White Paper

The Hidden Benefits of Human Resource Business Process Outsourcing (HR BPO)
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For nearly a decade ADP, Inc. (ADP) has been partnering with leading outside consulting firms to study the total cost of ownership (TCO) of the payroll and HR functions of organizations with over 1,000 employees. The results of the most recently completed TCO study were published January 2011 in the PwC white paper “The Hidden Reality of Payroll and HR Administration Costs.” All references and comparisons to in-house benchmark costs in this paper refer to the benchmarks presented in that PwC white paper.

Sourcing Analytics was commissioned by ADP to take that study one step further to study the costs experienced by organizations engaging ADP as an outsourced provider of human resource business process outsourcing (HR BPO). This is the first significant study to capture and analyze the TCO of HR BPO.

The current study, reported in this white paper, looks specifically at the cost dynamics of payroll (PR), time and attendance (TA), workforce administration (WA), and health & welfare benefits administration (BA) at clients of ADP’s HR BPO services.

ADP’s branded HR BPO model for large accounts is Comprehensive Outsourcing Services (COS). Of the three main components existing in every organization (technology, process and people), traditional outsourcing has focused on technology and a small portion of process. The ADP model for HR BPO services combines the technology, process, and people while leveraging proven practices across all three key components.
Key Findings

The study demonstrates that outsourcing payroll to ADP in a BPO model not only lowers costs of payroll administration but also drives change throughout the organization resulting in lower costs for HR transactional processing and time reporting and management. This “hidden benefit of BPO” will be explored more deeply in this paper.

Specifically, the key findings of this study reported in this paper are:

- Outsourcing to ADP in the BPO model provides a lower average TCO of payroll than in-house processing ($415 ADP Per Employee Per Year (PEPY) vs. $507 In-house PEPY)

- ADP’s BPO model of payroll outsourcing provides the hidden benefit of reducing costs in the related areas of Time & Attendance (TA) and Workforce Administration (WA) ($527 ADP PEPY vs. $828 In-house PEPY)

- ADP clients that engage PR and additional services such as managed TA, hosted HRIS and health & welfare benefits administration experience even lower TCOs ($845 ADP PEPY vs. $1,403 In-house PEPY)

- The longer the client has utilized ADP services, the lower the average TCO becomes (Clients with greater than 60 months since implementation average $540 PEPY vs. $1,147 PEPY for clients with fewer than 24 months since implementation.)

- The clients that make internal changes to optimize the opportunities provided by outsourcing experience the lowest average costs.

The study also demonstrates that the clients that add service offerings to include HR systems, TA, and benefits administration experience even lower costs. This supports and reinforces the findings of previous studies that show the reduction of technological and process seams across administrative areas will result in lower total costs.
### Executive Overview

**Building on Prior Studies – The proof for previously recommended strategies**

The PwC study, “The Hidden Reality of Payroll and HR Administration Costs,” identified several cost reduction strategies. Building upon that information, this study of ADP’s HR BPO clients provides the data to prove these strategies are effective in an ADP environment.

<table>
<thead>
<tr>
<th><strong>PwC Strategy:</strong></th>
<th><strong>HR BPO Study Finding:</strong></th>
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<tbody>
<tr>
<td>Outsourcing - organizations managing payroll, workforce administration, time &amp; attendance, and health &amp; welfare benefits in-house using premise-based or hosted software solutions spend on average 18% more administering these functions than organizations that outsource these functions.</td>
<td>Organizations managing payroll, workforce administration, time &amp; attendance, and health &amp; welfare benefits in-house using premise-based or hosted software solutions spend on average 51% more administering these functions than organizations that outsource to ADP. ($1,403 In-house PEPY vs. $931 ADP PEPY)</td>
</tr>
<tr>
<td>Utilizing a common vendor or solution - Organizations outsourcing multiple functions to a single vendor see even stronger cost efficiency - on average 32% - versus organizations using a multiple vendor or “best of breed” in-house approach.</td>
<td>Organizations managing payroll, workforce administration, time &amp; attendance, and health &amp; welfare benefits in-house using premise-based or hosted software solutions spend on average 66% more administering these functions than organizations that outsource all these functions to ADP. ($1,403 In-house PEPY vs. $845 ADP PEPY)</td>
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<tr>
<td>Integrating time &amp; attendance with payroll - this leads to a cost efficiency of 14% over a manual approach or an approach that is not integrated.</td>
<td>Integrating ADP time &amp; attendance services with HR BPO results in organizations reducing costs an additional 11% over organizations outsourcing only HR BPO to ADP ($593 PEPY outsourcing only ADP HR BPO vs. $527 PEPY ADP HR BPO with TA)</td>
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</table>
About the Study

