Magic Quadrant for Payroll BPO Services

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This Magic Quadrant evaluates the capabilities of eight key providers of payroll business process outsourcing services. Prospective buyers should use it as an aid to identifying which provider can best meet their needs.

Market Definition/Description

Payroll business process outsourcing (BPO) services consist of administrative services and support provided by external parties for some or all of the payroll processes historically administered internally by employers.

Payroll BPO service providers offer a broad array of services, including the following, which may be offered individually or bundled:

- Receipt and ongoing maintenance of all employee-indicative and pay-related data on regular, contract and temporary workers, to be stored on the client's or the provider's system

- Pay calculations, such as source-to-gross, gross-to-net, overtime and holiday pay calculations, made according to the employer's pay policies

- Payroll tax calculations, withholdings and payments to tax authorities

- Regulatory tax form production, print/image distribution and filings

- Third-party deductions and disbursements, such as benefit plan premiums and savings plan contributions, garnishment administration, and other transactions impacting an employee's pay

- Generation and delivery of printed/digital checks and payroll advices

- Treasury services, fund disbursements and electronic fund transfers, which link to the employer's general ledger system and to third-party systems

- Payroll audit and control procedures

- Data privacy, security, backup and disaster recovery/business continuity services

- Reporting and analytics

Payroll BPO offerings may also include the following related services and features, most of which are critical to managing the workforce and therefore may be performed or provided by either the client or the provider:

- Employee time and attendance tracking and related management services, software or tools, and related time-to-gross (source-to-gross) pay calculations

- Employee and manager self-service tools, such as web portals, mobile device apps and social collaboration tools

- Management and resolution of employee and manager payroll inquiries

- Special reporting and other services related to multiple countries, currencies and languages

- Business intelligence and data analytics regarding employer payroll activity and data

- Payroll debit cards

- Payroll administration for employees employed through managed service providers, including contract, seasonal, contingent and other temporary employees

- Payment administration of pension annuity payments for participants in the employer's pension/defined-benefit retirement plan

- Payroll issues arising from mergers, acquisitions and divestitures

- Pre- and post-implementation consulting services, such as process re-engineering and continuous improvement initiatives, payroll planning and timetable management, outsourcing business case development, and ongoing payroll administration relationship governance

- Other related payroll administration services

Payroll BPO services are often delivered with the cooperation of multiple parties: employer, service provider, third parties (such as banks and insurance companies) and subcontractors to any of those parties. Primary responsibilities can be assigned to employer and service provider in various combinations.

The predominant examples of payroll BPO service delivery options are described below.

Fully Outsourced (or Managed) Payroll Services

The provider takes responsibility for all payroll process steps; meets payroll-specific performance standards (such as for accuracy and turnaround time); and provides the software, staff and payroll expertise required to complete the assigned steps, while giving the client's HR leaders, managers and employees access to the data through online tools and reports. In this option, the client may eliminate or reassign most of its internal payroll staff, as the provider's staff would perform almost all payroll functions.

The provider may offer its services using its own payroll system off-site, or it may manage the services on-site using either the client's proprietary system or a third party's commercial system.

In this service delivery model, payroll processes are not always modified for consistency or efficiency, because the client has often embedded historically important requirements into those processes (as well as system programming). When that is the case, the client would rather have the provider manage the existing environment, than change it.

Contracts are normally structured using a menu-based approach, with a combination of per-transaction, per-activity and flat-rate pricing options.

Partially Outsourced Payroll Services

The provider takes responsibility for only some payroll processes and must meet performance standards specific to those processes; the client retains responsibility for the remaining processes, as well as the integration of outsourced and insourced processes. Payroll processes may or may not be standardized when a client is partially outsourcing payroll administration, as the client's buying driver is not often process-oriented.

Partially outsourced payroll services are often used when clients want to retain administration of the executive payroll in-house for confidentiality reasons, or when some aspects of payroll are mandated by legislation, as in China, where government-sanctioned entities (such as China International Intellectech Corp. [CIIC] and Beijing Foreign Enterprise Human Resources Service Co. [FESCO]) must be used to make payroll payments.

Contracts are normally structured using a menu-based approach, with a combination of per-transaction, per-activity and flat-rate pricing options.

Business-Process-as-a-Service Payroll Services

A payroll business process as a service (BPaaS) provider offers clients the benefits of a multitenant payroll platform and related processes via a public cloud on the internet, hosted and maintained in the provider's data center. There is a difference between a BPaaS offering, in which the payroll process steps are mostly or entirely administered by the provider, and a SaaS offering, in which the provider offers only use of its software by the client, which, in turn, is entirely responsible for administering the process steps. Importantly, the process steps embedded in a BPaaS provider's offering are often 80% or more consistent both *across* all the provider's clients and *within* an individual client's locations and business units. Therefore, BPaaS offerings are usually priced on a transactional basis, such as per paycheck or per pay period.

The degree of responsibility a payroll BPaaS provider assumes varies. Normally, however, a BPaaS provider is responsible for almost all of the payroll process steps, and it is required to meet payroll-specific performance standards, such as for accuracy and timeliness; these standards may be in addition to standards for application availability and uptime. Services are "one to many" — the provider's system, staff and management resources are shared by many of its clients.

Please note: Gartner refers to payroll BPO service delivery that is customized, highly labor-intensive and/or not offered through the cloud as "traditional BPO." We categorize fully outsourced, managed and partially outsourced payroll services as traditional BPO, and we analyze the market for these services separately from the market for BPaaS. Analysis of traditional BPO, as well as of payroll outsourcing services delivered as part of BPaaS offerings, is included in this Magic Quadrant. However, analysis of elements of BPaaS that are not categorized as payroll outsourcing services, such as SaaS, is not included. For analysis of cloud human capital management (HCM) suite vendors, see "Magic Quadrant for Cloud HCM Suites for Midmarket and Large Enterprises."

