

2017 North American HR Management Solutions Company of the Year Award

FROST & SULLIVAN

2016 PRACTICES

NORTH AMERICAN
HR MANAGEMENT SOLUTIONS
COMPANY OF THE YEAR AWARD



Background and Company Performance

Industry Challenges

North America's employers are facing a double-edged sword. The strengthening economy is generating new business that is prompting them to hire more workers. But as the economy and businesses grow, so will labor costs, driven by stiffer competition from shrinking labor pools.

As a result, HR is becoming a buyer's market where, similar to the consumer products space, employees have been gaining control of their work engagements. They want to take charge of recruiting, training, scheduling, performance management, and career paths. They value employee collaboration and engagement and work-life balance. Workers also prefer to work for companies that have cultures, values, and purpose that aligns with theirs. Finally, they insist on the ability to manage their careers through wireless devices.

Overlaying these trends is the changing nature of work. It is becoming information-based, mobile, virtual, global, collaborative, and on-demand, including independent consultants and contractors integrated with teams. Status updates, executing tasks, and supervision and management take place through team members' smart devices.

Meanwhile, employers are facing rising healthcare costs. But there is regulatory uncertainty with the stated intent of the Trump White House and Congress to dismantle the Affordable Care Act, and likely other regulations.

At the same time, innovative C-suite executives are expecting HR departments to help drive shareholder value, increase innovation and sales, and provide an excellent Customer Experience. They want HR to migrate from a cost to a profit center. Executives want recruiting and employee performance tied to specific outcomes and goals. Also, to have HR executives incorporate marketing into recruitment and retention strategies. Finally, HR departments must create and fine-tune their hiring profiles to meet these objectives.

But HR management also must look for cost-controlling and high-ROI processes to meet the labor market, workplace, and regulatory changes, and accomplish the goals the C-suite has set out. At the same time, many HR systems are disconnected from each other. This reality also prevents managers and executives from obtaining single versions of truth as to employee talent, performance, productivity, and churn. Yet the increased complexity of HR matters often requires expertise and capabilities that are beyond what existing personnel and processes can provide.



Visionary Innovation & Performance and Customer Impact

Criterion 1: Addressing Unmet Needs

ADP offers a proven and evolving tightly integrated set of automated domestic and global HR solutions, covering organizations of all sizes. The company provides its clients with a single and actionable version of the HR truth. Its applications enable clients' compliance with complex laws and regulations. The company's applications and services efficiently address day-to-day human capital management (HCM) functions, including HRIS, payroll, benefits administration, and time and attendance. It also has applications that enable executives to manage their talent strategically and tactically. They cover recruiting and screening, career development, performance management, learning management, and succession planning. ADP's HR tools permit and encourage employee engagement. The company also offers a wide range of outsourced HR services that permit companies to accomplish these tasks at lower costs and focus on their core competencies.

Criterion 2: Visionary Scenarios Through Mega Trends

ADP's HR management solutions meet the evolving needs of employers encompassed in the **Social Trends** MegaTrend. ADP's applications permit them to quickly identify, recruit, onboard, develop, exact high performance from, and retain the best workers across demographics and geographies. ADP's solutions can readily support workers who transfer from the U.S. or Canada to China or India, and vice-versa.

ADP enables companies to manage global workforces touched on in the **Economic Trends** MegaTrend. ADP offers integrated and unified HR processes and tool that have the same look and feel regardless of location. It provides a global system of record to manage data and standardize practices.

ADP's tools are aligned with and enable the **Connectivity and Convergence** MegaTrend. They automate HR processes, support on-demand as well as employer-hired workforces, in virtual and on-premises locations. The company's mobile solutions permit employees and managers anytime and anywhere access to HR information.

Criterion 3: Blue Ocean Strategy

ADP has set itself apart from its competitors by being focused on the HR market, unlike several of its competitors who also offer other application types, such as CRM and ERP. ADP also has long been one of the largest companies in the HR field, and accordingly it has a commanding presence in it. ADP is then able to devote its resources to assessing its clients' HR needs, and in developing, marketing, and delivering solutions in response. To that point it opened Innovations Labs at its Roseland, New Jersey headquarters, in New York City, and Southern California to foster development.

