

HRO's Bread-and-Butter: Payroll 11

BY JAY WHITEHEAD

Without payroll, there would be very little “O” in HRO. The simple fact is that the paycheck still drives the vital employee data that drives the HRO processing engine. Without the accrual buckets, the data link between employer and employee would be virtually non-existent. And while the cost of processing payroll is less than 0.15 percent of the average corporation’s revenues, its importance is disproportionately large, because it provides sustenance for assets that account for 42 percent (compensation and benefits) of the average corporation’s total operating expenses. To quote Robert W. Baird’s Randy Mehl, payroll “epitomizes the advantages of an outsourced transaction-based service, where complex details must be mastered (such as myriad state and federal rules) and accuracy is paramount (one quick way to anger an employee is to mess up his paycheck).” For those reasons and many more, HRO Today’s semi-annual review of the top payroll deals will continue to be a critical cornerstone of the magazine’s coverage of the HRO market.

Although payroll is less cyclical than some other businesses, payroll company growth does suffer when the economy slows down and there are fewer paychecks to cut. That is why in recent years, the world’s largest payroll processors have been quite acquisitive in an effort to acquire growth. In 2003, ADP bought fellow payroller ProBusiness for \$518 million, Hewitt bought Cyborg Worldwide for \$43 million, and Paychex bought InterPay for \$182 million. In 2002, Intuit bought CBS Employer Services for \$78 million, and Paychex bought Advantage Payroll Services for \$315 million. Despite that mergers and acquisition activity, there are an estimated 16,000 payroll service salespeople in North America whose duty it is every day to go out and acquire new clients. That is what *HRO Today’s* ranking is all about.

In fact, anyone who has been around the payroll space for any number of years knows that the largest single cost of a payroll processor is the cost to acquire a new customer. Nevertheless, the simple reality is that while payroll providers go to a lot of effort and expense to acquire new customers, most of the data about new client acquisition is a closely-guarded secret.

The data involved in this ranking is very difficult to come across. But somehow, by hook and by crook, we seem to find it. And the amazing thing is that most often, it is relatively accurate. We work very hard to verify the data that appear in our lists. Most often, however, the tell-tale sign that we are on the mark with semi-secret data such as our lists is that we hear the screams of shocked providers who ask the tell-tale question that indicates that our data is

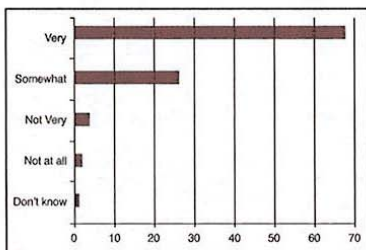
completely accurate: "How did YOU get this data?" When we hear that question, we smile. Bulls-eye.

So go ahead and browse the list of the most recent top payroll deals. It may be less than 100 percent inclusive of all potential qualifying transactions. But then again, some providers are better than others at hiding data. We at *HRO Today* thank our sources for their honest and noble disclosure.

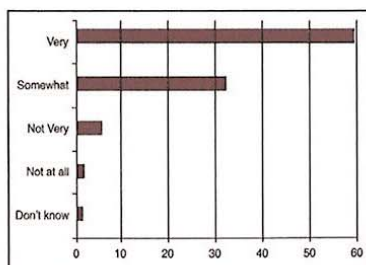
GETTING PAID IN AMERICA

In fall of 2003, the American Payroll Association (APA) conducted a national survey as part of national payroll week. More than 14,000 people responded. The figures in this section represent some of the results of that survey and are a strong indication of payroll trends in the United States.

1. How certain are you that your payroll withholding and the net amount of your paycheck are correct each payday?



2. How confident are you that your employer adequately protects vital payroll and personal information such as the amount of your salary/wages, social security number, birth date, direct deposit bank account number, and medical insurance enrollment and claims information?



SUPER SEVEN PAYROLL DEALS OF 2003

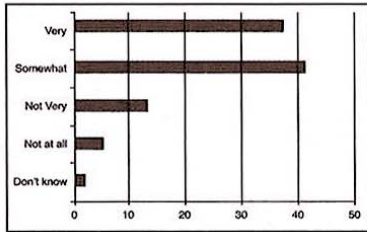
BUYER	PROVIDER	NUMBER OF EMPLOYEES
Avaya	Convergys	20,000
Expanding on an existing contract that offered payroll, stock purchase, and staffing services, Convergys now extends services to Avaya employees in more than 50 countries.		
Fifth Third Bancorp	Convergys	25,000
Part of an HR administrative offering, services include payroll, compensation, and time and attendance.		
McDonald's (Argentina)	EDS	10,000
Yes, the burger people. EDS will take over all payroll and personnel administration.		
Payroll Computing Services	Valiant	44,000
Offering services to another service provider, Valiant assists PCS in serving restaurants and catering industries nationwide.		
Sam's Club	ADP	NA
ADP's EasyPay offering allows business members to calculate, pay, and file payroll taxes; issue payroll checks and direct deposit vouchers; and generate reports to manage payroll information.		
Slumberland Furniture	Ceridian	NA
Provided an integrated, web-enabled suite of HR solutions including payroll, tax filing, and time and labor management		
Sony	Hewitt	11,000
Extension of 1997 BPO contract; services include payroll processing and maintenance.		