Magic Quadrant

Figure 1. Magic Quadrant for Payroll BPO Services

Source: Gartner (August 2016)

Vendor Strengths and Cautions

Note: All reported customer counts are as of 1 June 2016.

ADP

ADP, a Leader headquartered in the U.S., is the world's largest payroll service provider. It maintains over 600,000 clients on its various payroll platforms. It employs over 52,000 staff to administer payroll for over 35 million employees in over 110 countries (in combination with partners). It offers payroll administration via multiple delivery models, including BPaaS, managed and comprehensive outsourced solutions. It uses domestic payroll operations in more than 20 countries, and partners with other payroll solution vendors to offer payroll coverage in over 100 countries. It has developed a network of 15 payroll and HR centers of excellence.

ADP continues to grow its partner network. It has partnerships with dozens of providers of consulting, software development and technology services, largely through the ADP Marketplace. In addition to its proprietary platforms, ADP can deliver integrated multicountry payroll and HR solutions through a partnership with SAP (delivered through SAP SuccessFactors Employee Central).

Strengths

- *Platform flexibility:* ADP supports many of the world's largest companies and government organizations. It can manage very large clients, with some having more than 150,000 employees and a footprint in over 50 countries. It can also manage very complex payroll environments for single-country and multicountry clients. Furthermore, it has solutions for various types of organization, including large multinational corporations (MNCs) and small and midsize businesses (SMBs).

- *Client retention and satisfaction:* ADP has a client retention rate of over 90% and an average client tenure of over a decade. It is one of the top-three providers in this Magic Quadrant, judged by its improved satisfaction scores from survey respondents for payroll-related functions, technologies and provider-customer relationship.

- *Strong investment and uptake of digital technologies:* ADP reported a fivefold increase in mobile usage since 2015, and scored even better than last year for customer experience. It invested $767 million in research and development (R&D) in 2015, across its entire product portfolio.

Cautions

- *Complexity of portfolio:* Given ADP's broad and deep array of offerings (ranging from software to implementation, consulting and management services), prospective buyers may find it challenging to identify, and understand, the right solution for them. Although all ADP offerings have targeted client profiles, the bundling of services and solutions may pose integration challenges in some locales, due to the offerings' complexity. In addition, although ADP continues to pursue integration, in the hope of achieving more seamless global data management and assisting client migrations from one platform to another, its offerings still overlap in terms of, for example, target company size and geographic region, which can cause some confusion.

- *Pricing:* Although ADP engages in nearly every type of competitive opportunity for its services, its pricing is sometimes inconsistent and less than competitive. Buyers in almost identical situations, but located in different regions, can see significantly different prices for identical services. Additionally, ADP's multicurrency proposals and pricing models often confuse and concern prospective buyers.

- *Investment in technology:* Given ADP's impressive R&D spending, customers expect innovations such as its HCM platforms and ADP Marketplace. However, some clients criticized ADP for antiquated technology and a reliance (in some countries and for certain processes) on Microsoft Excel. Surprisingly, considering its size and R&D spending, ADP does not lead the market in terms of process automation and robotics. However, it plans to invest in business process and robot automation initiatives over the next 12 months to improve its service quality and speed.

Ascender

Ascender (formerly Talent2) is a Leader headquartered in Australia. Following an acquisition in May 2015 by private equity firms Potentia and 5Value Capital Partners, Talent2 was rebranded as Ascender. Ascender provides payroll services in Asia/Pacific and the Middle East, where it serves 3,000 client entities and over 1 million employees in 30 countries. Ascender has 700 payroll staff in 19 countries. It has 12 delivery centers and provides services in 31 languages. It offers payroll solutions using BPaaS, managed and SaaS delivery options by using a single proprietary platform with consolidated reporting that supports multiple currencies and languages.

Ascender has very large and complex clients that need process re-engineering, process standardization and automation, and expanded service capabilities. Its typical clients are MNCs with 3,000 to 20,000 employees, but it also has clients with as many as 120,000 employees. Ascender is expanding in the Middle East, but has also outlined a strategy centered on customer excellence, innovation and leadership in Asia/Pacific. It is the only Asia/Pacific-focused provider in this Magic Quadrant.

Strengths

- *Asia/Pacific presence:* Ascender's focus is Asia/Pacific, a region where it has a dominant presence. Its service delivery centers are in Australasia, Southeast Asia and the Middle East — the first two of which are among the fastest-growing regions for HR BPO services, as well as for BPO services in other domains, such as finance and customer management.

- *Investment in technology:* Along with continued investment in its signature payroll platforms, Ascender has significantly enhanced its employee/manager dashboard and mobile app, and moved all its infrastructure to an infrastructure-as-a-service platform. Ascender has developed the Ascender Connect platform, which will serve as a connection and integration orchestration hub for multiple "point" solutions from third parties. However, Ascender Connect has yet to be implemented by any clients, although some have committed to do so in the first financial quarter of 2017.

- *Investment enabled by private equity ownership:* Following its acquisition, Ascender has simplified its pricing model and made changes to its internal operations, such as the appointment of a new head of operations with over 30 years' payroll BPO experience. It has also revamped its approach to account management and systems. In addition, it has invested in HCM technology, which it is working to integrate into its portfolio.

Cautions

- *Reduced customer satisfaction following acquisition:* Ascender's surveyed customers gave satisfaction scores that were below average in all measured areas, including payroll functionality, technology, BPO outcomes and provider-customer relationship. Scores for the cost-effectiveness of Ascender's offering and its product quality were below the average, in comparison with other providers in this Magic Quadrant, as well as with Talent2's prior scores. However, Ascender has recently made significant investments in improved business process automation and new leadership, so customer satisfaction is expected to improve.

- *Regional service focus:* Ascender has no operations in North America or Europe — the world's largest payroll BPO markets. However, its partnerships with Ceridian and Workday provide access to those markets. Prospective buyers should take account of Ascender's Asia/Pacific centricity, as well as its emerging presence in, and focus on, the Middle East.

