their workforce metrics against industry averages. It benchmarks ~17 industries and ~700 job types, and clients can review benchmarks across all payroll data, including salary, overtime, bonus, and benefits, as well as span of control and diversity measures. Clients are able to benchmark their own internal population and company dynamics, but also how they compare to their external peers, by industry, location, company size and job title, among other things; a minimum of seven other companies in the same space are required to provide comparison data.
- DataCloud aggregates information from ADP's ~630k client base
- ADP will be adding predictive modeling capability to the product this year, which will allow clients to identify teams that are at risk of losing employees.

Key delivery developments include:

- ADP expanded its Streamline multi-country payroll offering into new locations including Azores, Bahamas, Bermuda and the Cayman Islands
- ADP expanded its multi-country payroll capability to 111 countries, including Angola, Azerbaijan, Guam, Mozambique, Puerto Rico, Tanzania, and Zambia
- ADP is investing heavily in technology, specifically UX, integrations, analytics, security of data and openness. In conjunction with its technological investments, ADP has also invested in listening to its clients, having set up product advisory councils, client advisory boards and The Bridge (a client community). This has been supported by an in-house UX research facility, ADP Research Institute, and ADP Ventures (a product incubator) to drive product innovation and improvements focused not only on HR and managers, but also on employees and payroll staff, and how they interact with ADP's applications.

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 70 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 70 countries including: U.S., Japan, China, Singapore, Korea, India, Australia, Philippines, France, U.K., Italy, Germany, Spain, Mexico and Ireland. 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 ~111 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.

Financials

For calendar year (CY) 2015, NelsonHall estimates that ADP's payroll service revenues were ~\$5,320m, up ~5% from 2014. Including the payroll services revenues embedded in MPRHO contracts, the total payroll service revenues are estimated at \$5,783m.

The estimated breakdown of ADP's 2015 payroll service revenues by geography is as follows:

- North America: \$4097m
 - U.S.: \$3724m
 - Canada: \$373m

- Asia Pacific: \$106m:
 - Australia: \$37m
 - China: \$37m
 - Rest of APAC: \$32m
- EMEA: \$1011m:
 - U.K.: \$160m
 - France: \$372m
 - Germany: \$159m
 - Benelux: \$106m
 - Rest of EMEA: \$214m
- Latin America: \$106m:
 - Brazil: \$54m
 - Mexico: \$52m.

Over 2015, ADP experienced equally strong growth rates in Latin America, Asia Pacific, North America and Europe.

ADP's multi-country payroll services represent ~\$372m (~7% of payroll revenues). NelsonHall estimates that less than 2% of the company's payroll revenues derives from Streamline partner payroll processing.

Strengths

- The breadth of the ADP service offering allows clients of any size, from 1 to >150k employees, to choose how much expertise they wish to retain in-house and how much they wish to pass over
- ADP provides both the HCM technology and the consulting and delivery expertise to provide clients with a single vendor, single service experience from hire to retire
- Its benchmarking tool is a key differentiator in the market. Given the size and scale of the data set that it has available across its client base of ~630k clients, this gives it a significant advantage to provide accurate and representative benchmarking data to the majority of its client base
- ADP's focus on its user experience is in line with client demand and the developments taking place across the payroll outsourcing landscape. Whilst this is currently a strength, it is likely that many of its competitors will develop similar user interfaces to address the demand in this area
- Strength of the ADP brand, and its coverage both in the U.S. and globally
- ADP's size, financial strength and global capability; it provides payroll services in ~111 countries
- Significant presence in the multinational market; ADP has ~1.3k MNC payroll outsourcing clients

