Exposing the Hidden Costs

HR Leader Executive Brief

HR at the crossroads

HR is at a critical stage in its journey - from transactional back-office operator to true business partner. But the function has hit a roadblock. Recent research suggests that in many companies HR teams are still not adding as much value to the business as they could.

Lack of the right skills is partly to blame. The Deloitte Global Human Capital Trends 2014 report found that HR teams often lack the skills and data needed to understand today's global business environment, local labor markets, changing workforce demographics and shifts in technology.

There is a further problem with the way many HR professionals spend their time. Business and HR leaders surveyed by The Chartered Institute of Personnel and Development for its 2013 HR Outlook report agreed that HR teams often concentrate more on operational matters than strategic issues. This approach – which often involves keeping HR processing in-house - prevents HR from focusing on acquiring, developing and keeping the talent needed to drive business success. It also adds cost.

Data collected by ADP over the last decade shows that companies handling HR processes in-house or using multiple vendors have the highest costs. These are the same companies that struggle to focus on the strategic talent management that could unlock their full business potential.

HR teams often lack the skills and data needed to understand:

The changing business environment

Changes in workforce demographics
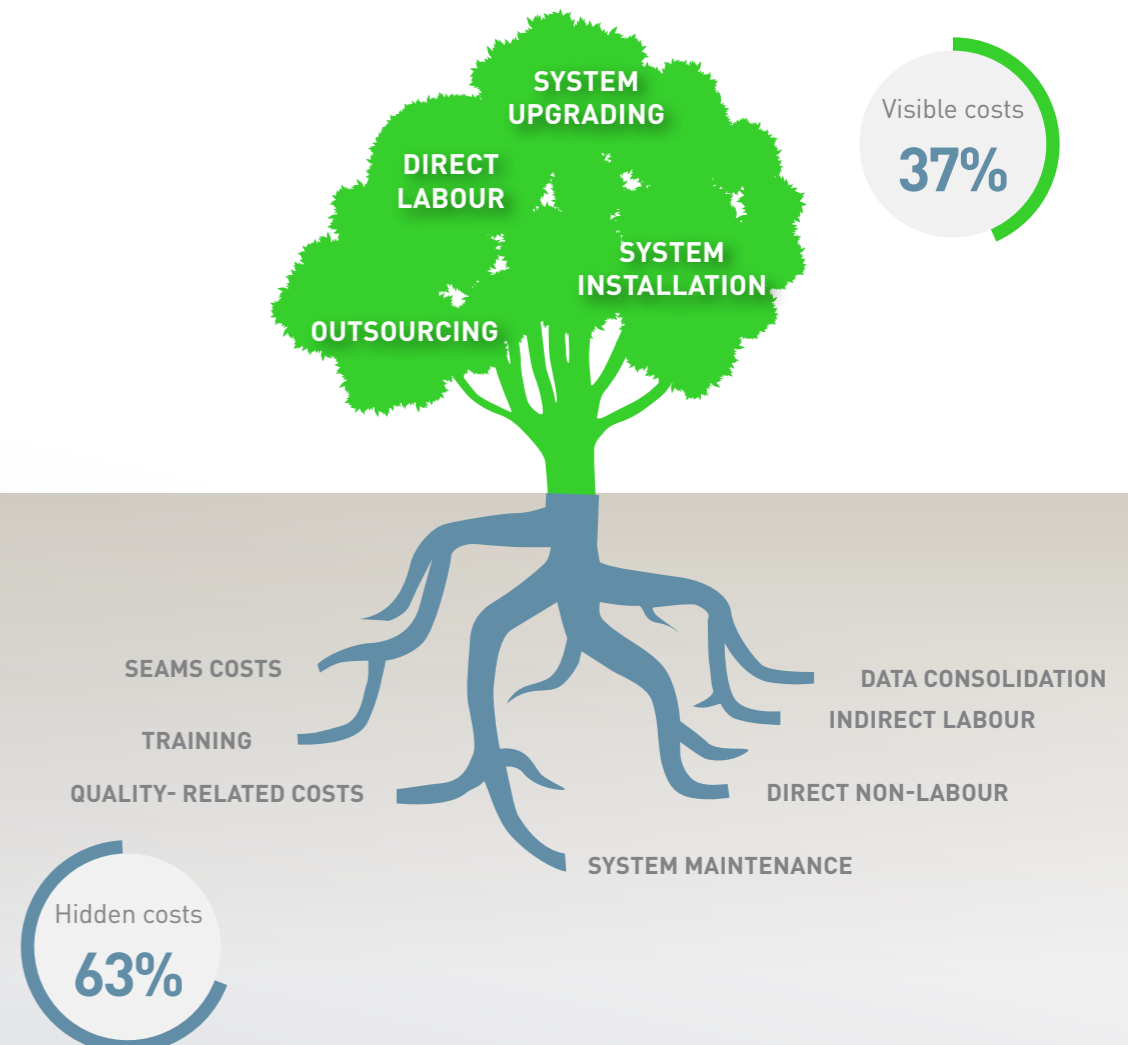
Shifts in technology