ADP's investments have been bearing fruit. For example, the company has been rolling out its new DataCloud analytics application, launched in May, 2015. The ADP DataCloud includes analytics, benchmarking, and a data exchange that supplies in-depth views on companies' performances by combining financial and workforce data.

ADP has also boosted its ability to support global enterprises. The company recently expanded its Global Payroll Services to 111 countries and U.S. territories, including Guam and Puerto Rico. At the other end of the scale it has a robust set of solutions for smaller and midsized companies built on the same core technologies.

ADP has long provided flexible outsourced HR services, including shared in partnership with employers. The company has described itself as a "Technology enabled service provider".

Criterion 4: Implementation of Best Practices

ADP Vantage HCM is the company's HR solution for enterprise customers. It covers recruiting, onboarding, and nurturing, including enabling new hires to be immersed in companies' cultures through a buddy system. The ADP Vantage HCM talent management offering enables employers to set up cascading goals so employees can understand where they add value to corporate success. It helps identify employee competency gaps that employers can then address. ADP Vantage HCM drives proactive learning around compliance training, certifications, and the skills needed for specific positions.

The ADP Workforce Now, written for midsized companies, supplies HR management, time and attendance, benefits, and payroll and tax handling. ADP also provides talent management for these organizations. The RUN powered by ADP automates payroll processing, provides hiring and HR services, and enables compliance for small business.

The ADP TotalSource is the company's Professional Employer Organization (PEO). TotalSource manages payroll, time, benefits, and HR administration. Through the PEO's co-employment arrangement, employees obtain access to enterprise-class benefits. ADP can also share certain aspects of employers' HR risks.

ADP's GlobalView enables organizations to obtain the complete picture of global workforce trends, provide consistent talent management across borders, and comply with individual countries' laws and regulations. ADP Streamline complements it by supplying global HR administration and payroll.

The ADP DataCloud solution now offers Turnover Probability, one of the many new predictive analytics available with ADP DataCloud. The solution uses ADP's Big Data to enable companies to accurately identify the likelihood of future voluntary turnover. The application pinpoints likely attrition hotspots within organizations and those employees who are most at risk of leaving.



ADP offers mobile applications and platforms that enable businesses to process their payroll and give more than 9.4 million of its clients' employees convenient access to their HR information. ADP supports over 30 languages.

Criterion 5: Financial Performance

ADP has been experiencing strong growth. The company reported that its global revenues increased by 7% from FY 2015 to reach \$11.7 billion in FY 2016, ending June 30, 2016. Worldwide new business bookings grew by 12% over the same period. ADP's performance has consistently been so strong that the company has increased its quarterly cash dividend for 42 consecutive years.

Here is the breakdown by key segments. Revenues from ADP's Employer Services, covering HCM solutions and HR outsourcing, grew by 5% from FY 2015 to FY 2016. Employer Services accounted for the lion's share of ADP revenues, or \$9.2 billion, in FY 2016. The growth came from new business bookings, price increases, and a 2.5% growth in its U.S. clients' payrolls.

Meanwhile ADP's PEO saw its revenues increase by 16% from FY 2015 to FY 2016. The growth came from increases in the average number of worksite employees, driven by additional new clients and existing client growth. Higher client participation and higher benefit pass-through costs in the PEO benefit offerings contributed to the success.

ADP anticipates 7% to 9% revenue growth in FY 2017. The company is on track to reach its target, recording a 7% increase in Q1 FY 2017 over the same period in FY 2016.

Criterion 6: Price/Performance Value

ADP's HR solutions cover the needs and budgets of most any size and reach of organization. ADP Vantage has been written for large U.S. enterprises, ADP GlobalView for multinational organizations of all sizes, ADP Workforce Now is aimed at the U.S. midmarket, and RUN Powered by ADP targets U.S. small businesses. ADP also has comprehensive country-specific HCM solutions for organizations outside of the U.S. ADP TotalSource is designed for small and mid-sized businesses.

ADP has taken strides in making its solutions user-friendly by building around the familiar app and eCommerce shopping experiences. The company has been rolling out new dashboards and landing pages. It has also mobile optimized the solutions. ADP also offers expert assistance, including certified HR Advisors, in addition to help desks.

