

ADP: BEYOND PAYROLL

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ADP held its annual analyst day May 4, 2011 in New York. Two days earlier, the company had reported a solid fiscal third quarter 2011 earnings report and raised its earnings guidance for the third time this year. Several ADP executives participated in the event, including Gary Butler, CEO; Regina Lee, President, Major Account Services and Small Business Services; Carlos Rodriguez, President, National Account Services and Employer Services International; Mike Capone, Corporate Vice President and CIO; and Jan Siegmund, Chief Strategy Officer and President of Added Value Services. Several of the company's business unit leaders, marketing, product management, and product development executives also participated in the information packed day.

ADP is the largest HR services company in the world. Many people still think of the company as a payroll processor but they have a broad set of HR services beyond payroll, including:

- » Benefits administration
- » Talent management (recruiting and pre-employment screening, performance and succession, learning, and compensation)
- » Time and labor management
- » Retirement services
- » Professional employer organization (PEO) services for smaller organizations
- » Small employer health insurance services
- » Employer tax services

Most of the services can be delivered in as a full BPO service, co-sourced, or a traditional service bureau model.

Gary Butler kicked off the day with an overview of global economic environment, ADP's results, and a discussion of the company's strategic focus. I would describe Butler's view of the economy as cautiously optimistic. He provided encouraging data from the March 2011 Business Roundtable survey that showed CEO confidence is at its highest level since 2005. Butler was pleased with ADP's recent financial performance. Revenues and earnings were up year-over-year in all of the major business units. New business sales were in the high single-digit growth rates vs. 2010 for ES and PEO. The company has a very strong balance sheet, being one of only four US companies with a AAA credit rating. He also pointed out that this past quarter marketed the first time in his 35-year career that he can remember ADP raising its earning guidance three quarters in a row.

Key Facts and Figures: ADP

Annual Revenue: \$9 Billion

Number of Employees: 47,000

Business Divisions and 2010 Revenue:

- Employer Services (ES)- \$6.5 billion
- Professional Employer Organization (PEO) - \$1.3 billion
- Dealer Services (serves vehicle dealers) - \$1.2 billion

2011 ES revenue growth forecast: 7%

Employer Services Customers:

- Total: 550,000
- Comprehensive Outsourcing (COS): 80
- Globalview: 86 live in 39 countries
- WorkforceNow COS (<1,000 employee BPO): 500
- Streamline (multi-country partnered payroll offering): 330

Employees served:

- Total:
- COS: 646,000
- Globalview: 900,000
- Streamline: 50,000

Number of Countries served:

- Globalview: 39
- Streamline: 63

Source: company provided reports and 10K

Strategically, the company is focused on broadening its service offering globally, accelerating innovation, and investing in what Butler calls One ADP – a program aimed at providing customers with a more unified service and technology experience. In order to broaden its services, the company is investing in new product development and has made several strategic acquisitions over the last couple of years. The company acquired Workscape last year to broaden its up-market benefits and compensation solutions. It expanded its global payroll footprint with the acquisition of the largest payroll provider in Italy and expanded its tax filing business with the acquisition of Master Tax, one of the largest independent payroll tax processors.

Technology refresh well under way

ADP has been busy updating its technology platforms for the past several years. The company is focused on addressing key market trend such as the demand for integrated solutions, cloud computing, the mobile workforce, social networking, embedded analytics, and a the desired of business technology users to have an experience more like they have when using consumer applications. The company's new products have a rich Web 2.0 experience and a more open architecture to support easier integration with customer and partner solutions.

ADP has gained valuable mobile application experience with its small business solution, ADP Run, which has been on the market for some time now. The company is now piloting ADP Mobile for the middle and large market. Product managers demonstrated ADP Mobile and showed a broad set of functionality for time and attendance, pay information, benefits information, a company directory, and retirement savings. A second release is planned to include more time and attendance functions, workflow notifications and approvals, and other functions. The mobile applications are being designed to run a multiple devices via mobile web and native apps for iPhone and iPad. I was able to use the ADP Mobile app during one of the demos and it was very easy to use and pretty functional for an initial release.

While the mobile applications have a lot of sex appeal, the most impactful technology programs in my view are the investments in the company's human capital management (HCM) applications. ADP views two primary types of HR technology solution buyers in the market – less complex buyers and more complex buyers. For the less complex buyer, the company delivers its Workforce Now HCM solution. Workforce Now was first released eighteen months ago and already has 10,000 customers using it. That is a rapid adoption pace and is an indication of the market's desire for integrated HCM applications. The fact that the product is now on release 3.0 is also a demonstration that the company's investments in a service-oriented-architecture (SOA) have helped speed new release to the market.

For the complex enterprise market, the company is in pilot testing with its newest platform called ADP Vantage HCM. The product represents ADP's most integrated HR, benefits, payroll, talent, and time and labor solution yet for the complex domestic enterprise market. Vantage HCM represents a significant step forward in terms of integration, Web 2.0 usability, search, and database integration. New analytics dashboards are also sure to be welcome additions for ADP customers. Another promise likely to be of interest to domestic companies with international employees is ADPs' plans for a global system of record solution in 2012 or beyond. The company plans to introduce the global system of record first in Canada and then expand to other countries. If the success of Workforce Now is any indication, Vantage HCM is likely to accelerate ADP's growth in the mid to large company market.