Understanding the total cost of ownership of HR

Simply automating and outsourcing administrative processes is not the answer. HR leaders need to work out the likely return on these investments. And to do that, they need to understand how much they are currently spending on HR processes – their total cost of ownership or TCO.

Choosing new HR solutions without knowing the TCO of current processes would be like deciding to buy a car on the basis of its purchase price alone. Without understanding the total cost of ownership, including running costs and depreciation, it would be difficult to choose the right car. The same goes for decisions about investing in new HR solutions. To make the right choices, HR leaders need to know how much they are spending now.

Breakdown of TCO by Cost Type

SYSTEM UPGRADING

DIRECT LABOUR

SYSTEM INSTALLATION

OUTSOURCING

Visible costs
37%

SEAMS COSTS

TRAINING

QUALITY- RELATED COSTS

DATA CONSOLIDATION

INDIRECT LABOUR

DIRECT NON-LABOUR

SYSTEM MAINTENANCE

Hidden costs
63%

The value of TCO studies

A good understanding of HR costs is especially important when companies restructure or downsize - as many have done in the challenging business environment of recent years. But some of these companies have not had the accurate workforce-related data needed to make good decisions. According to a study recently commissioned by the ADP Research Institute, just 22 per cent of a representative sample of over 1,000 senior executives in midsize companies had analyzed their HR TCO in the previous 12 months. Conducted by Harris Poll, the Total Cost of Ownership Awareness study also found that many executives have a false sense of confidence about what they know about HR costs.

Real confidence rests on the accurate data that comes out of TCO audits or studies. ADP carries out such studies to help clients calculate the end-to-end costs of running HR processes and measure their overall HR performance or productivity. For example, the methodology developed by ADP uses the following formula to assess performance of a payroll team:
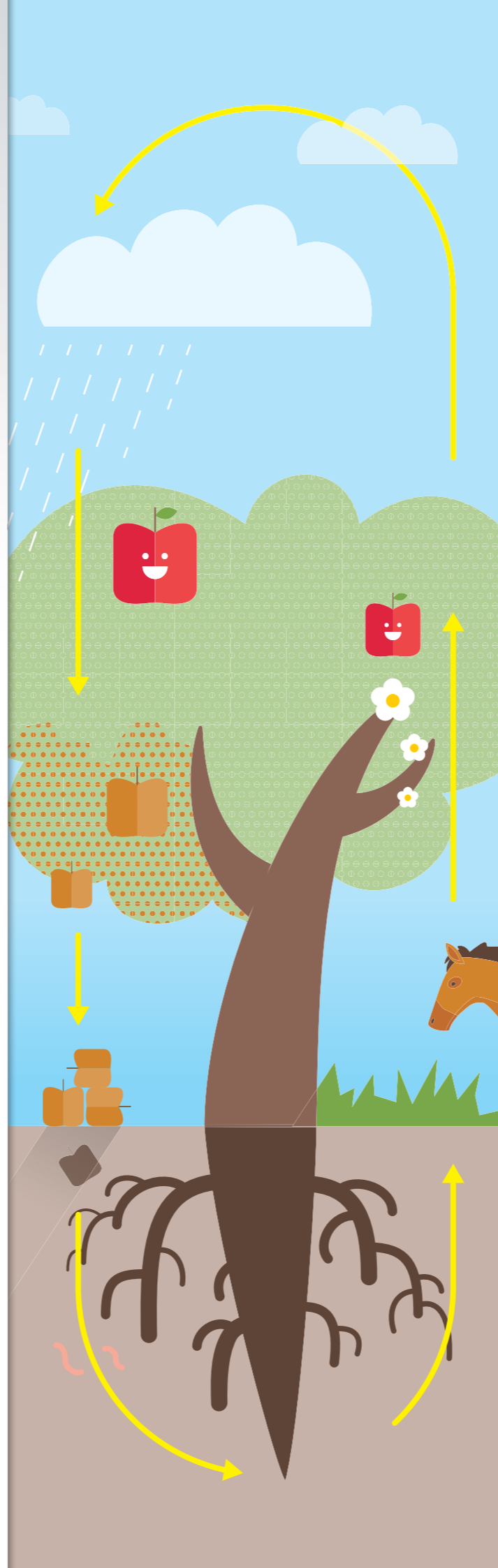
**NUMBER OF EMPLOYEES MANAGED
BY ONE PAYROLL MANAGER**