- *Ongoing transformation:* Although the acquisition and resulting investment have meant progress and change for Ascender, it still has work to do in terms of improving its product and service quality. Honing its pricing models and maximizing the impact of the Ascender Connect platform would probably mitigate shortcomings such as the reduced customer satisfaction and a lack of access to productivity tools.

Ceridian

Ceridian, a Leader headquartered in the U.S., provides payroll and HCM solutions to over 100,000 clients, for which it administers payroll to more than 25 million employees. In conjunction with partners, Ceridian offers services in more than 70 countries in 15 languages. Its 4,500 employees are located primarily in the U.S. and Canada. In June 2016, Ceridian sold its U.K. and Ireland divisions to SD Worx, with which it will now partner for European payroll coverage. Ceridian offers payroll services through multiple delivery models, including BPaaS, managed, service bureau and full outsourcing.

Ceridian intends to use its Dayforce platform (acquired in 2012) for administration of all its clients' payroll and HCM processes. Platform enhancements have resulted in year-over-year growth in implementations of more than 80% and a growing partner ecosystem. Ceridian serves clients that range in size from fewer than 100 employees to as many as 200,000. It generally targets midsize and large companies that have a high demand for administrative HR services, that are growing strongly, that have a high level of merger and acquisition activity, that face major payroll challenges, and/or that are attempting to meet cost-cutting mandates.

Strengths

- *HCM platform for "sweet spot" targets:* Ceridian's Dayforce platform meets the requirements of multiple types of organization, from small, single-country North American organizations to larger MNCs. Additionally, Dayforce has been structured for ease of integration with external systems in areas such as file import/export, visual integration and web services.

- *Product stability:* Despite the customer service demands that have accompanied the strong growth in implementations of Dayforce, Ceridian has improved its customer service metrics for, for example, service tickets per client, cases closed per Ceridian team member, and clients managed by team member. All of this demonstrates a track record of quality of service and process efficiency.

- *Engaged, satisfied clients:* Ceridian's customer interaction program, XOXO, incorporates peer-to-peer engagement and content co-creation. Survey respondents' scores put Ceridian among the top-three providers in this Magic Quadrant in terms of their satisfaction with payroll-related functions, technology, provider-customer relationship and payroll service outcomes. Respondents also indicated that the cost-effectiveness of Ceridian's services was significantly above average.

Cautions

- *Narrowing service delivery footprint:* Ceridian recently sold its U.K. and Ireland BPO business, which generated one-quarter of its revenue, to SD Worx. Over two-thirds of Ceridian's revenue now originates in the U.S. and Canada. Prospective clients headquartered outside North America (or those with no employees there) should check that Ceridian's partners are committed to their locations in terms of providing equitable pricing, smooth contracting arrangements and resources. Although the sale has narrowed Ceridian's service delivery footprint, Ceridian has expanded its global distribution capabilities for Dayforce by forming a partnership with SD Worx, which now resells this product.

- *Implementation times and resources:* Although Ceridian maintains implementation time frames of six to nine months, prospective buyers managing large, multicountry or especially challenging payroll environments should check its resources as part of their due diligence and implementation planning.

- *Possibility of narrowing portfolio:* Although the focus on Dayforce has been beneficial to Ceridian and its clients in terms of satisfied customers and successful implementations, there are concerns about the sustainability of Ceridian's portfolio in the payroll services arena. However, the recent divestment of its U.K. and Ireland BPO business may enable Ceridian to concentrate on, and thereby improve, its core offerings, namely the Dayforce software platform and payroll BPO services in North America.

NGA Human Resources

NGA Human Resources, a Leader headquartered in the U.K., has 8,500 employees in over 35 countries. It provides business process services from seven service delivery centers, which deliver payroll services to over 6 million employees in 145 countries. It provides payroll services in more

than 25 languages, in any currency, and to multiple industries. Its payroll BPO services generate $350 million annually. Its largest individual client has more than 200,000 employees, and its most geographically expansive client has employees in 80 countries. NGA generally aims its enterprise offerings at large single-country companies and at MNCs located in three or more countries.

NGA offers payroll solutions using BPaaS, SaaS and hybrids of these delivery models. It offers the NGA Global Payroll-branded managed service, which uses various underlying payroll engines, including the company's euHReka platform (based on SAP ERP HCM technology), NGA-owned payroll solutions and partners' payroll solutions. NGA solutions integrate with Oracle Cloud HCM, SAP ERP HCM, SAP SuccessFactors and Workday platforms, as well as with other HR-related point solutions. In conjunction with its core payroll administration services, NGA offers help desk, payroll SMB access, case management, and document and knowledge management services, as well as an employee portal linking all underlying systems to a unified user interface for HCM applications and services. Additionally, NGA offers its own HCM platforms: ResourceLink (in Ireland, South Africa and the U.K.), Preceda (in Australia, China New Zealand and the Philippines) and NGA NL Payroll (in the Netherlands). NGA's approach to the market is based on defining "modern HR" and helping its clients embark on their journey toward using and optimizing the impact of payroll and HCM technologies.

Strengths

- *Intensified partner focus and complement to HCM:* In 2015, NGA introduced a stricter certification process for the third-party payroll providers with which it partners around the world. NGA has expanded its network of partners to achieve more complete coverage around the world. In addition to selling its own offerings as a partner to HCM strategy and technology vendors, NGA has introduced a joint offering with SAP (Cloudify Payroll) and BPO "wrappers" with Workday and SAP SuccessFactors. It has also formed partnerships with Thomsons Benefits (benefits services on Thomsons' Darwin global benefits platform) and Kronos (managed time and workforce management services).

- *Scope and scale of coverage:* NGA's extensive global reach (second only to ADP) makes it relevant to large MNCs. NGA delivers services to 145 countries, in 25 languages. Building on its strength in payroll administration, it has invested heavily in its BPO wrappers to achieve tighter integration with clients' tools.

