

# Managing Your Outsourcing Relationship

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Baltimore Metropolitan Area Chapter  
AMERICAN PAYROLL ASSOCIATION

# Managing Your Outsourcing Relationship

## Measuring Cost

- Total Cost of Ownership (“TCO”) methodology was the basis of a study commissioned by ADP in 2003
- Some highlights:
  - 181 companies participated in the study
  - Companies all had more than 1,000 employees
  - Companies all administered payroll in-house
  - The results showed that the cost of payroll administration is higher than expected
  - The average cost per paycheck for participating companies was \$16
  - A large part of the cost was identified as “hidden costs”



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## Measuring Cost

- Some highlights (continued):
  - Hidden costs included system costs which often could not be segregated from HRIS costs, and often were not accounted for
  - Hidden costs also included activities required for administering payroll which are not accounted for within the payroll department (field personnel time)
  - Also surprising to learn was what has been termed the “upgrade treadmill”: companies upgrade systems every 18 months, on average



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## Measuring Cost

- ADP commissioned a follow up study in 2004
  - ADP surveyed companies that currently outsource payroll administration to ADP
  - 46 companies with over 1,000 employees participated
  - ADP clients, on average, experienced a 35% savings versus companies who administer payroll in-house
  - The average cost per paycheck was \$10
  - The study also found that TCO is reduced if automated time and labor management systems are deployed



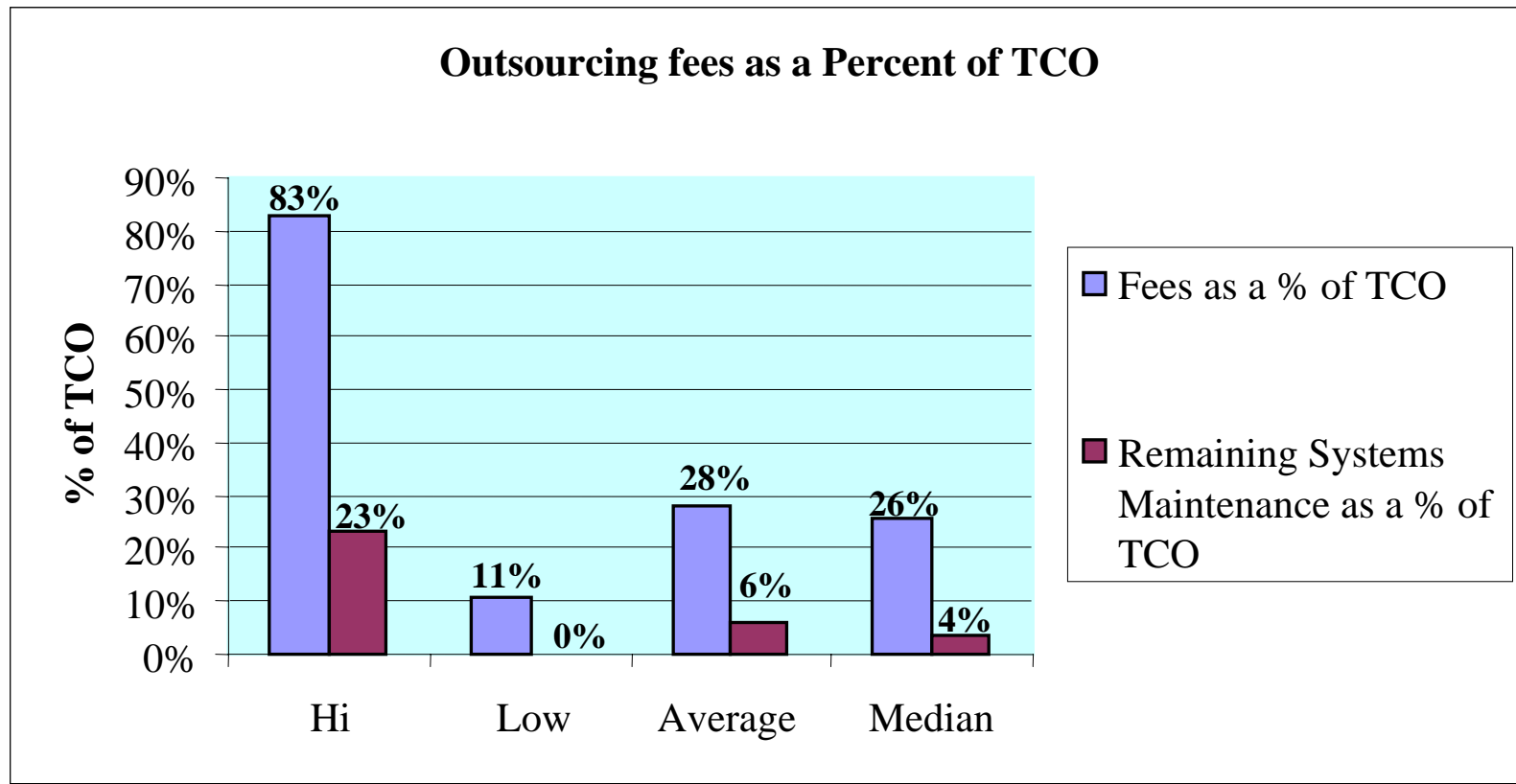
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## Measuring Cost