Purpose

Sourcing Analytics was commissioned by ADP to perform a study of their HR BPO client base for the purpose of determining the average TCOs of key payroll, HR, and benefits administration functions. These costs would be analyzed and benchmarked against average TCOs of companies that perform these functions in-house as well as against the study group itself. The information gathered could then be used to:

• Understand what happens to cost when a company outsources to ADP utilizing the HR BPO model

• Apply the results of the study group to identify strategies that improve client performance as part of a Business Process Integration (BPI) program at ADP.

Process

Data collection, calculation, and analysis were conducted by Sourcing Analytics in a fully independent manner. ADP was the sponsor of this study and had no influence on the process, outcome, or analysis. This study collected data solely and directly from HR BPO clients of ADP. An HR BPO client is defined as a client utilizing the HR BPO service which provides services beyond traditional back office payroll outsourcing to include:

• Front office functions such as direct employee contact and support through an Employee Solution Center.

• Input of payroll and HR transactions through either direct support or technology solutions.

In addition to the HR BPO product, clients may also engage ADP in varying combinations for the following outsourced solutions:

• HRIS – the use of a hosted solution providing systems such as core HR, self service capabilities (manager and employee), compensation, recruitment, performance management, etc.

• Time & Attendance – systems, process, and management of the time collection process including hardware, software solutions, process change, and management.

• Health & Welfare Benefits Administration – full management of the process from eligibility determination, communication, and collection of elections (during open enrollment and ongoing) all the way through communication of enrollment to carriers and other parties.
About the Study

Process continued...

Not all services are utilized by all study participants, but all participants are by definition HR BPO clients.

Sourcing Analytics invited all ADP HR BPO clients to participate in the study and were given access to an on-line survey tool for data collection. Study participation was available at no cost, and all study participants were provided customized reports containing individual results and benchmarking. In total, 35% of the implemented client base at the time of the survey participated in the study and 29% of the study group utilized ADP for all services being studied. Because the most significant component of cost for the group is ADP fees,

Sourcing Analytics also collected billing information from ADP. This information was used to reconcile the client’s understanding of fees and ensure the accuracy of this key data element.

Upon completion of the surveys, Sourcing Analytics conducted follow up calls with the participants for the purpose of verifying, clarifying and validating survey responses. Sourcing Analytics’ experience with hundreds of prior studies and a data normalization process allowed for the maximum level of confidence in the completeness and accuracy of the data.

Data

The cost components cross departmental lines and are designed to assure that ALL costs are considered. These cost components are:

• Initial system installation cost (amortized over three years)
• Cost of last significant upgrade (amortized over three years)
• Labor costs for administration (salaries and loads)
• Non-labor costs for administration (corporate overhead, facilities, General & Administrative)
• Labor costs for maintaining systems (salaries and loads for IT professionals)
• Non-labor costs for maintaining systems (overhead, facilities, maintenance contracts, etc.)
• ADP fees
Embedded in the TCO methodology is the commitment to collect all costs regardless of their administrative delivery model.

About the Study

Data continued..

Embedded in the TCO methodology is the commitment to collect all costs regardless of their administrative delivery model. The same costing methodology can be used for in-house and outsourced delivery models. As such, the study was designed to be able to compare TCOs against the most recently completed TCO study that was published January 2011 in the PwC white paper “The Hidden Reality of Payroll and HR Administration Costs.”

TCOs were calculated for these specific administrative areas:

- **Payroll (PR)** – includes the complete end-to-end process and technology costs to produce a pay instrument including time-to-gross, gross-to-net, and all after action such as tax, print, mail, outbound reporting and interfaces, GL, reconciliation, banking, etc.

- **Workforce Administration (WA)** – includes the technology around Human Resource Information Systems (HRIS) and the tasks/activities required to maintain the technology and database as well as the administration involved with transactional processing of HR and potentially PR (recognizing the grey area between HR and payroll).