- *Improvement in customer satisfaction*: NGA's scores for both product and customer-vendor relationship have improved significantly from last year. Indeed, of all the vendors in this Magic Quadrant, NGA made the biggest improvement in customer satisfaction. However, its overall score for customer satisfaction remains average.

Cautions

- *Breadth and depth of partnerships:* Although NGA has a sound approach to partnering, it still needs to forge broader and deeper partnerships. It also needs more customer success stories about adoption and the efficacy of its partnerships. NGA and its partners need to record clients' successes and the favorable results of partnership engagements. Details of these need to be

more readily available to prospective clients, to help them appreciate the potential of "modern HR."

- *Communication of improvements*: NGA continues to improve its technologies for mobile apps; end-to-end process automation and robotics; compensation administration; analytics; and payroll offerings for countries new to such technology. However, reference customers indicate that they are unaware of these activities, and their concerns are manifest in NGA's customer satisfaction scores. These customers have seen no indication of NGA's internal improvements, nor witnessed any improvement in the pricing of its services.

- *Service considerations when supporting multiple platforms:* With its Payroll Exchange tool and the overall unification of the client experience across software and services, NGA clients on legacy platforms are supported without forced migration to the latest offerings. However, failure to migrate may prevent these clients accessing the single-contract and single-reporting capabilities that are increasingly important in most global payroll environments, or at least will make the maintenance of legacy platforms increasingly expensive. Equally important is simplification of the pricing of NGA's solution options, to enable them to be clearly understood. Although NGA has made progress in these areas, it still has work to do to make its offerings both easy to buy and easy to use.

Paychex

Paychex, a Challenger headquartered in the U.S., is one of the world's largest payroll providers. It has 13,000 employees in more than 100 U.S. locations, as well as in Brazil and Germany. It generates over $2.9 billion in payroll and HR service revenue annually. It targets small companies — it has more than 600,000 clients, of which 80% have fewer than 20 employees. However, several of its clients have thousands or tens of thousands of employees that consume payroll services. Paychex serves over 10 million employees in total.

In addition to payroll services, Paychex offers various bundled service packages; these include benefits administration, workforce administration, recruitment, talent management, training, and time and labor management, as well as 401(k) retirement, insurance, and tax preparation and filing services.

Strengths

- *Intense focus on target market:* Paychex targets SMBs ranging from only one employee to more than 1,000 employees. In addition to offering payroll and HR services, Paychex offers to help SMB entrepreneurs run their business by providing, for example, "push" notices regarding the U.S. Patient Protection and Affordable Care Act and client communications via web chat and social networks.

- *Ease of access and use:* Paychex offers an easy purchase process, simple service delivery models (BPaaS, SaaS and on-premises), live sales, and product support by assigned payroll specialists. Paychex scored highest of all the providers in this Magic Quadrant for overall satisfaction with payroll functions, technology, provider-customer relationship and payroll BPO service outcomes.

- *Investment in innovation:* Paychex's integrated HCM platform, Paychex Flex, has increased the interoperability and synchronization of Paychex's internal technologies. The company has demonstrated innovation in mobile phone and tablet apps; and it has developed products to address challenges created by the ongoing U.S. healthcare reform — challenges that are burdensome to SMBs. To this end, Paychex also sponsors a private healthcare exchange for employers.

Cautions

- *Focus on SMBs:* Paychex continues to grow in the SMB sector, but still focuses on the smaller end of this sector. As more of Paychex's SMB clients grow and evolve, they may find that Paychex is no longer able to meet their requirements, especially once they exceed 500 employees or face more complex HR and payroll demands.

- *Narrow geographic footprint:* Although Paychex began to expand geographically in 2004, it remains U.S.-focused. It has a joint venture with Semco Partners in Brazil and acquired Lohndata of Germany in 2013, but unless it accelerates its expansion into other markets and countries (such as Australia, Canada, Singapore and the U.K.), it will still be viewed as a vendor chiefly for U.S. SMBs.

- *Limited customization and integration capabilities:* An essential element of Paychex's business model is standardization and industrialization. This is the foundation of Paychex's ability to serve SMBs, but it will not appeal to companies that have unique requirements. Additionally, some Paychex clients have identified challenges to integration with external systems.

Raet

With 50 years' experience and 1,080 employees, Raet, a Challenger, has a history of providing payroll and HR outsourcing services and software to organizations in the Netherlands, where it is headquartered. Raet provides payroll outsourcing services directly to the Netherlands, and indirectly to Belgium, Portugal, Spain, the U.K. and Latin America. In 2015, Raet's total revenue was €158 million. Its target end-user industries include government, professional services, retail and technology.

Following its acquisition of RH Pro in 2015, Raet has a growing business in Latin America. It has also invested in growing its employee base outside its home market, with a new development team based in Madrid, Spain.

Strengths

- *Focus on target market:* Raet has deep expertise in providing payroll and HR solutions to Netherlands-based organizations. Considering Raet's penetration and 50 years' experience in this market, it is difficult to see how the company's dominant market position could deteriorate, without significant disruption.

- *Investment in innovation:* Raet has invested in innovation, including piloting the use of robotics to automate payroll and HR services. A resulting initiative, planned to go live in 3Q16, is

intended to decrease the need for manual processes, enabling Raet employees to move up the value chain and work on more strategic initiatives for clients. Raet scored above average in the customer satisfaction survey for analytic services related to payroll activity.

- *New strategy for wider geographic coverage:* Raet has embarked on a strategy to reposition itself as more than a Dutch company. This is a positive move for global companies headquartered in the Netherlands, as they may be able to use Raet to serve them in additional countries.

Cautions

- *Narrow geographic footprint:* Raet has only recently begun expanding outside the Netherlands. Although its acquisition of RH Pro and strategy to grow outside the Netherlands are positive steps, much more will be needed to transform what is predominantly still a Dutch company.