The percent of total cost represented by outsourcing fees varied dramatically



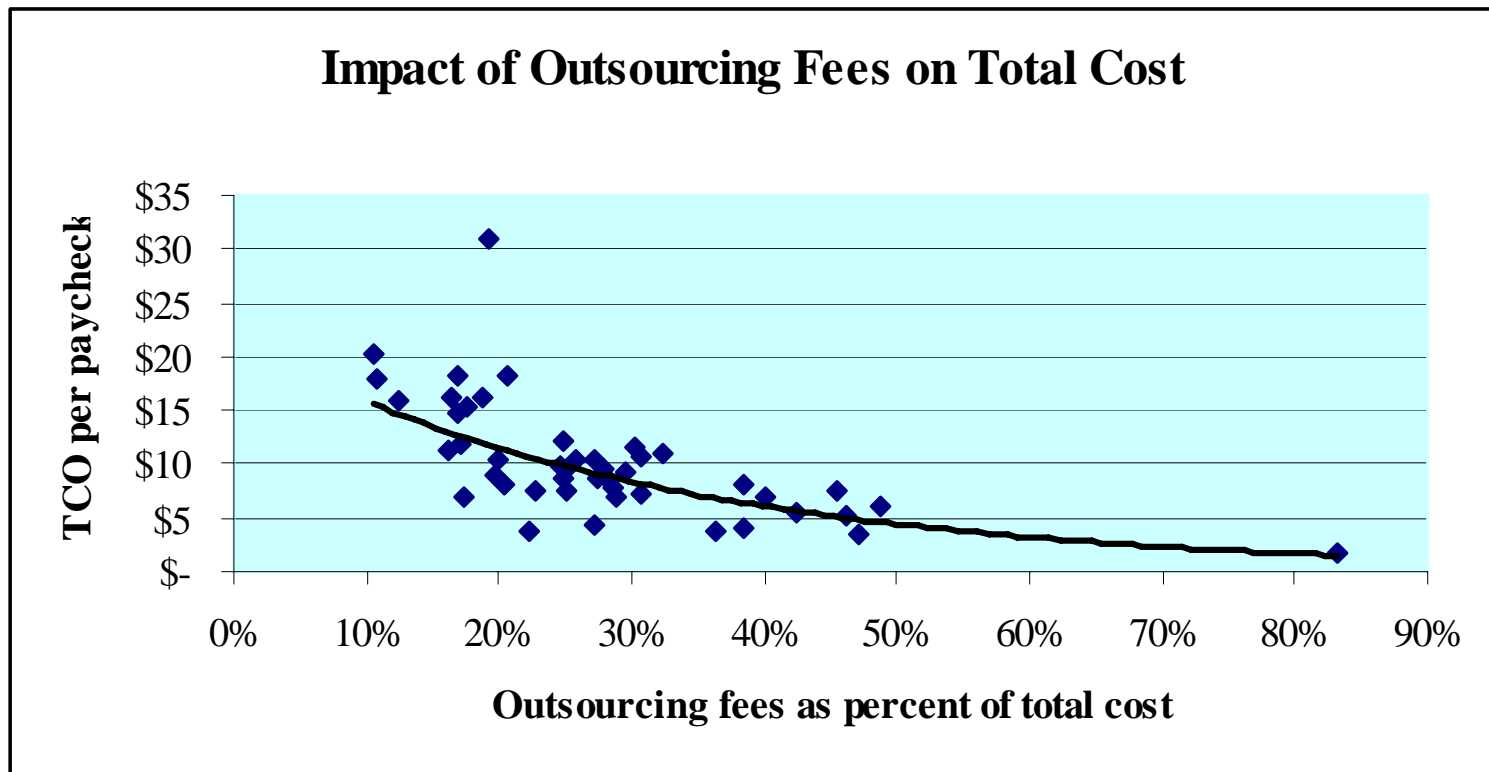
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## Measuring Cost

