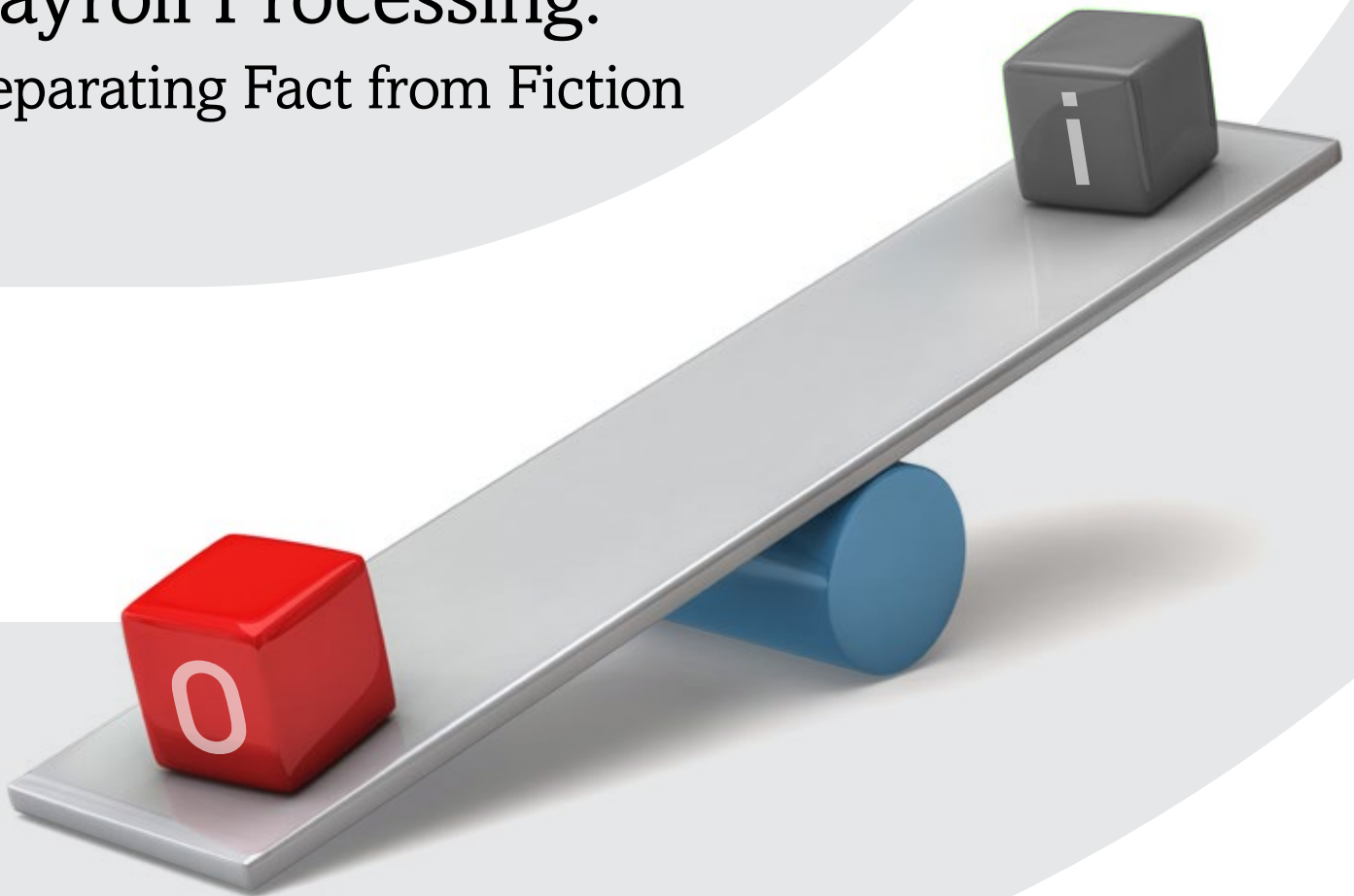# In-house vs. Outsourced Payroll Processing:

Separating Fact from Fiction

Before the advent of integrated human capital management (HCM) solutions, companies of all sizes chose to handle their payroll processing in-house for several reasons, including:

- Control over timing, processes and costs
- Ability to customize systems and reporting
- Security of data
- Integration between the company's HR, payroll and financial systems