- Depth of its client base in the small, mid and large markets
- Ability to provide multi-country payroll and multilingual support across time zones, whilst also incorporating a local presence
- Multishore service delivery model
- Maturity and range of technology offerings to support different markets
- ADP Marketplace has opened access to developers, system integrators and other HRM applications, providing clients with a much broader range of service providers than purely ADP. This allows clients to leverage applications that do not currently exist in the ADP platform, but also gives them the opportunity to remain with certain providers with which they have existing relationships, irrespective of whether ADP has capability in that area (e.g. succession planning, time tracking and expense management applications). ADP currently has ~150 applications integrated with the Marketplace, with an additional ~500 partners in the pipeline which are going through security and due diligence checks
- Ability to provide HR, benefits administration and talent management SaaS alongside payroll within its proprietary technology, including Vantage, Workforce Now and GlobalView
- Significant investments in its technology and integration capability, placing it in a strong position for multinational clients using large HCM providers, which require a more comprehensive integration solution in line with their expectations for user experience. This integration approach is providing benefits to clients in the form of reduced cycle time, elimination of the need for quality checking, and chasing data errors resulting in improved productivity. Global clients with global HCM solutions will find this an attractive proposition if they are looking for a provider that will transform the process, reduce the effort, improve efficiency, and increase data quality during the payroll process

Challenges

- 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. There is also additional cost associated with running and developing multiple technologies
- ADP has a large install base on a multitude of technologies, while 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, if they are not getting this attention, are likely to see a lack of innovation from ADP
- Limited case studies and announcements of ADP's payroll contracts; the majority of ADP's contract announcements relate to HCM software
- ADP is best known in the market place for provision of payroll services. Whilst it does provide other services across the spectrum of the HR lifecycle, it needs to build its reputation in these areas to enable it to grow its MPHRO offerings alongside its provision of payroll services

- Its size and scale could be an inhibitor, compared with smaller and more agile payroll providers which are able to bring innovations and developments to market more quickly
- Clients on older on-premise technologies risk these platforms becoming obsolete, as ADP limits its ongoing investment or support to develop these platforms
- Market perception of ADP as primarily a U.S. focused payroll provider
- Whilst ADP's scale and reputation works in its favor for larger, multinational clients, it might put off smaller global organizations which fear they might get lost in ADP's 630k client base.

Strategic Direction

ADP is focusing on a number of key strategic themes including user experience, analytics and insight, openness and integration, the breadth of its solution, service delivery evolution and business development. NelsonHall anticipates the following developments over the course of the next 12-14 months:

- Within the next 12 months, ADP plans to rollout visual earnings statements for all employees, which will summarize not only their total earnings, but also any one-off deductions, their tax withholding as well as goal reminders
- ADP will pilot its Payroll dashboard with client payroll practitioners towards the end of 2016, with a view to rolling this out across the broader client base towards the end of 2017. These dashboards will be designed to help practitioners to process, balance and report on the payroll cycle. It will include dashboards summarizing overtime hours and payments, taxes withheld, deductions, client funding needs and summaries of key payroll data
- It will continue to invest in its comprehensive integration platform, with a key focus on embedding local payroll data inside the Workday application in the coming 12 months. It currently provides Workday integration through Workday's standard connectors. ADP is likely to widen these integration capabilities to other HR applications with time, including Oracle Fusion
- ADP will also continue to invest in the ADP Marketplace, which gives its clients access to applications from other HR solutions providers across a spectrum of HR services, including payroll processing and time and expense tracking
- Despite having a number of clients in Africa and the Middle East, ADP currently has limited presence in these regions. It is likely that it may look to expand its portfolio in these regions in the coming 24 months
- ADP is investing in compliance tools and technology that not only support payroll but also cover the full lifecycle of HR (HR compliance, leave of absence compliance, benefits/talent management) across more than 30 countries.

Outlook

NelsonHall expects ADP to continue to lead the market in the provision of payroll services. The investments it is making into user experience, integrations and analytics will put it in a strong position to continue to grow its market share, as clients sharpen their focus on employee engagement, implementation and integration of cloud technologies, and leveraging their data sets to have better informed strategic insights.

From a geographic perspective, ADP will continue to increase its multi-country capability, not only through leveraging its in-country partners, but also through acquisitions, which will enable it to directly support payroll delivery in these countries. ADP currently supports 30 countries directly, and NelsonHall expects this to rise to ~35 by the end of 2018. It currently has limited support in Africa and the Middle East, but as these are two emerging markets in the payroll space, NelsonHall believes it will grow these regions in the coming 24 months.