There is an observable correlation between TCO and the percent represented by outsourcing fees

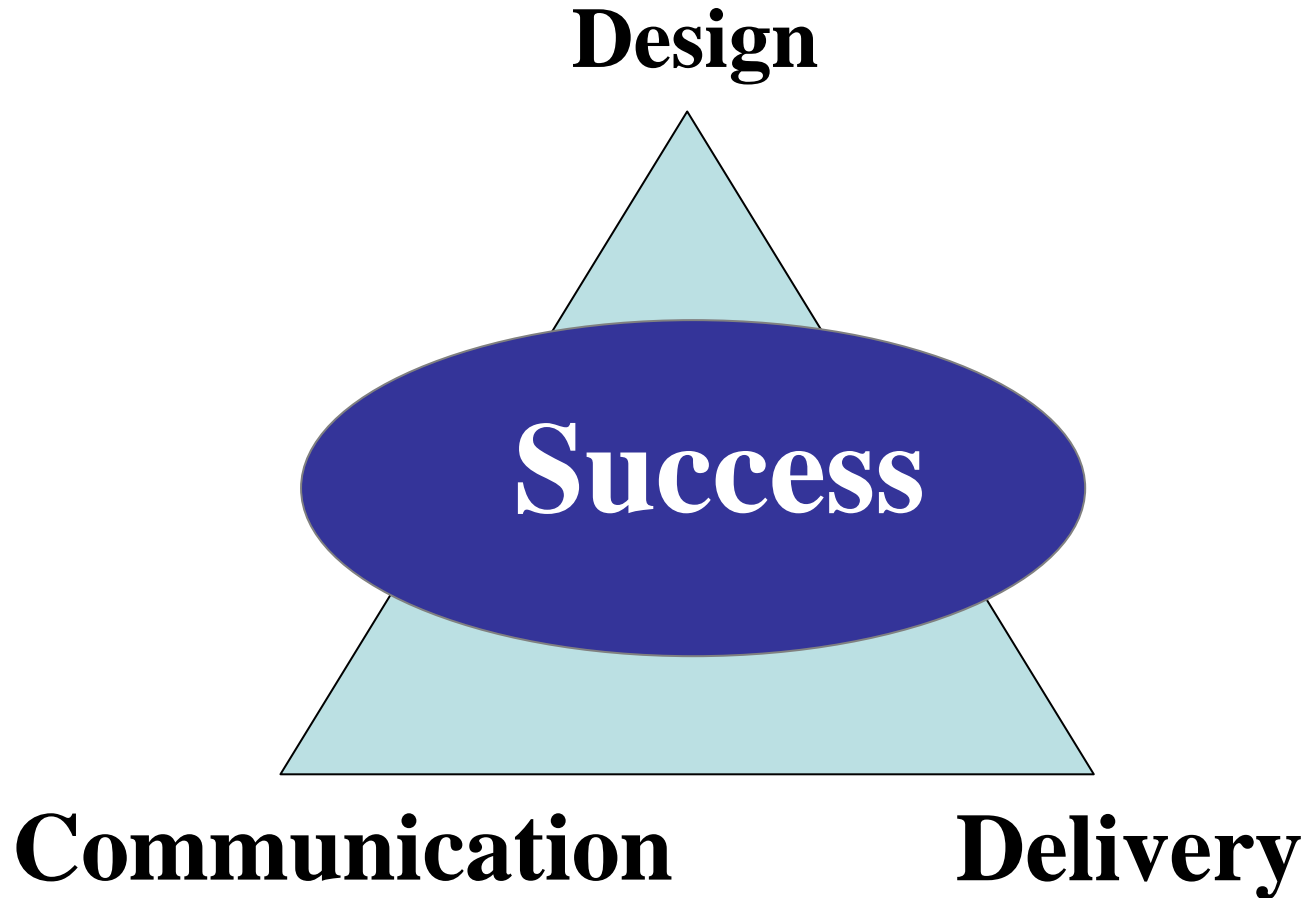


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What to Measure?