- **Time & Attendance (TA)** – The process and technology associated with the collection, editing and approval of hours data including hours worked, leave, and paid time off.

- **Health & Welfare Benefits Administration (BA)** – The process and technology associated with the administration of health and group benefits plans including eligibility determination, communication, enrollment (annual and ongoing), reporting and reconciliation.

In addition, the total transactional cost across all areas was calculated. This is the combined cost of all four components above and is a key metric in understanding the overall cost dynamics of these highly integrated and interdependent functions. As prior studies have shown, costs are easily shifted between departments, functions, and technologies. Understanding and viewing the total transactional costs allows for an understanding and benchmarking not previously available and never before analyzed in the HR BPO space.
About the Study

Demographics

35% of the ADP HR BPO client base responded to the survey and participated in the study. 29% of these participants were “All-Service” ADP clients, meaning they outsourced payroll, TA, WA and BA to ADP. In addition:

- 67% utilize ADP TA services
- 42% use an ADP hosted system as the HR system of record
- 38% outsource benefits administration to ADP

The study group is well distributed across company size based on employee count:

Distribution by Company Size

- 1,000-2,499 EEs: 17%
- 2,500-4,999 EEs: 21%
- 5,000-9,999 EEs: 25%
- > 10,000 EEs: 37%
Key Findings & Analysis

All of the data, calculations, benchmarking, and analysis lead us to five key findings which we will explore in this section:

- **Lower average TCO of payroll**: Outsourcing to ADP in the HR BPO model provides a lower average TCO of payroll than in-house processing.
- **Hidden Benefit of BPO**: ADP’s HR BPO model of payroll outsourcing provides the hidden benefit of reducing costs in the related areas of time & attendance (TA) and workforce administration (WA).
- **Reducing Seams**: ADP clients that engage PR and additional services such as managed TA, hosted HRIS and health & welfare benefits administration (BA) experience even lower TCOs than single-service ADP clients.
- **The long term benefit of outsourcing**: The longer the client has utilized ADP services, the lower the average TCO becomes.
- **Embrace the change, make the change**: The clients that make internal changes to optimize the opportunities provided by outsourcing experience the lowest average TCOs.

Lower Average TCO of Payroll

The average Per Employee Per Year (PEPY) TCO of a study participant is lower than the average benchmark in-house cost. At first glance, and without additional information, however, the cost savings do not come close to totaling what is generally expected or looked for in BPO. The market expects and demands significant ongoing savings from the significant investment which BPO requires. What we see below is that if we focus on just the cost of payroll, average savings are only 8% ($467 ADP PEPY vs. $507 In-house PEPY). If we separate out HR BPO clients that also utilize ADP for TA services, we see a more substantial average cost reduction of 18% ($415 ADP PEPY vs. $507 In-house PEPY).
SOURCING ANALYTICS

Hidden Benefit of BPO

Sourcing Analytics has recognized for years that when companies outsource payroll in a BPO model, more than just payroll is impacted. For quite some time we have seen that the introduction of employee support, self service technologies, call center operations, and front end transactional input has touched departments outside of payroll and field operations as well. This study allows us to now quantify that impact across the organization. We can now conclude that there is a true hidden benefit and significant cost impacts / savings in the TA and WA areas as a result of HR BPO:

What we see is significant. If we look at only PR costs, the average savings appear to be only about 8%, 18% for those companies also utilizing ADP’s TA services. But when we consider the time and attendance function as well, we see significant savings vs. the benchmark: a combined 28% for all clients and 38% specifically for TA clients.

We can also see this same relationship when looking at the combined TCO’s of PR and Workforce Administration (WA). This takes into account all HR transactional processing which clearly is impacted by the introduction of HR BPO for payroll. The combined PR/WA savings as a result of HR BPO is on average 28%

These 28% savings that we are seeing are the first data driven quantification of potential savings from HR BPO.

Key Findings & Analysis
ADP HR BPO is a broad Human Capital Management solution allowing for lower average TCO across multiple functional areas.

The total transactional cost for all-service ADP HR BPO clients is 40% lower than the in-house benchmark.

Hidden Benefit of BPO continued..

What we are seeing is that the impact of HR BPO must be considered across the organization. If cost for an administrative function is considered in a vacuum, the total cost impact on other functional areas will be lost or hidden. What can we conclude from this? ADP HR BPO is a broad Human Capital Management solution allowing for lower average TCO across multiple functional areas.