The HfS Viewpoint

Vantage HCM gives ADP a solution that advances it ahead of some integrated solutions on the market and will significantly close the "appeal" gap with technology innovators such as Workday who with 150 customers is much smaller than ADP.

Rounding out ADP's HCM applications is GlobalView, which is a SAP-based global HR and payroll solution. GlobalView is designed for complex multinational companies. It has been in the market for a number of years and has over 86 customers running in 39 countries. The solution has been designed to work in over 70 countries and significant investments have been made in tools and methods to simplify and speed implementation in these countries.

Vantage HCM and Workforce Now product managers also showed ADP's new business intelligence (BI) solution that will include dashboards, analytics, and benchmarks. The solution is targeted for a fall 2011 release. Pre-build analytics are

planned to include compensation and benefits, performance development, organizational development, HR service delivery, and other workforce analytics.

Nearly all of ADP's customer facing technology solutions are delivered in as internet-hosted SaaS offerings. The company reported that they have over 200,000 customers with 13 million users running on SaaS solutions.

The One ADP program was visible during product demos of Workforce Now and Vantage HCM. The new versions of both products sport a common user experience based on what ADP calls the Revolution Interface. Mike Capon indicated that a goal under the One ADP program is for many of the technology solutions to have a common user experience. Virtual Edge (recruiting), Workscope (compensation) and even GlobalView are planned to adopt the Revolution Interface.

Speaking of Workscope, the company plans to integrate the solution with both Vantage HCM and GlobalView in 2011 and provide even "tighter" integration in 2012. Virtual Edge integration with Vantage HCM is planned for 2012.

BPO focus continues

HR business process outsourcing (BPO) continues to be a strategic focus for ADP. It has three primary BPO offerings:

- Comprehensive outsourcing services (COS) is ADP's US solution for complex organizations and has over 80 customers with 646,000 employees live and another 84,000 under contract.
- GlobalView, in addition to being a technology platform, is a BPO solution with almost 100 customers under contract (86 live) and 1.4 million employees covered globally. Some new customers include GM, Starbucks, and Fiat.
- Workforce Now Comprehensive services is a BPO offering for less-complex US organizations. There are over 500 customers on this solution.

ADP's COS offering is a one-to-many service with proprietary technology (it uses the same technology as non-BPO customers), standardized processes, and shared service delivery locations. The company reports that it is signing 12 to 15 new deals per year; most of which are net-new ADP customers. Business events, strategic alignment, cost reduction, skills augmentation, and multinational governance are the primary market drivers that ADP is seeing. Interestingly, the company also reports that 50% of new customers prefer at least some portion of the solution, including contact center, be delivered from offshore locations. The company reports a 96% retention rate for its COS customer base. Typical contracts are for five years and have the following set of services included in the initial contract:

- » 100% include payroll
- » 60% include the core HRIS
- » 40% include time and attendance
- » 20% include benefits administration
- » 20% include talent management

In a recent total cost of ownership study sponsored by ADP and conducted by PricewaterhouseCoopers, ADP reported that its COS customers have a 40% cost reduction for payroll, time and labor management, workforce administration, and health and welfare compared to those companies that perform these functions in-house. Large companies were able to achieve a greater rate of savings (52%) than smaller companies (31%). The study also found that the amount of cost savings were higher in ADP's more mature client relationships, suggesting that companies have been successful in achieving continuous cost reductions over time.

The HfS Viewpoint

Continuous cost savings are achievable in HR outsourcing arrangements when customers proactively manage the cost of its retained organization and processes. It is important to ensure outsourced processes leverage the provider's capability and minimizes "shadow" resources involved in those processes.



ADP expects its investments in technology to benefit its COS customers through increased adoption of self-service tools and improved decision-making enabled by the new analytics solutions. In addition, the company is implementing improved client change management programs designed to help customers predict, measure, and realize the business outcomes they desire through outsourcing. Also look for ADP to expand its range of BPO services for small organizations.

Multinational Solutions

ADP offers three primary service offerings for multinational companies. In-country options are available in the 16 or so countries where ADP has its own solutions. ADP Streamline is designed for companies who have smaller employee populations spread across multiple countries. The Streamline offering is a network of local payroll providers managed by ADP. And finally, GlobalView is ADP's solutions for large multi-country companies. GlobalView is also deployed in combination with Streamline to provide for a company's locations with small populations. In line with the One ADP program, the multi-national solutions are designed to provide customers with a single point of sales and service accountability from ADP.

Expansion of the global solutions is a continued focus for ADP. It is broadening its HR service footprint. Emerging markets such as China and Latin America experienced 60% sales growth so far in fiscal 2011. The company plans further expansion in Latin America, the Middle East, and Africa. In all, ADP targets support for 74 countries in the near future.

Bottom Line

It is clear from its results that ADP is hitting its stride coming out of the worst recession in decades. The One ADP program is sure to be a hit with customers, assuming the company can execute against the program's objectives. Its investments in global capability appear to be paying off in terms of gains in market share outside of the United States. Technology investments are also contributing to growth by expanding ADP offering breath and enhancing the attractiveness of its products from a user experience perspective. The soon to be released Vantage HCM, analytics, and ADP Mobile solutions should help sustain, if not accelerate the momentum the company seems to be establishing.

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