- *New strategic direction:* Although Gartner views Raet's effort to transform itself into more than a predominantly Dutch company as a positive step, it involves some risk. Raet has limited expertise in new markets. Also, its deployment of robotics could result in organizational changes.

- *Customer satisfaction:* Raet's scores from reference customers were below average for system performance, reporting and analytics capabilities. This points to a need for more investment in its technology platform. Raet also scored less well than other providers in this Magic Quadrant for HR/enterprisewide transformation initiatives and customer experience throughout the sales process. However, Raet's customer churn rate is below 2% annually, so, although Raet has scope to improve its customer satisfaction in comparison with other vendors, overall its customers are satisfied.

SD Worx

Founded in 1945, SD Worx, a Leader headquartered Belgium, has provided payroll services for over 70 years. Following its acquisition of fidelis HR, Ceridian U.K. and Ceridian Ireland, its 3,600 employees are located in 50 offices throughout Austria, the Benelux countries, France, Germany, Ireland, Switzerland, the U.K. and Mauritius. SD Worx is a co-founding member of the Payroll Services Alliance, a partnership of eight independent payroll providers, through which it offers services in over 50 countries. SD Worx offers a complete range of service delivery models — SaaS, managed and comprehensive payroll services — and varying levels of service, including "premium" (highly automated) services. Approximately 90% of its $444 million (€405 million) of 2015 revenue (including fidelis HR and Ceridian UK) came from managed services. In June 2016, SD Worx acquired Ceridian's U.K. and Ireland payroll BPO business. SD Worx and Ceridian also recently entered into a partnership whereby SD Worx resells Ceridian's Dayforce platform.

In addition to offering services on its proprietary payroll platform, SD Worx maintains partnerships with Cornerstone OnDemand, PeopleDoc, Protime (an SD Worx subsidiary), Tableau, Talentsoft, SAP SuccessFactors and Workday. SD Worx also uses its own Blox HR and Cobra HRM solutions to provide HR software. It partners with Cornerstone OnDemand for talent management services

and with Talentsoft for recruitment solutions. Almost all of SD Worx's solutions are delivered through the cloud, and the company is moving from customized to more standardized solutions.

Strengths

- *European provision and increasing investment in expansion:* SD Worx provides payroll services — directly or through the Payroll Services Alliance and other partnerships — to over 60,000 clients and produces 4 million pay slips per month. Large clients can have over 100,000 employees across more than 12 countries. Additionally, SD Worx has acquired fidelis HR (which targets Germany, Austria and Switzerland), as well as Ceridian's U.K. and Ireland business, which has expanded its geographic coverage. It is now also a reseller of Ceridian's Dayforce solution, a multicountry HR platform. SD Worx can now offer services through local best-of-breed payroll platforms, and through Dayforce as a multicountry platform.

- *Focus on client satisfaction:* SD Worx has a history of using client satisfaction surveys to fine-tune the customer experience. This year, SD Worx declined slightly in terms of overall customer satisfaction score, but came top for satisfaction with payroll BPO-related functions. It has taken steps to institutionalize client satisfaction practices, including introducing a focus on SMB clients, and it is applying these steps to the integration of recently announced acquisitions. Survey respondents gave SD Worx strong scores for satisfaction with the provider-customer relationship. They expressed most satisfaction with SD Worx's general client account management and ongoing support and communications. They were least satisfied with its pricing, but still scored this above average.

- *Innovation, analytics and thought leadership:* Surveyed clients gave SD Worx high scores for its technology offerings, with the highest scores being for product quality and ease of use by both employees and professional users. SD Worx continues to invest in capitalizing on the increasing use of technology in HR administration. Among other initiatives, it is developing a generic integration layer between Dayforce and the local payroll engines of SD Worx and the Payroll Services Alliance. It has also developed an SAP-based payroll solution for midsize public-sector organizations, an enhanced HR portal for mobile devices, initiatives to expand data analysis to add value, and new HR Performance Dashboard and Reward Benchmark tools. Furthermore, SD Worx is introducing "employee pulse" surveys to improve employee engagement, including the development of predictive analytics systems to determine employee retention and flight risk. These are scheduled for commercial availability on 1 September 2016, but customers already score the company above average for innovation and responsiveness.

Cautions

- *Uneven service quality:* Despite receiving strong scores for product quality and the overall technology-related attributes of its offerings, SD Worx received below-average satisfaction scores for the provider-customer relationship. Feedback from surveyed clients indicates varying levels of service and knowledge across its country service centers. Existing and prospective clients should familiarize themselves with the experience of SD Worx's support personnel and find dedicated resources that will add value over time by applying deep knowledge of their environments and business operations.

- *Cost-effectiveness:* Survey respondents' scores for their satisfaction with SD Worx and the cost-effectiveness of its offering were below average. Scores for configurability and ability to innovate around payroll processes were also below average.

- *Rapid growth via acquisitions:* Gartner views the acquisitions of fidelis HR and Ceridian's U.K. and Ireland payroll BPO operations as positive strategic steps toward wider geographic coverage. However, SD Worx has limited experience of operating payroll BPO in these countries.

Sopra Steria

Sopra, which is headquartered in France, merged with Steria in early 2014 to form Sopra Steria, a Challenger. It has combined Steria's HR BPO operations with those of its 100%-owned subsidiary, Sopra HR Software. In total, Sopra Steria provides outsourcing services to 780,000 workers, including 120 clients in the Middle East and Africa. Sopra HR Software has 1,300 employees in 10 countries, who provide payroll and HR solutions and services to clients and their 12 million employees in 54 countries. Its clients are mostly large MNCs headquartered in Europe with approximately 50,000 employees.

Sopra Steria has a range of flexible service delivery options, including outsourcing, managed and on-premises solutions, but it does not offer a BPaaS delivery model. In the past year, it has taken an aggressive approach to meeting demand for mobility, with its "any time, anywhere, any device" (ATAWAD) initiative. This has added 10 percentage points to its service revenue growth, which is enabling further investment in the management of customers and in innovation.