+

COST
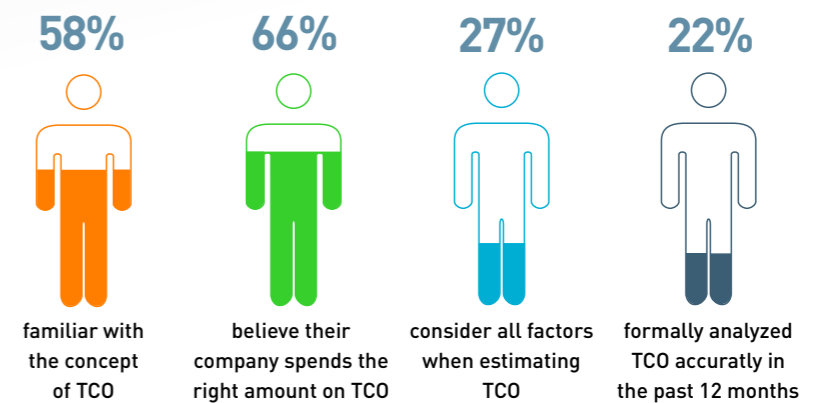
(TCO per employee per year)

+

RESULTS

(Quality of HR services & data, compliance, business impact).

The TCO studies that ADP conducts for its clients are not just designed to identify opportunities for cutting costs. By also examining how current processes work, these studies have a track record of helping HR leaders make a compelling business case for change. That change is likely to involve shifting resources to talent management and other strategic issues that turn HR into a true business partner.
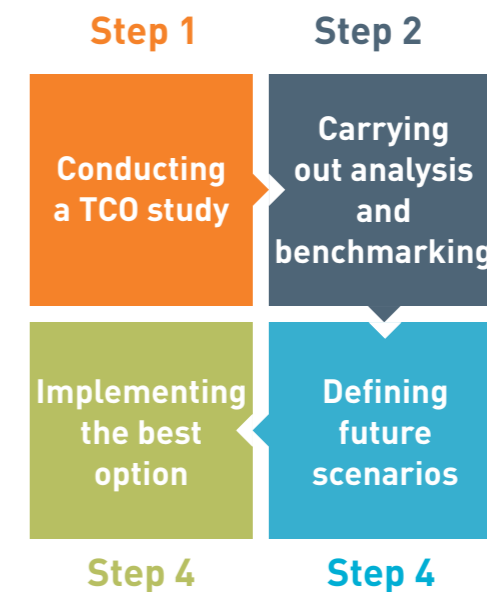

DO YOU KNOW **YOUR BIG NUMBER?**

58%	**66%**	**27%**	**22%**
familiar with the concept of TCO	believe their company spends the right amount on TCO	consider all factors when estimating TCO	formally analyzed TCO accurratly in the past 12 months

Making a strong business case

ADP has developed the following four-step approach to building a convincing business case for HR transformation.