Reducing Seams – Combining Services and Technology Platforms With a Single Provider

Thus far we have looked at costs for all HR BPO clients, but what happens when we look at costs for those ADP clients that utilize ADP for all services including WA, TA and BA in addition to HR BPO services (“All-Service HR BPO Clients”)? We will do this by looking at the average TCOs across all four administrative areas. The combined cost will be referred to as the “Total Transactional Cost”

In the most recent ADP sponsored study of the in-house market referenced earlier, the total transactional cost was calculated at $1,403 PEPY, which is the benchmark standard for the industry. As we see below, the total transactional cost for all-service HR BPO clients is 40% lower than the in-house benchmark ($845 ADP PEPY vs. $1,403 In-house PEPY). It is also lower than the broader HR BPO client base which contains a mixture of single service, multi service, and all service clients.

<table>
<thead>
<tr>
<th>Service</th>
<th>In-House</th>
<th>ADP HR BPO Clients</th>
<th>All-Service ADP HR BPO Clients</th>
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</thead>
<tbody>
<tr>
<td>Payroll</td>
<td>$507</td>
<td>$467</td>
<td>$436</td>
</tr>
<tr>
<td>Workforce Admin</td>
<td>$354</td>
<td>$181</td>
<td>$157</td>
</tr>
<tr>
<td>Time &amp; Attendance</td>
<td>$321</td>
<td>$181</td>
<td>$157</td>
</tr>
<tr>
<td>Benefits Admin</td>
<td>$221</td>
<td>$181</td>
<td>$157</td>
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</table>

This data provide evidence of the cost benefit and impact of combining services and technology platforms with a single provider. This data also confirms recent studies which have concluded that the elimination of seams provides significant value and savings for companies. Because the integral process and service...
Reducing Seams – Combining Services and Technology Platforms With a Single Provider

components of TCO within this study are identified and quantified in this study, Sourcing Analytics believes that the discussion of seams should not be limited to technology platforms. Seams exist when transactional processing is split across the organization. We see the impact of this split in the hidden benefits of HR BPO and again when multiple services are engaged. Technology provides a portion of the savings from the elimination of seams, but the re-engineering and consolidation of processes removes additional seams.

The Long Term Benefit of Outsourcing

Companies that have outsourced administrative functions understand that change is not immediate. Investment needs to be capitalized and depreciated, headcount reduction doesn’t happen overnight, and the fully realized benefit of outsourcing is an ongoing process. Sourcing Analytics wanted to quantify this dynamic and looked specifically at TCOs as a function of the number of months since implementation. The results confirmed our anecdotal experience as well as our supposition: the longer an outsourcing relationship exists, the further costs may be reduced.

The data demonstrate that the longer a company outsources to ADP, the lower the total transactional cost becomes. For clients that implemented more than 60 months ago, the savings versus in-house environments is 62% versus the benchmark ($540 ADP PEPY vs. $1,403 In-house PEPY). This suggests that as organizations mature into the BPO environment, additional cost savings are captured and optimized. It underscores the importance of managing the relationship and of continuous improvement.

With costs reduced so much over time, ADP can look forward to average client length of tenure for HR BPO clients that approach the 20 years experienced in the traditional payroll service offering.
Embrace the Change, Make the Change

The numbers provided by TCO analysis can provide a wealth of information and incredible insight into the cost dynamics inside a company or across an outsourcing relationship. One key metric that provides a glimpse into how an outsourcing relationship operates is the percent of TCO represented by outsourcing fees. If a company outsources, the percent of costs represented by the remaining internal organization can be an indicator of how effectively the organization has made and managed change, from process re-engineering and headcount reduction to the application of technology and more.

The ability of an organization to embrace and make change will often be the determining factor of the success of outsourcing whether measured in attainment of the financial goals of the business case or by employee / client satisfaction. As noted earlier, one of the purposes of this study was to allow insight within the ADP client group by identifying top performers and identifying reasons for that performance.

This chart shows the combined PR and TA costs and the percent represented by internal and outsourcing fees.

This chart shows the same information, but specific to combined PR and WA costs:
The good news is that 80% of companies are able to drive change and the true top performers drive even greater change.

Key Findings & Analysis

Embrace the Change, Make the Change continued.