Strengths

- *Agility, flexibility, accessibility and ease of use:* Sopra Steria received its best scores from reference customers for its agility in responding to business and regulatory changes across industries and geographies; accessibility to external expertise; ease of use by, and customer experience for, employees and managers; handoff from implementation to support; and enhancement of its modification and request process.

- *Improved satisfaction with cost-effectiveness and communications:* Sopra Steria's overall customer satisfaction score improved more than any other provider's in the 2016 survey of reference customers. The largest improvements were in its scores for cost-effectiveness; ability to customize and configure applications; reporting and analytics capabilities; ease of use; ongoing support and communication; general management of customer account; and ability to innovate.

- *Investment in mobile technology and analytics:* Sopra Steria continues to enhance its analytics for "smart HR management" and invest in its new user interface and user experience, which offer an intuitive manager space, an employee "digital dossier," advanced context menus and ad hoc analytics reporting. All of this contributes to its focus on mobility and the ATAWAD initiative.

Cautions

- *Product quality:* Despite Sopra Steria's investment in, and deployment of, a mobile offering, reference customers considered the overall quality of its product to be below average. Furthermore, they scored its service quality slightly lower than last year, which suggests limited benefit from its investments.

- *Limited evidence of enterprise transformation:* No reference customers indicated that they used Sopra Steria for enterprise transformation. Prospective buyers should investigate the degree to which Sopra Steria's services can support HR and enterprisewide transformations.

- *Employee support options:* Although Sopra Steria is perceived by clients as responsive at an account management level, it is also seen as difficult to connect with for employee assistance. Customers scored Sopra Steria below average for live or automated support with employee payroll inquiries. In today's world of "on demand," immediate assistance, this is an area that Sopra Steria needs to work on.

Vendors Added and Dropped

We review and adjust our inclusion criteria for Magic Quadrants as markets change. As a result of these adjustments, the mix of vendors in any Magic Quadrant may change over time. A vendor's appearance in a Magic Quadrant one year and not the next does not necessarily indicate that we have changed our opinion of that vendor. It may be a reflection of a change in the market and, therefore, changed evaluation criteria, or of a change of focus by that vendor.

Added

- Raet

Dropped

- Aon Hewitt
- CGI
- HP
- Infosys
- Xerox Services

Name Change

Following a change of name, Talent2 now appears as Ascender.

Inclusion and Exclusion Criteria

To be included in this Magic Quadrant, each payroll BPO service provider had to meet all of the following criteria:

- It must offer payroll BPO services on a stand-alone basis — that is, its payroll BPO services must be available for purchase without a buyer having to contract for any other HR BPO service (such as benefits administration or time and attendance services) or IT service (such as application management). However, the provider may additionally offer payroll services bundled with other services.

- It must have generated at least $75 million in annual payroll BPO service revenue in 2015.

- It must have at least 10 signed payroll-only BPO service clients, of which at least five must be referenceable.

- It must provide payroll BPO services outside its home country — that is, to at least one company headquartered outside its home country, or to clients' employees located outside its home country.

Evaluation Criteria

Ability to Execute

Gartner assesses payroll BPO service providers' Ability to Execute by evaluating the payroll processes, systems, methods and procedures that should enable them to be competitive, efficient and effective in the market and that should positively impact revenue, client satisfaction and retention, and general market reputation. A provider's Ability to Execute is judged on its success in delivering on its promises. Specifically, the following seven criteria are used to determine a provider's Ability to Execute:

Product or Service: This criterion includes core services that compete in and serve the payroll BPO market. It includes current service capabilities, quality, feature sets, and staff expertise and skills, and whether these components are offered natively or through partnerships.

Overall Viability: This criterion evaluates the soundness of the provider's overall financial health, as well as the likelihood of the provider continuing to invest in the service offering and advance the state of the art within its portfolio of services.

Sales Execution/Pricing: This criterion evaluates the provider's capabilities in all presales activities and the structure that supports them. This includes the overall effectiveness of sales channels, presales support, pursuit management, and pricing, negotiation and contracting.

Market Responsiveness/Record: This criterion evaluates the provider's ability to respond and achieve competitive success as opportunities arise, competitors act, customers' needs evolve and market dynamics change. This criterion also considers the provider's history of responsiveness.

Marketing Execution: This criterion evaluates the clarity, quality, creativity and efficacy of programs designed to deliver the provider's message in order to influence the market, promote its brand and business, increase awareness of its services, and establish a positive identification with the provider's service/brand in the minds of payroll BPO buyers. This mind share can be achieved by a combination of marketing and sales activities.

Customer Experience: This criterion evaluates the relationships, resources and programs that enable customers to be successful with the service offered. Specifically, this includes the ways in which customers receive technical or account support. It can also include the existence and quality of customer resources, such as ancillary tools, support programs, availability of user groups and service-level agreements.

Operations: This criterion evaluates the provider's ability to meet its goals and commitments. Factors include the quality of the organizational structure, staff skills and experience, customer programs, systems, and other resources that enable the provider to operate effectively and efficiently on an ongoing basis.

Table 1. Ability to Execute Evaluation Criteria

Evaluation Criteria	Weighting
Product or Service	High
Overall Viability	High
Sales Execution/Pricing	Standard
Market Responsiveness/Record	Standard
Marketing Execution	Low
Customer Experience	Standard
Operations	Standard

Source: Gartner (August 2016)

Completeness of Vision

Gartner assesses payroll BPO service providers' Completeness of Vision by evaluating their ability to articulate their perspectives on the market's current and future direction, anticipate customer needs and successfully meet competitive forces. A provider's Completeness of Vision is judged on its understanding and articulation of how market forces can be exploited to create new opportunities for itself and its clients. More specifically, the following eight criteria are used to determine a provider's Completeness of Vision:

Market Understanding: This criterion evaluates the provider's strategy for communicating, both internally and externally, a clear, differentiated set of messages through its website, advertising, customer programs, positioning statements, and other marketing tools and channels.