ADP has recently begun to simplify its platforms through its service alignment initiative. The move will improve clients' service experience, while bolstering the company's capabilities and create operating efficiencies.

Conclusion

Employers are faced with managing an increasingly complex and evolving workplace. They have to cope with developing labor supply issues, workforce expectations, globalization, new goals from the C-suite, and changing regulations. Enlightened organizations see HR as profit drivers by obtaining and retaining productive talent. Even so, HR departments, as with all other departments, face continuing pressure to keep costs down.

ADP has developed and continues to refine a wide range of scalable HR management solutions, including outsourcing and PEO, which are relevant and flexible to meet employers' requirements. ADP has justly earned strong marketplace support and validation for its HR applications as a result. For these reasons, Frost & Sullivan is proud to present ADP with our 2016 Company of the Year Award.

Significance of Company of the Year

To win the Company of the Year award (i.e., to be recognized as a leader not only in your industry, but among your non-industry peers as well) requires a company to demonstrate excellence in growth, innovation, and leadership. This kind of excellence typically translates into superior performance in three key areas: demand generation, brand development, and competitive positioning. These areas serve as the foundation of a company's future success and prepare it to deliver on the two criteria that define the Company of the Year Award (Visionary Innovation & Performance and Customer Impact).



Understanding Company of the Year

As discussed above, driving demand, brand strength, and competitive differentiation all play a critical role in delivering unique value to customers. This three-fold focus, however, must ideally be complemented by an equally rigorous focus on visionary innovation to enhance customer value and impact.



Key Benchmarking Criteria Best Practice Award Analysis for ADP

Visionary Innovation & Performance

Criterion 1: Addressing Unmet Needs

Requirement: Implementing a robust process to continuously unearth customers' unmet or under-served needs, and creating the products or solutions to address them effectively

Criterion 2: Visionary Scenarios Through Mega Trends

Requirement: Incorporating long-range, macro-level scenarios into the innovation strategy, thereby enabling "first to market" growth opportunities solutions

Criterion 3: Implementation of Best Practices

Requirement: Best-in-class strategy implementation characterized by processes, tools, or activities that generate a consistent and repeatable level of success.

Criterion 4: Blue Ocean Strategy

Requirement: Strategic focus in creating a leadership position in a potentially "uncontested" market space, manifested by stiff barriers to entry for competitors

Criterion 5: Financial Performance

Requirement: Strong overall business performance in terms of revenues, revenue growth, operating margin and other key financial metrics

Customer Impact

Criterion 1: Price/Performance Value

Requirement: Products or services offer the best value for the price, compared to similar offerings in the market

Criterion 2: Customer Purchase Experience

Requirement: Customers feel like they are buying the most optimal solution that addresses both their unique needs and their unique constraints

Criterion 3: Customer Ownership Experience

Requirement: Customers are proud to own the company's product or service, and have a positive experience throughout the life of the product or service

Criterion 4: Customer Service Experience

Requirement: Customer service is accessible, fast, stress-free, and of high quality

Criterion 5: Brand Equity

Requirement: Customers have a positive view of the brand and exhibit high brand loyalty

The Intersection between 360-Degree Research and Best Practices Awards

Research Methodology

Frost & Sullivan's 360-degree research methodology represents the analytical rigor of our research process. It offers a 360-degree-view of industry challenges, trends, and issues by integrating all 7 of Frost & Sullivan's research methodologies. Too often, companies make important growth decisions based on a narrow understanding of their environment, leading to errors of both omission and commission. Successful growth strategies are founded on a thorough understanding of market, technical, economic, financial, customer, best practices, and demographic analyses. The integration of these research disciplines into the 360-degree research methodology provides an evaluation



platform for benchmarking industry players and for identifying those performing at best-in-class levels.

About Frost & Sullivan

Frost & Sullivan, the Growth Partnership Company, enables clients to accelerate growth and achieve best in class positions in growth, innovation and leadership. The company's Growth Partnership Service provides the CEO and the CEO's Growth Team with disciplined research and best practice models to drive the generation, evaluation and implementation of powerful growth strategies. Frost & Sullivan leverages almost 50 years of experience in partnering with Global 1000 companies, emerging businesses and the investment community from 31 offices on six continents. To join our Growth Partnership, please visit http://www.frost.com.

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