This chart shows Total Transactional Cost for the top 80% of clients versus the bottom 20% of clients.

All three of these charts drive home a critical point: companies that retain internal cost fail to capitalize on the opportunities outsourcing provides to drive down administrative cost. The higher costs these 20% of clients are experiencing are clearly not as a result of differing ADP fees. Rather, they come as a result of a failure to drive change within the organization. The good news is that 80% of companies are able to drive change and the true top performers drive even greater change. For the top quartile performers, ADP fees percentage of Total Transactional Cost is 81% and for the top decile, ADP fees are an average 89% of TCO. This demonstrates that change is possible. It also demonstrates that not only is it possible, most companies attain it.

Application to the Broader Market

This is the first known study of its kind that looks at TCO across HR, payroll, and benefits administration for companies that outsource in a BPO model. While the study suggests that savings from BPO can be realized generally, conclusions should only be drawn with regards to the ADP BPO model. No other BPO provider clients were included in this study. Also, the business process integration (BPI), User Group, Client Advisory Board, and relationship / governance programs at ADP all combine for a unique dynamic for ADP clients that cannot be assumed at other providers’ clients. As these factors and delivery models differ amongst the outsourced provider market, results would be expected to vary from provider to provider.
ADP experiences a greater than 96% retention rate for its HR BPO business. We’ve looked at the key findings of the study and the findings provide an encouraging look at the HR BPO market in general and the ADP HR BPO offering in particular. While the numbers provide clear evidence of the cost benefit of outsourcing, what drives the numbers? While this section will be less empirical in nature, we will attempt to explain what drives this positive performance. We have already explored the impact of the elimination of seams. Other standard drivers must also be considered:

- Outsourcing provides scale that in-house processing cannot attain
- Outsourcing provides a more sustainable option for lowering costs for turnover and knowledge transfer
- Outsourcing provides more scalable and variable costs

While these are assuredly a large part of the story, are there additional elements to point to that explain the significant cost reductions seen over time and the related dynamics of effective change management within the client environment? As noted earlier, programs specific to ADP service offerings cannot be assumed at other BPO providers, but can be seen to drive effective change over time as well as specific change within client environments. Prominent among the ADP programs is the Business Process Integration (BPI) program. This program specifically targets clients for improvement through:

- Greater deployment, adoption, penetration and acceptance of self service technologies.
- Adoption of better practices for enhanced service, risk mitigation, and cost containment.
- Redefinition of retained team tasks and purpose.

Self Service Technologies

The adoption of self service technologies made available through outsourcing is the most important element in driving transactional cost toward zero. It is the easiest way to drive toward minimal rework, reduce retained organization size, and enhance data integrity. It is also instrumental in driving cost containment at the outsource provider. ADP recognizes this and it is the cornerstone of the BPI program and instrumental in continuous improvement.
ADP has changed the focus from “one and done” to “one and never again.”

Managing change is critical to the long term success and TCO of the relationship.

What Drives the Numbers?

Self Service Technologies continued..

ADP does not stop at the adoption of self service technology, however. Utilization is critical to success. Training becomes critical. From the 1990’s through the early 2000’s, discussion around call center operations typically included metrics for the percent of calls that were “one and done.” Comparisons would be made between providers and vendor management programs would be set up to measure this metric. Because self service can provide so much more capability today, ADP has changed the focus from “one and done” to “one and never again.” What is meant by this is that the ADP solution center actively works to reduce the overall number of calls to the solution center through training callers on the effective use of self service options. Over time, ADP works to greater use of self service, reducing calls and thereby reducing overall cost and enhancing data integrity. This is not something that is available through traditional back office outsourcing and is not available in the software as a service (SaaS) model of technology-only outsourcing.

Better Practices

Because ADP HR BPO is involved in both front office as well as back office functionality, they become much more involved in driving change toward better practices within the client organization. It begins upon implementation and continues through the Continuous Improvement (CI) program.

Buyers of HR BPO solutions often need assistance managing the change associated with implementing a new outsourcing relationship. Managing this change is critical to the long term success and TCO of the relationship.

ADP COS provides change management services for its HR BPO clients going through implementation / transition. The service brings change management assistance to clients earlier in the pre-engagement period, and then extends the change management resources for a period 2-3 months post go-live. ADP has supplemented these practices with scorecards to measure quality and effectiveness of results and processes. This approach and resource alignment enables the ADP HR BPO clients to have a smoother transition to live production services. The enhanced offering is a prescriptive approach for each client.