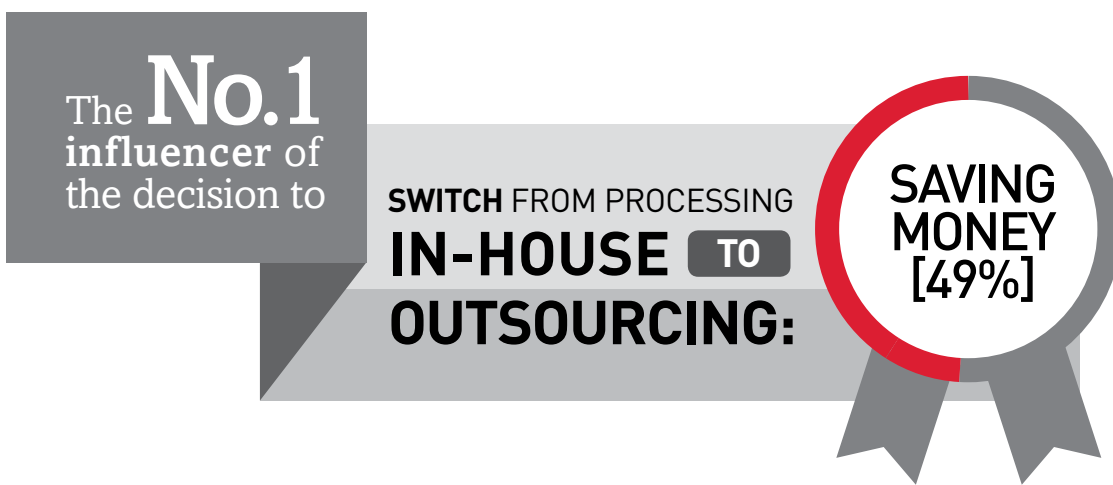Outsourcing was viewed as clunky, inflexible and, most of all, costly.

Today, many of the historic arguments against outsourcing are no longer valid. By linking payroll, HR, talent, benefits and time & labor management, an integrated HCM solution can deliver all the perceived benefits of in-house processing with significant added advantages — including superior economies of scale, improved visibility, real-time processing, world-class security and protection against compliance risk.

Though the case for outsourcing is stronger than ever, some companies still cling to the outdated belief that in-house payroll processing remains the preferred approach. Isn't it time to dispel the myths so you can make an informed decision about which approach suits the unique needs of your mid-sized organization?

Controlling costs is top of mind

A recent ADP study[1] examined the perspective of companies that still process their payroll in-house, identifying key objections to outsourcing. Though cost, accuracy and control are the primary drivers for choosing in-house processing, are these companies achieving their objectives? The answer would appear to be no, since "saving money" was cited by 49% of respondents as the #1 reason to consider outsourcing.

FIGURE 1.

The **No.1** **influencer** of the decision to **SWITCH** FROM PROCESSING **IN-HOUSE** **TO** **OUTSOURCING:** SAVING MONEY [49%]
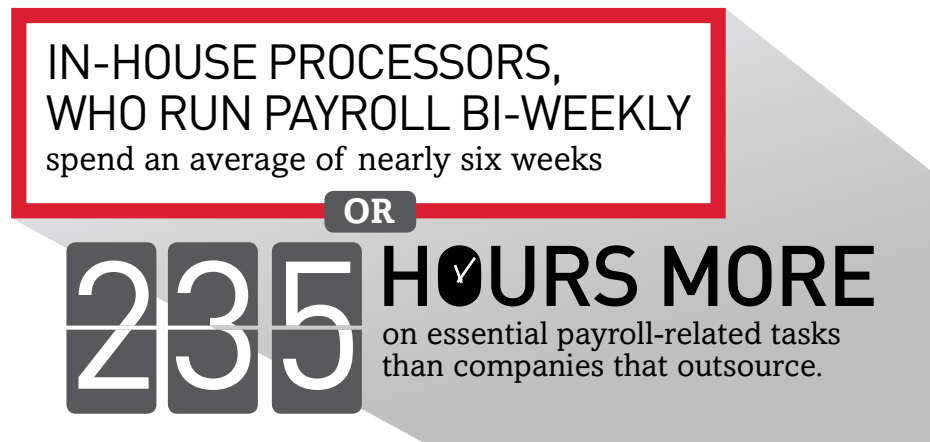
Because payroll and related processes like workforce administration, time & attendance, and health & welfare cross various functional areas of an organization (for example, finance, HR and IT), it's a challenge to gain true visibility into their total costs. When evaluating current or future payroll processing options, be sure to consider expenses beyond the system itself and the direct labor needed to use it:

- Indirect labor costs
- Direct non-labor costs
- System maintenance costs

The ADP study found that the time element of in-house processing represents a significant hidden cost. Additional in-house payroll-related tasks cost companies nearly six weeks — 235 hours — of productivity when compared to those who outsource. Overlooking hidden costs like these could result in an underestimate of 50% or more when calculating total cost of ownership.