ADP's benchmarking offering is expected to attract significant market interest. This is a fairly unique offering in the current payroll market place and, given the depth and scale of ADP's data sets, it can provide clients with an accurate view of how they compare to their peers, whilst also giving them much sought after internal comparisons.

ADP's core offering has always been its payroll services. NelsonHall expects ADP to focus its efforts on leveraging its payroll business to grow client accounts into wider MPHRO contracts. Furthermore, ADP's continual expansion of service offerings will accelerate payroll business opportunities, since business cases with wider HR scope are significantly easier to achieve.

Payroll Services: Market Summary

Overview

The payroll services market remains strong in 2015, with ~5.5% growth and an expected 5.8% CAAGR, reaching \$21.8bn by 2020.

The payroll services market is relatively mature with standard providers supporting a wide range of processes from provisioning, technical support, processing and payroll management.

Buy-Side Dynamics

Procurement is still leading the payroll buying decisions and executing the deal in ~40% of cases. However, HR and sometimes finance are frequently the key decision makers, with legal, IT and operations departments often involved in the discussions, and acting as enablers.

Payroll outsourcing is being driven by the wider HR agenda for change. HR decisions continue to be influenced by the increasing digitization in the market, coupled with an increased focus on employee experience and, as a consequence, user experience.

The payroll services market is being driven by the requirement for increased compliance across the scope of countries in which a client is operating, as well as by continued investments in cloud HR transformation initiatives to deliver increased process efficiency, thereby allowing internal resources to focus on more strategic and value add activities.

Customers are experiencing 15% cost savings, on average, a 20% improvement in productivity, and payroll accuracy globally of ~99.8% as a consequence of outsourcing their payroll functions.

The decision to outsource is primarily inhibited by internal constraints and an inability to satisfy the business case for change, followed by concerns over security, loss of control and risk of change.

Average contract lengths tend to be ~3 years with complex multi-country contracts averaging five years in duration.

Market Size & Growth

The global payroll services market was valued at \$16.5bn in 2015, expected to grow at +5.5% in 2015 to reach \$17.4bn, and is forecast to grow at +5.8% CAAGR for the next five years to reach \$21.8bn in 2020. Growth is driven by demand for multi-country payroll, together with an increased focus on compliance.

Payroll services growth is expected to come from:

- Western markets, driven by HR-cloud migrations
- The emerging economies where companies are investing and outsourcing solutions are still in their infancy (Latin America, Asia Pacific, particularly Australasia)
- Countries with growing workforces.

Manufacturing, financial services and technology are the predominant industries purchasing payroll services. In the case of FS and tech, this is largely due to the nature of their compliance requirements, and the sophisticated technology and infrastructure which they already have in place to enable execution of global implementations with relative ease. Retail, energy and utilities and FS and insurance are the verticals expected to see the greatest growth. This growth is driven by margin pressures in retail, energy and utilities, and in the FS and insurance sector it is being driven by HR transformation and compliance and risk control.

Success Factors

The most important criteria for selection of a new payroll services provider is a vendor's track record in the space, followed by its ability to provide a best in class user experience delivered through a cloud technology solution. Ensuring that the solution is cost competitive and ensuring that it fulfills all the requirements of the client are next most important criteria, followed by compliance and data and analytics capability, and how the vendor delivers and operates its service. Finally, buyers are looking for evidence of thought leadership and a roadmap of innovation.

The most prevalent payroll vendor challenge is the ability to manage the change journey, followed by unrealistic expectations of the immediate and long-term impact of cloud technology, as well as remaining cost competitive through improvements in operational efficiency. Inaccurate client data provided at the inception of the contract, and how the vendor differentiates itself in a crowded market, also present their own challenges.

Outlook

Forecasted growth for the payroll services market to 2020 is 5.8% CAAGR, with a total expected market value of \$21.8bn

APAC and LATAM are forecasted to grow at a rate of 2x the overall market growth (11% and 12% CAAGR, respectively). Geographic expansion is expected in the Australian market, where a number of vendors are focusing attention and resources to capitalize on the growing trend towards outsourcing. Other geographies expected to see growth include Africa and the Middle East.