A very specific and referenceable data point that demonstrates how this service allows ADP to drive change and introduce better practices can be seen by looking at client pay cycles.
A better practice for lowering payroll TCO is to move to biweekly payroll where possible. On average, when taking into account differing pay cycles, companies that process payroll in-house produce 34.25 paychecks per employee per year. ADP HR BPO clients produce 25.76 paychecks per employee per year. This is a key cost containment strategy employed by ADP, and in looking at the metrics it is clear that ADP is able to drive the change toward bi-weekly payroll for its HR BPO clients.

The Continuous Improvement (CI) program continues this move toward better practices beyond initial implementation. Buyers of HR BPO solutions need to continually evaluate their people, processes, and technologies to ensure the optimization of the opportunities available through outsourcing. Buyers want to know how they can do things better and take their experience to the next level.

At the same time, providers want to continually evolve their service model to leverage proven practices from their highest performing clients across the broader client base for the benefit of all.

To meet these complementary needs, ADP provides a CI service offering. The offering combines a proactive consultative review of a buyer’s operations and service experience in order to identify gaps, challenges, and issues while streamlining processes and removing obstacles.
The CI service facilitates:

- Improvements in quality and accuracy
- Stronger relationship governance
- Partnerships between buyer and provider
- Enhancement of the client experience and reduced costs

Examples of Continuous Improvement in action for ADP HR BPO Clients:

- Client A Goal: Improve Processes; identified 23 areas for improvement
  - Eliminated duplicate audits saving five hours per pay period
  - Transitioned additional work to ADP saving 10 hours per pay period

- Client B Goal: Reduce Manual Effort; identified 37 areas for improvement
  - Streamlined current processes reducing payroll processing time by 2 days
  - Documented client specific processes increasing quality

- Client C Goal: Eliminate Waste; identified 32 areas for improvement
  - Improved processing schedule. Interface timing and audit improvements reduced client team time by 5 hours per pay period
  - Automated manual processes saving 20 hours per pay period

Retained Team

Through implementation and the CI Program, as seen above, ADP works with clients to constantly define and refine the retained team tasks and responsibilities, moving them out of administrative tasks to allow the freedom to work on strategic initiatives including continuous improvement and cost containment. These initiatives are designed to identify processes that were not initially transitioned to ADP, automate manual processes, and identify employee issues through trends analysis from calls to the solution center.
Study Participant Example

What is the impact on cost of these programs and service offerings for real world clients utilizing ADP HR BPO services? Following are the results for a client that participated in the TCO study reported in this white paper.

• ACME Company is in the financial services industry and falls in the 5,000 – 9,999 company size range.

• Based on the market studies, financial services is an industry with the highest TCO’s in the private sector.

• This HR BPO company outsources managed PR, HRIS, TA and BA to ADP.

• Not quite five years after implementation, this company experienced one of the lowest total transactional costs of any of ADP’s clients, and has reduced internal costs to only 21% of total cost.

• Key metrics
  • Total transactional cost is $764 ADP PEPY vs. $917 for all ADP HR BPO clients
  • ADP percentage of fees is 79%
  • Implemented under 5 years ago

• The total transactional costs are 45% lower than the average for companies that perform the services in-house ($764 ADP PEPY vs. $1,403 In-house PEPY)
• The addition of services beyond traditional Payroll outsourcing provides hidden benefits as change is driven through the organization. Costs of work force administration, time and attendance, and health & welfare administration are all driven down as a result of HR BPO.

• Companies embracing change maximize the opportunities presented by outsourcing and drive internal cost and TCO down the most. Effective change management programs at the client enable greater efficiency and maximize cost savings opportunities.

• Successful HR BPO is experienced at companies that focus on the re-engineering of the internal retained organization. The new vanguard of outsourcing is a blend of new technological capabilities, basic technology hosting, business process outsourcing, and re-engineering of left-behind process and organizational structure.

• Companies evaluating BPO for payroll must consider that benefits are experienced beyond the confines of the payroll department and process in order to understand the full impact of HR BPO. Business case analysis confined to the cost benefit to payroll misses a large portion of the overall story.