TOP 15 MID-MARKET PAYROLL DEALS

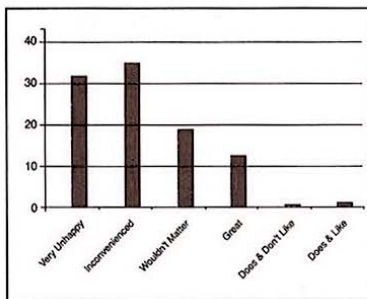
BUYER	PROVIDER	NUMBER OF EMPLOYEES
Cache Creek Casino	Ultimate Software	1,600
Coldwater Creek	Ultimate Software	3,000
Covenant Retirement Communities	Ultimate Software	3,000
DSI Inc	Valiant	3,300
Electronic Cooperatives of Arkansas	Ultimate Software	600
Ernst & Young, Belgium	Geac	1,600
First American Holding	Paymaxx	800
FJC Staffing Services	Valiant	5,500
Jillian's Entertainment	ADP	6,000
Psychiatric Solutions	Paymaxx	2,080
Security Forces Inc of America	Valiant	3,900
Security Services	Valiant	9,300
Somerford Corp	Genesys Software Systems	800
THOR Industries	ECI	3,162
Toronto Public Library	Cybershift	2,300
VGI Inc	Valiant	6,200

The editorial team at *HRO Today* contacted 65 payroll companies via e-mail or phone and asked them to nominate their top payroll deals of the year (providing buyer name, number of employees covered, date of contract, and services offered.) In addition, 2003 press releases and online media rooms were searched to come up with the final list.

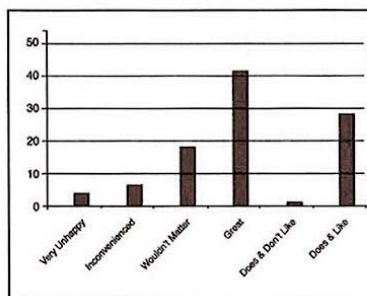
3. If a catastrophic circumstance destroyed your employer's payroll department tomorrow, how confident are you that you would receive your next paycheck on time?



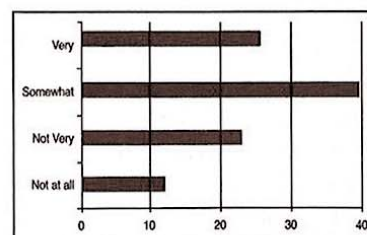
4. How would you feel if your company paid you by issuing a "payroll card" that you would use like a debit or prepaid payroll card, instead of paying you with a paper check or direct deposit?



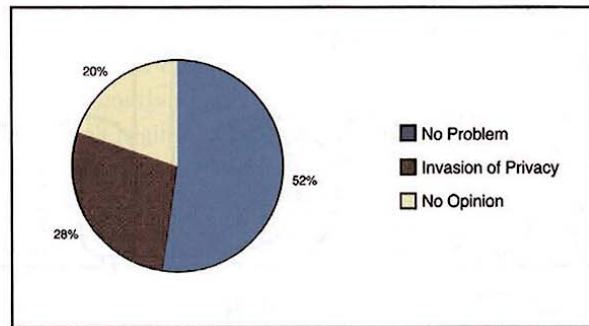
5. How would you feel if your company went to a "paperless payroll"—your check is deposited directly into your bank account and you view your pay stub online and print it out as needed?



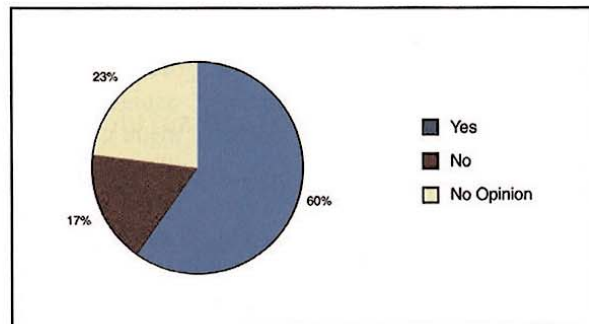
6. How difficult would it be to meet your current financial obligations if your next paycheck was delayed for a week?



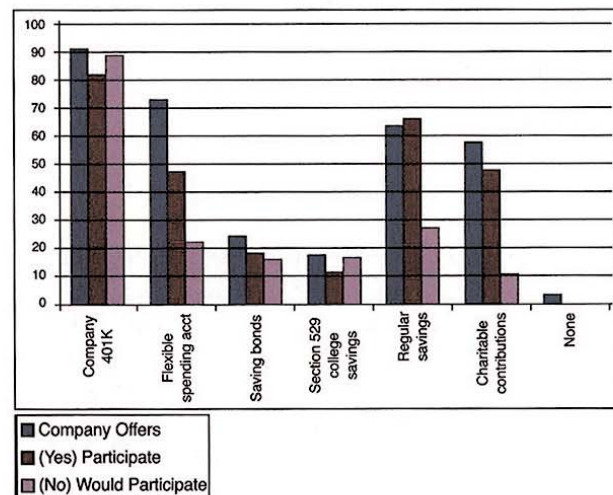
7. How would you feel about your employer using biometric technology (fingerprint or hand recognition) to record employee time and attendance?



8. Should the Social Security system be changed to allow employees to invest part of their payroll taxes in their own private investment account?



9. Does your company offer automatic payroll deductions for the following? If yes, which do you participate in? If no, which would you probably participate in if your company offered it?



For more information on the survey, visit National Payroll Week at www.nationalpayrollweek.com or the American Payroll Association at www.americanpayroll.org. © 2004, APA, all rights reserved. HRO