Step 1   **Step 2**

Conducting a TCO study	Carrying out analysis and benchmarking
Implementing the best option	Defining future scenarios

Step 4   **Step 4**

Letting the data drive decisions

Data collected by ADP from thousands of TCO studies across the world show that HR transformation needs to be approached holistically. In other words, companies that have succeeded in transforming their HR functions did not consider technological solutions in isolation. They looked at how people would use those solutions, what functions they would perform and how processes could be improved to make best use of new systems.

ADP's database provides companies of all sizes with a robust tool for benchmarking themselves against businesses in a variety of industries and geographies. HR professionals need to harness that data. As one leading expert in HR analytics has put it: 'Data-driven decision-making is the future of HR, and ADP is using its vast resources in aggregated, anonymous payroll data to create benchmarks and analytics to enable clients to better manage their human capital.'

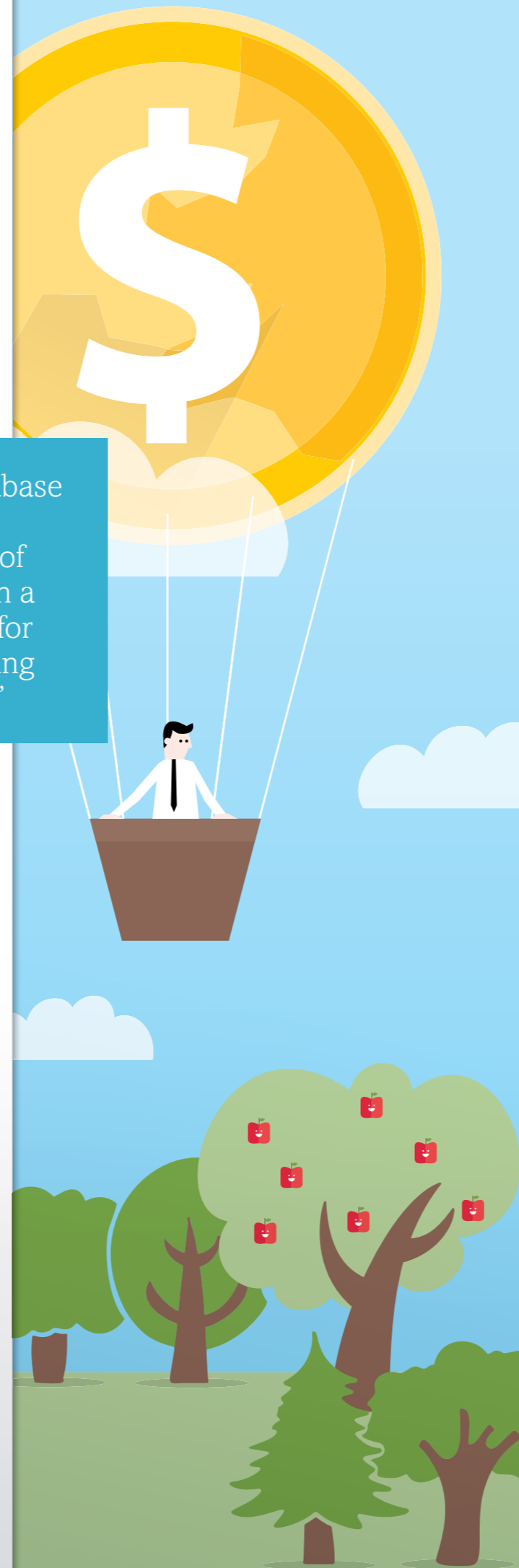A TCO study could be your next step on the road to HR transformation.