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## Delivery of Services

- Delivery of services is critical to success
- This is the *face* to the employee
- Process and oversight become critical here, regardless of delivery model (in/out/co source)
- End-to-end process and data flow is critical



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## Delivery of Services

- How do you measure delivery?
- Must first identify processes and owners
- Misidentification leads to:
  - Ambiguity
  - Redundancy
  - Inefficiency
  - Missed expectations
- Use tools to identify process owners



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## Identifying Responsibility

- Responsibility Matrices
  - Clearly identify process owners
  - Provide meaningful documentation (vs. flow charts)
  - Applicable in any delivery environment
  - May be used for contracting with outsource provider



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## Service Level Agreements

- Process ownership leads to enhanced
  - Accountability
  - Responsibility
  - Continuous improvement
- Service level agreements (SLAs)
  - Can not be set without identifying process owners
  - Are important in all processing environments
  - Are not only for financial guarantees



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## Service Level Agreements

- Determination of SLAs should be carefully considered
  - Can follow a process for determination
  - Tools are available

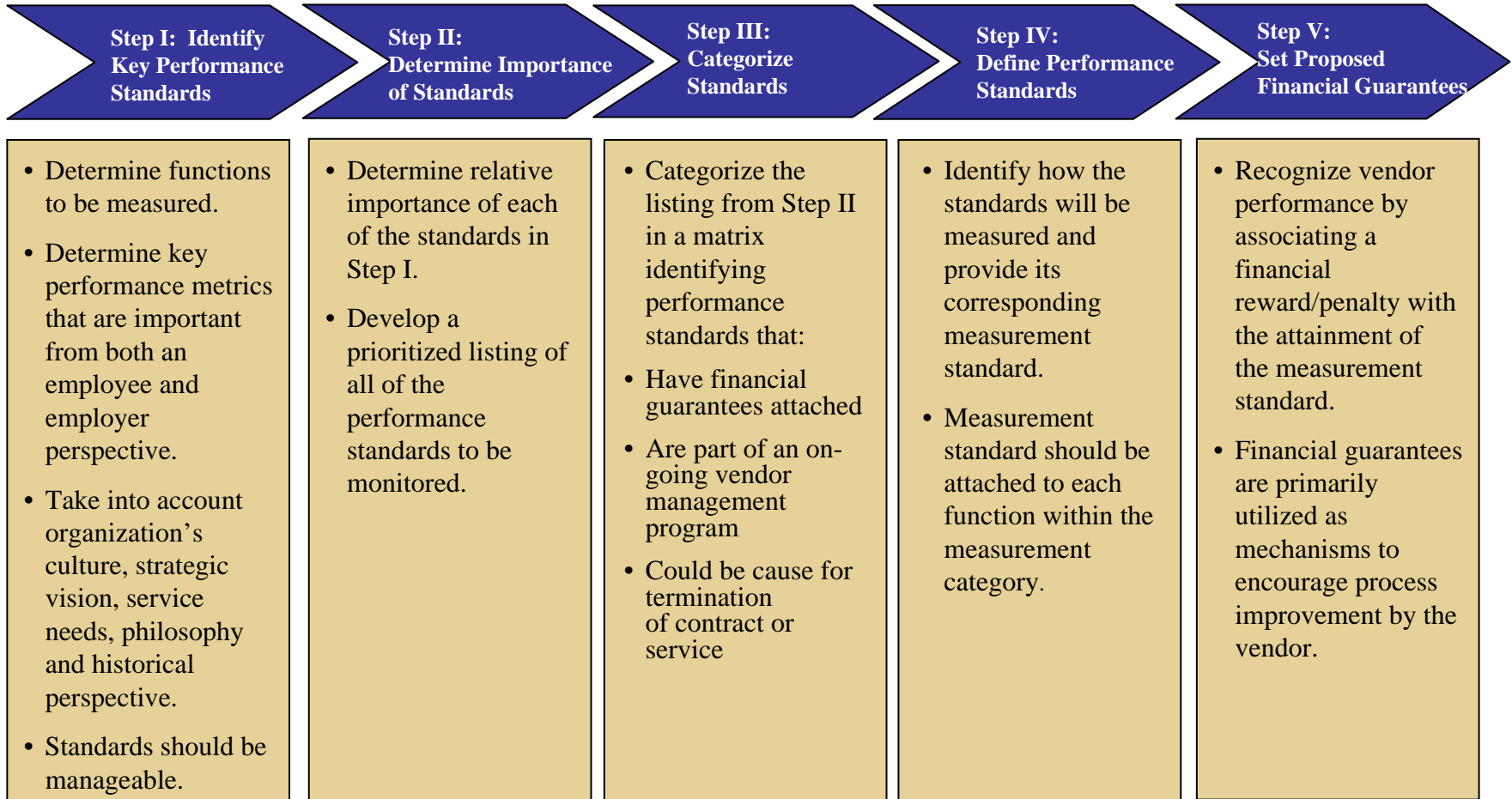


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## A Process



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## A Process

	Employee	Employer
<b>Financial Guarantees</b>	<ul style="list-style-type: none"> <li>• Timeliness of communications</li> <li>• Payment processing</li> <li>• Employee satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>• Employer satisfaction</li> <li>• Systems availability</li> <li>• Call sampling / monitoring</li> </ul>
<b>Vendor Management</b>	<ul style="list-style-type: none"> <li>• Confirmation statements</li> <li>• Internet utilization</li> <li>• Issue resolution</li> </ul>	<ul style="list-style-type: none"> <li>• Managerial reporting</li> <li>• Call center statistics</li> <li>• Compliance services</li> </ul>
<b>Cause for Termination</b>		<ul style="list-style-type: none"> <li>• Delayed conversion</li> <li>• Global errors / inaccuracies</li> <li>• Unfulfilled services</li> </ul>



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## Monitoring Success

- SLAs anticipate active monitoring of performance
- Monitoring process should include end-to-end reviews
  - All parties involved
  - Process and data flow
- Measure performance against expectations
  - ASA or accuracy?
  - Client satisfaction