The full payroll services market is expected to grow by 6.6% CAAGR to 2020, with an anticipated market value of \$5.5bn. Over the same period, the partial payroll market is only expected to grow by 5.5% CAAGR, to \$16.3bn.

Multi-country payroll will grow at 4x the rate of single country services to 2020, with a 22% share of the overall market (up from 15% in 2015). The size and scope of contracts will continue to grow, though the prevalence of cloud technology will move downstream.

Industry growth is expected from retail, manufacturing, energy and utilities, and FS and insurance sectors, due to the complexity of their business infrastructure and the regulatory environments in which they operate. In addition, growth is expected in the technology sector, where sophisticated infrastructure supports and enables the transition to outsourcing.

Vendors will continue to invest heavily in their integration capabilities and middleware products, with the aim of providing a seamless approach to payroll across multiple geographies and technologies, to enhance speed and delivery of services.

Alongside this, vendors are also likely to invest in certified partner relationships, e.g. with Workday, SuccessFactors and Oracle Fusion, to support ease of integration with these HCM products.

Vendors will continue to transition legacy on-premise clients to newer SaaS versions of their software. In addition, a number of vendors providing clients with SaaS-only solutions will look to leverage these relationships and expand the scope of their payroll services offerings to include a managed services arrangement.

Tail country specialists are likely to emerge in the payroll space to service large global organizations with small and disparate employee populations in a number of countries and regions.

Providers will continue to develop complementary offerings within the payroll space including time and attendance, HR administration, and benefits administration.

NEAT Evaluations 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' for the Payroll BPO NEAT 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.

Exhibit 1:

‘Ability to deliver immediate benefit’: Assessment criteria

| Assessment Category | Assessment Criteria |
|---------------------|---|
| Offerings | <ul style="list-style-type: none"> Payroll SaaS capability Payroll BPS capability Range of payroll processes covered Payroll compliance delivery maturity Extent of mobile functionality Scalability of payroll technology Application of analytics Usability and end to end process experience Adaptability of configuration Interfaces/integration with HR cloud platforms Integration of payroll with Workday Integration of payroll with SuccessFactors Payroll services plus cloud HR platform capability Payroll services capability using major cloud HR platforms Cloud HR platform application management capability Multi-country reporting service Willingness to take over client payroll operations Ability to offer HR services |
| Delivery | <ul style="list-style-type: none"> Delivery capability in U.S. Delivery capability in U.K. Delivery capability in Continental Europe Delivery capability in rest of EMEA Delivery capability in APAC Delivery capability in LATAM Application of payroll benchmarking and roadmap Multi-country payroll delivery Payroll process change management capability Use of RPA/automation tools |
| Presence | <ul style="list-style-type: none"> Overall client presence Large company presence (over 15k employees) Mid-company presence (500 to 15k employees) Small company presence (below 500 employees) U.S. presence U.K. presence Continental European presence Rest of EMEA presence APAC presence LATAM presence |

| | |
|-------------------|--|
| Benefits Achieved | <ul style="list-style-type: none"> Level of cost savings Improved self-service Speed to apply regulations Single view of payroll across organization Increased standardization of payroll across countries Single governance |
|-------------------|--|

Exhibit 2:

‘Ability to meet client future requirements’: Assessment criteria

| Assessment Category | Assessment Criteria |
|---------------------------|--|
| Service Culture | <ul style="list-style-type: none"> Perceived suitability to meet future client needs Mechanisms in place to deliver client innovation Partnership approach Suitability of service culture Achievement of service and delivery innovation |
| Level of Focus/Investment | <ul style="list-style-type: none"> In payroll technology development In payroll operations development In HR cloud integration In developing payroll capability based on major HR cloud platform In developing combined proprietary payroll services and HR cloud capability In analytics and payroll reporting In client-specific end to end user experience In multi-country payroll |
| Market Momentum | <ul style="list-style-type: none"> Momentum in payroll services |

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



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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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