"ADP's database provides companies of all sizes with a robust tool for benchmarking themselves"
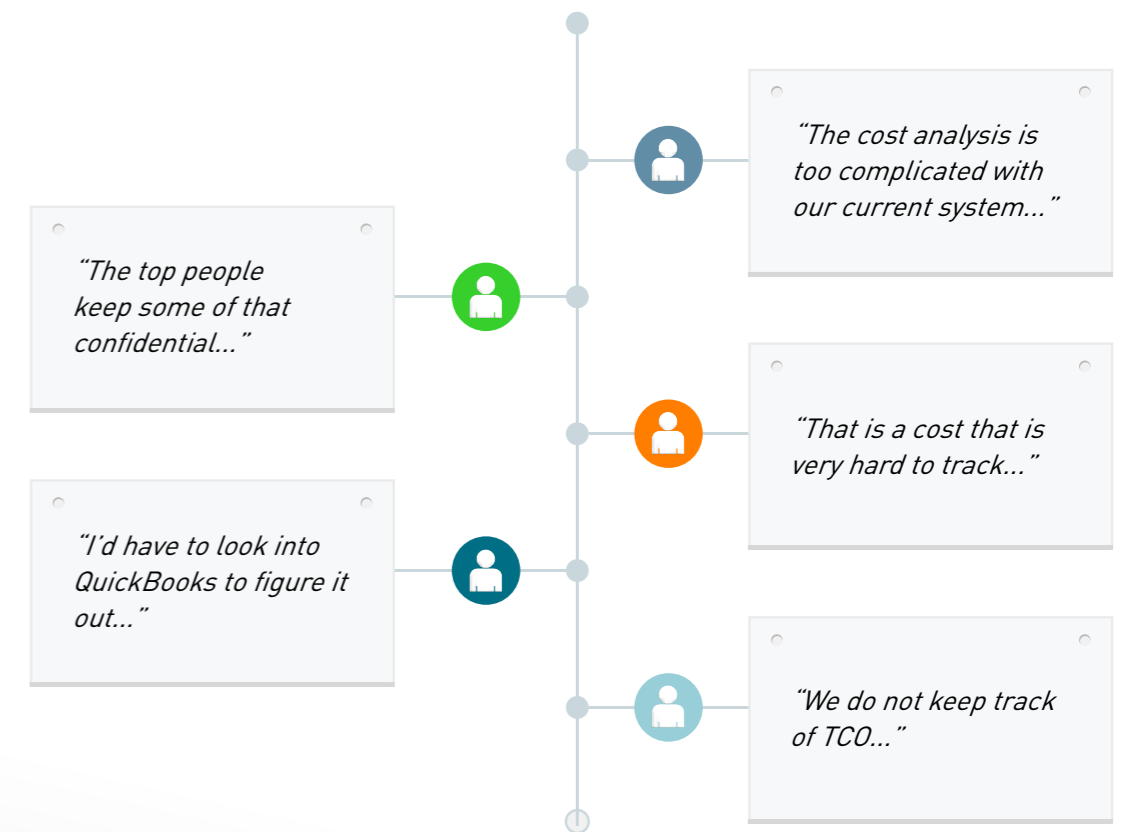
Why measure HR TCO?

Companies that have conducted TCO studies report the following benefits:

- Reduced HR processing costs
- Improved service delivery
- Increased efficiency
- Shift of HR resources towards talent management and workforce analytics

Comments from the ADP Research Institute survey reveals how poorly people understand their TCO:

"The cost analysis is too complicated with our current system..."

"The top people keep some of that confidential..."

"That is a cost that is very hard to track..."

"I'd have to look into QuickBooks to figure it out..."

"We do not keep track of TCO..."

Sounds familiar?
Call ADP, it's time to know your big number.

ADP has developed a dedicated approach to help you understand your real HR TCO numbers. You will benefit from more than 10 years of experience in building HCM TCO business cases, you will access a unique worlwide database of 926 audited HR organizations to benchmark your HR organization against and will get your detailed numbers to start driving your HR performance.

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Employers around the world rely on ADP® (NASDAQ: ADP) for cloud-based solutions and services to help manage their most important asset ñ their people. From human resources and payroll to talent management to benefits administration, ADP brings unmatched depth and expertise in helping clients build a better workforce. A pioneer in Human Capital Management (HCM) and business process outsourcing, ADP serves more than 610,000 clients in 100 countries.

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