  - Upstream process affects down stream effectiveness



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## Monitoring Success

- Importance of base lining
  - Critical for new relationships
  - Measure improvement over time, not absolutes
  - Impact of satisfaction and performance by other areas
  - Anticipate negative impact from other activity



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## Relationship Reviews

- Relationship reviews can determine the health of a relationship
- Includes an end-to-end process review
- Reviews communication, process flow, quality, etc.
- Delivers specific recommendations for improvement



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## Example Relationship Review

### Outsourcing Relationship Review

#### Engagement Management

Topic Reviewed	Summary of Findings	SOURCING ANALYTICS Analysis / Recommendations
Client Communication	<p>During the course of the review, numerous instances of communications were noted which resulted in misunderstood situations, failure to meet expectations and general frustration. The communication methods included the contractual arrangements, letters, e-mails, and telephone conversation. References to gaining a “common terminology” were made repeatedly.</p> <p>Specific examples of e-mail communications were reviewed in order to gain a deeper understanding of the phenomenon. There were numerous examples of casual usage, incomplete sentences and incomplete concepts being communicated through e-mail.</p>	<p>While the process to gain a common terminology will often evolve over time, there are some things which can be done to help speed the process along:</p> <ul style="list-style-type: none"> <li>◆ E-mail communication should be regarded with the same attention to detail as written letters, as an official communication from the company. The same rules of usage and standards will help alleviate misunderstanding from this form of communication.</li> <li>◆ A standard for the timing of collection of voice mail messages and the return response timing should be implemented. The 24 hour rule is a good standard.</li> <li>◆ Out of office messages should be used for e-mail auto response and voice mail, with clear indication of return dates, and immediate response instructions.</li> <li>◆ Where possible, face to face meetings should be used instead of conference calls while a common culture is being built.</li> <li>◆ ABC may wish to consider effective business writing training for key associates. These concepts may be applied to letters, reports, e-mail, meeting notes, etc. to foster more efficient and crisp communication.</li> </ul>



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## Questions and Answers

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