Marketing Strategy: This criterion looks for a clear set of messages communicated consistently throughout the organization and externally through a variety of marketing channels, such as a website, advertising, customer programs and positioning statements. The messages must differentiate the provider's services and articulate the value it delivers.

Sales Strategy: This criterion evaluates the strategy for selling services that incorporates the provider's staff, tools and channels, including partners and affiliates, and which uses the provider's market reach, staff skills and expertise, technologies, services, and customer base to achieve sales.

Offering (Product) Strategy: This criterion evaluates the provider's approach to development and delivery of offerings, with an emphasis on offerings' functionality, methodology, differentiation and feature set, and on how they map to current and future market demands.

Business Model: This criterion considers the soundness and logic of the provider's underlying business proposition.

Vertical/Industry Strategy: This criterion relates to the provider's strategy for directing resources, staff and offerings to meet the specific needs of individual market segments, such as industries and SMBs.

Innovation: This criterion relates to the level of direct investment of expertise, capital and other resources in innovation with regard to the use of new technologies and improvements in process efficiency.

Geographic Strategy: This criterion evaluates the provider's strategy to direct resources and skills to meet the specific needs of geographic areas outside its "home" or native market, either directly or through partners, channels and subsidiaries.

Table 2. Completeness of Vision Evaluation Criteria

Evaluation Criteria	Weighting
Market Understanding	High
Marketing Strategy	Standard
Sales Strategy	Standard
Offering (Product) Strategy	High
Business Model	Low
Vertical/Industry Strategy	Low
Innovation	High
Geographic Strategy	Standard

Source: Gartner (August 2016)

Quadrant Descriptions

Leaders

Leaders perform well by having a clear vision of the market's direction and clients' needs, and by building capabilities and competencies to satisfy clients and sustain their leadership position. Leaders have superior market understanding, which they manifest through marketing and sales strategies that both respond to and lead the market for payroll BPO services. Leaders invest in continuous research and innovation in technology and payroll administration, have strong financial viability, and have customers who consistently testify to a positive relationship.

Challengers

Challengers execute well, but have yet to capitalize on their vision. They typically need to refine and enhance their marketing and sales strategies, increase their commitment to innovation and research, and produce innovative results. They may also need to expand their geographic service footprint and emphasize industry expertise, not only to align their services closely to the needs of existing and prospective clients, but also to influence the market's direction.

Visionaries

Visionaries have a clear vision of the market's direction and may be preparing to serve it, especially with innovative technology solutions. But they need to improve their responsiveness to current market trends, consistently deliver excellent service, and ensure their clients are enthusiasts for their services.

Niche Players

Niche Players typically concentrate their strategy and services on particular market segments, such as single countries or regions, specific industries, and specific sizes of customer. They may not be particularly strong in terms of execution or vision.

Context

The Magic Quadrant inclusion criteria require providers to be focused and strong, and to provide their offerings and delivery capabilities in more than one country. Some providers offer fewer service options than others (for example, some offer only fully outsourced or managed payroll services), and some have a narrow geographic service footprint (for example, some serve clients headquartered in only two countries). The number and breadth of their offerings and locations, among other factors, contributed to their assessments in this Magic Quadrant.

Gartner's analysis of the eight providers' competitive positions is reflected in their placement in the Magic Quadrant graphic. Their placements and profiles draw on:

- Primary and secondary research

- Briefings with the providers

- An online survey administered to a total of 75 of the providers' clients

- Input from the Gartner BPO research community

- Interactions with Gartner clients through Gartner's client inquiry service

- Business and financial press reports

- Gartner's understanding of developments in the payroll BPO services market

Market Overview

Providers Optimize Costs and Consolidate in a Mature Market

The market for payroll BPO services is mature. Across North America and Europe, payroll BPO service providers can no longer rely on "greenfield" opportunities alone to drive growth. To overcome the challenge posed by the market's maturity, providers are transforming their operations through cost optimization and consolidation.

Providers are looking to their business processes to drive cost optimization and thereby increase the profitability of payroll BPO services. Historically, they have achieved this by moving service centers to regions with lower labor costs, although sometimes at the expense of quality of customer service. Increasingly, they are now using technology to automate the payroll process, which enables them to increase their customer base without significantly increasing their head count. Cost optimization is a priority for providers, as it is only through profitability that they will be able to invest

in improved service quality, innovation and technology, undertake acquisitions, and provide payroll BPO services at competitive prices. In short, the success or failure of cost optimization initiatives will determine the future capabilities of payroll BPO service providers.

Providers consolidate for two reasons: to expand or to focus coverage. Consolidation is usually achieved via mergers and acquisitions, but may also result from strategic partnerships. The first half of 2016 saw an example of consolidation in the form of the agreement between Ceridian and SD Worx. In this case, SD Worx expanded its geographic coverage into the U.K. and Ireland, while Ceridian focused its offering on its core businesses (namely, payroll BPO in the U.S. and Canada, and the Dayforce HCM platform). Gartner expects more consolidation as providers strive to expand the coverage of their payroll BPO service offerings or focus on alternative opportunities.

HCM Solutions Are on the Rise

Within the area of HCM, cloud software has the most overall growth potential. (Although innovative solutions for employee wellness initiatives, among other things, and analytics are growing faster, their revenue potential is less.) Gartner estimates that the worldwide market for HCM software grew from $6.3 billion in 2010 to $9.2 billion in 2015 (an increase of 46%, at a CAGR of 7.9%), with most of this growth stemming from adoption of cloud software (see "Market Snapshot: ERP Software, Worldwide, 2016").