FIGURE 2

IN-HOUSE PROCESSORS, WHO RUN PAYROLL BI-WEEKLY spend an average of nearly six weeks OR 235 HOURS MORE on essential payroll-related tasks than companies that outsource.

"When we went to an in-house solution, we thought we were going to be able to integrate our different internal systems in order to efficiently process payroll, do our record keeping, and manage our HR functions. However, we found that the in-house solution didn't really provide us with the flexibility that we needed to properly integrate our systems. We also didn't realize how much we depended on outside expertise to help us with our administrative processes. That was a big reason why we left the in-house solution and went back to ADP.

David Laverentz
Vice President of Finance and Administration
Kansas City Royals

The integration factor

Beyond cost, companies cite integration with other HR and business process systems as a major consideration. A significant percentage of those who process payroll in-house integrate time & attendance (71%) and HR/benefits (60%).

The study revealed one clear benefit enjoyed by companies that outsource payroll— a 37.8% reduction in the number of functions requiring integration. Further, the availability of an all-in-one HR and benefits solution was named as a major outsourcing influencer by 41% of the companies surveyed.

FIGURE 3.

FIGURE 4.

THIRD-PARTY INTEGRATION

A significant percentage of those who process payroll in-house, integrate:

TIME and ATTENDANCE **71%**

HR/BENEFITS **60%**

ALL-IN-ONE HR/BENEFITS SOLUTION

considered to be a
MAJOR INFLUENCER
in switching to
OUTSOURCING

41%

As growing companies add additional solutions for managing payroll and administration, the lack of a common platform means resulting cost inefficiencies are likely to increase. In fact, midsized companies cite company and employee growth as the primary reason for considering outsourcing.

Compliance: Becoming more of a challenge

Companies of all sizes are dealing with an increasingly complex regulatory environment and the ability to comply with changing regulations, particularly those related to the Affordable Care Act (ACA). A 2012 ADP study of midsized business owners and executives[2] found that more than half (54%) ranked ACA legislation among their top business concerns.

It seems these concerns are justified. Within the past year, 33% incurred unintended expenses related to non-compliance with government regulations. Of companies that were fined or penalized, each received an average of 6.4 fines or penalties. Especially hard hit were companies that process payroll in-house — they received nearly three times as many fines or penalties as those that outsource.

Choosing the right processing approach for your needs

When assessing the value of outsourcing, it helps to work with a proven partner that can help you sort out fact from fiction and choose the solution that fits your needs — now and in the future.

With the introduction of **ADP Workforce Now™**, integrated payroll systems are no longer the exclusive domain of the Fortune 500. **ADP Workforce Now** brings together your mission-critical functions in a single web-based system that eliminates redundant tasks, reduces potential for errors, and makes it easy for managers and employees to do what they need to do in the most efficient manner.

Flexible. Scalable. Accessible.
ADP Workforce Now — the payroll solution of choice for 40,000+ smart midsized companies worldwide.

"A single-platform solution like this is transformational on a number of levels…it enables you to transform a number of manual HR transactions to automated transactions, helping you to maintain a lean overhead staff. You (also) get savings on the IT side, because the software updates, upgrades, and maintenance are performed by ADP as part of the monthly subscription cost per employee.

Gary Wood, COO
The Catalyst Schools

I love the peace of mind that comes from having the #1 payroll company in the world behind me. Knowing my taxes are done correctly and on time every time and having HR help at my fingertips 24 hours a day allows me to focus on my business without stressing about government reports and filing dates.

Jason Spahr, CEO
JJJA Inc."

[1] *In-house Processor Study*, ADP, 2012
[2] *Top Concerns of Business Leaders in the Post-2008 Economy*, ADP Research Institute, May 2012