Payroll BPO service providers are taking advantage of this growth opportunity in two ways:

- *As HCM providers offering own-branded HCM software in conjunction with payroll BPO.* This approach represents the biggest revenue opportunity for these providers, but the challenge is to develop HCM software that is competitive with that of vendors that focus purely on HCM software. (Note that the Leaders in "Magic Quadrant for Cloud HCM Suites for Midmarket and Large Enterprises" are not also payroll BPO vendors.)

- *As HCM partners building strategic partnerships with HCM software providers.* This approach gives payroll BPO service providers access to the growth opportunities in the HCM software market as providers of value-added services. A key challenge for cloud HCM providers is to offer sufficient localized payroll coverage, which they can overcome by partnering with a multicountry payroll BPO service provider. Payroll BPO service providers that take this approach are likely to engage more new customers than they otherwise would.

Note that providers may pursue both approaches, as is the case with ADP, NGA and SD Worx.

For more discussion of trends in the BPO service sector, see "Market Trends: New Business Model and Digital Service to Drive Next-Generation BPO Services in 2016."

Gartner Recommended Reading

Some documents may not be available as part of your current Gartner subscription.

"How Markets and Vendors Are Evaluated in Gartner Magic Quadrants"

"The Impact of BPaaS on HR Outsourcing"

"Taxonomy of HR BPO Service Delivery Models: Select the Right Model to Meet Desired Outcomes"

"Predicts 2013: The Future of Business Consulting and Business Process Outsourcing Revealed"

"The Challenges of Moving Payroll to the Cloud Vary by Delivery Model"

"Market Guide for Human Capital Management Suite Applications"

Evidence

In April 2016, Gartner conducted an end-user survey of 75 clients of eight providers. In addition to questions spanning areas such as the scope of BPO services, deployment models, implementation time frames, and current and future service adoption, we asked about the clients' satisfaction with their provider and its services. The four major areas of investigation were:

- **Satisfaction with the payroll BPO provider's payroll-related functions across eight criteria** (payroll production; payroll tax compliance; tax form production/filings; portal and smart device support for self-service; tools for time and attendance tracking; debit cards; live/automated assistance with employee payroll inquiries; and payroll-related analytics services).

- **Satisfaction with the payroll BPO provider's technology and technology-related attributes across 10 criteria** (product quality; incorporation of best practices; system performance; ability to customize/configure the application; ease of integration with other applications; reporting and analytics capabilities; tracking and managing payroll performance metrics; ease of use for professional users; ease of use for employee/manager users; and flexibility to accommodate future changes).

- **Satisfaction with the relationship with the payroll BPO provider across seven criteria** (experience throughout the sales process; initial implementation and deployment; handover from implementation team to support team; ongoing support and communication; subsequent deployments and upgrades; general management of the customer account; and enhancement or modification request process).

- **Satisfaction with the payroll BPO provider's payroll-related outcomes across seven criteria** (cost-effectiveness; accuracy and quality of payroll services and deliverables; efficiency/timeliness of payroll processing; ability to support the payroll volume in scope; ability to innovate around payroll processes and services; ability to meet legal and compliance requirements; and quality and depth of payroll reporting and analytics provided).

Evaluation Criteria Definitions

Ability to Execute

Product/Service: Core goods and services offered by the vendor for the defined market. This includes current product/service capabilities, quality, feature sets, skills

and so on, whether offered natively or through OEM agreements/partnerships as defined in the market definition and detailed in the subcriteria.

Overall Viability: Viability includes an assessment of the overall organization's financial health, the financial and practical success of the business unit, and the likelihood that the individual business unit will continue investing in the product, will continue offering the product and will advance the state of the art within the organization's portfolio of products.

Sales Execution/Pricing: The vendor's capabilities in all presales activities and the structure that supports them. This includes deal management, pricing and negotiation, presales support, and the overall effectiveness of the sales channel.

Market Responsiveness/Record: Ability to respond, change direction, be flexible and achieve competitive success as opportunities develop, competitors act, customer needs evolve and market dynamics change. This criterion also considers the vendor's history of responsiveness.

Marketing Execution: The clarity, quality, creativity and efficacy of programs designed to deliver the organization's message to influence the market, promote the brand and business, increase awareness of the products, and establish a positive identification with the product/brand and organization in the minds of buyers. This "mind share" can be driven by a combination of publicity, promotional initiatives, thought leadership, word of mouth and sales activities.

Customer Experience: Relationships, products and services/programs that enable clients to be successful with the products evaluated. Specifically, this includes the ways customers receive technical support or account support. This can also include ancillary tools, customer support programs (and the quality thereof), availability of user groups, service-level agreements and so on.

Operations: The ability of the organization to meet its goals and commitments. Factors include the quality of the organizational structure, including skills, experiences, programs, systems and other vehicles that enable the organization to operate effectively and efficiently on an ongoing basis.

Completeness of Vision

Market Understanding: Ability of the vendor to understand buyers' wants and needs and to translate those into products and services. Vendors that show the highest degree of vision listen to and understand buyers' wants and needs, and can shape or enhance those with their added vision.

Marketing Strategy: A clear, differentiated set of messages consistently communicated throughout the organization and externalized through the website, advertising, customer programs and positioning statements.

Sales Strategy: The strategy for selling products that uses the appropriate network of direct and indirect sales, marketing, service, and communication affiliates that extend the scope and depth of market reach, skills, expertise, technologies, services and the customer base.

Offering (Product) Strategy: The vendor's approach to product development and delivery that emphasizes differentiation, functionality, methodology and feature sets as they map to current and future requirements.

Business Model: The soundness and logic of the vendor's underlying business proposition.

Vertical/Industry Strategy: The vendor's strategy to direct resources, skills and offerings to meet the specific needs of individual market segments, including vertical markets.

Innovation: Direct, related, complementary and synergistic layouts of resources, expertise or capital for investment, consolidation, defensive or pre-emptive purposes.

Geographic Strategy: The vendor's strategy to direct resources, skills and offerings to meet the specific needs of geographies outside the "home" or native geography, either directly or through partners, channels and subsidiaries as appropriate for that geography and market.

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