



Have a
**Red-Letter
Day**

**Build a Better Business
Case:**
Determining When It Pays to
Outsource Benefits

Donald Glade, Founder



....helping companies optimize their HR / benefits / payroll service partnerships

Welcome

Hints to enhance the presentation:

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Our Guest Speaker

- Donald Glade, founder of **SOURCING ANALYTICS**
- 20+ years industry experience as a management consultant specializing in HR, benefits, and payroll service delivery
- Provides services to companies who in-source, co-source, or outsource some or all of their human resource responsibilities

Agenda

- **Webinar goals**
- **What is Total Cost of Ownership (TCO)?**
- **TCO and ROI**
- **TCO for Benefits: the results of a ground-breaking study**
 - The results
 - The cost effect of call center solutions
 - The cost effect of company size
 - The cost effect of complexity
 - The services factor

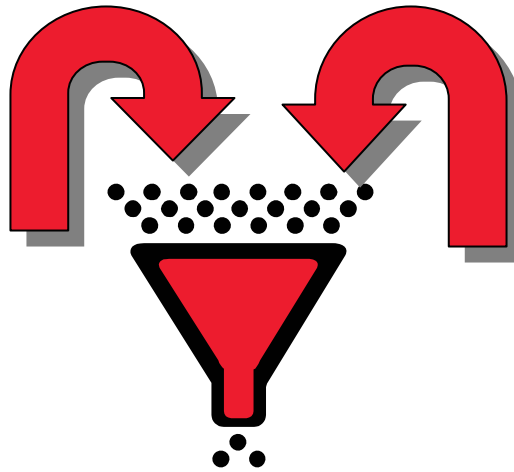
Our Goals

What will we accomplish today?

- ✓ Understand the TCO Methodology
- ✓ Learn how to apply TCO to business case/ROI analysis
- ✓ Receive the study results on Benefits Administration costs using the TCO model

What is Total Cost of Ownership?

TCO is an approach for quantifying the costs of a process from end-to-end.



One Time Costs

- Initial system installation
- Upgrades
- Consultant fees

Ongoing Costs

- Labor for administration
- Labor for system maintenance
- Non-labor costs

Total Cost of Ownership

What is TCO?

- Developed in the late 1980s by the Gartner Group as a way to determine the total cost of deploying personal computers in an organization.
- Typically, TCO methodology is a means for:
 - Identifying hidden costs
 - Identifying cost shifting
 - Accurately benchmarking costs
 - Projecting return on investment (ROI) for a capital expense

TCO and ROI

ROI is...

A measure of how efficiently a company uses its investments. Examples can include assessments of:

- Systems acquisition
- Process enhancements
- Headcount additions

ROI isn't...

Always effective in measuring the cost impact of seemingly unassociated areas or functions. Apparent returns can be offset by:

- Non-labor costs
- Increased maintenance costs
- Headcount restrictions
- Process changes and training costs

TCO and ROI

TCO Advantages...

- Calculating TCO allows a company to identify all costs associated with a process
- The cost impact of system enhancements, personnel or process changes can be identified
- Instead of calculating an ROI on subset of costs, the true ROI can be identified

...Which Result In A Better Business Case

- Because TCO calculates costs across departments, divisions, cost centers etc., an ROI calculation for the company, not just a department or group can be determined. When all costs are identified, a better business case may be presented.

TCO for Benefits: A Marketplace Study

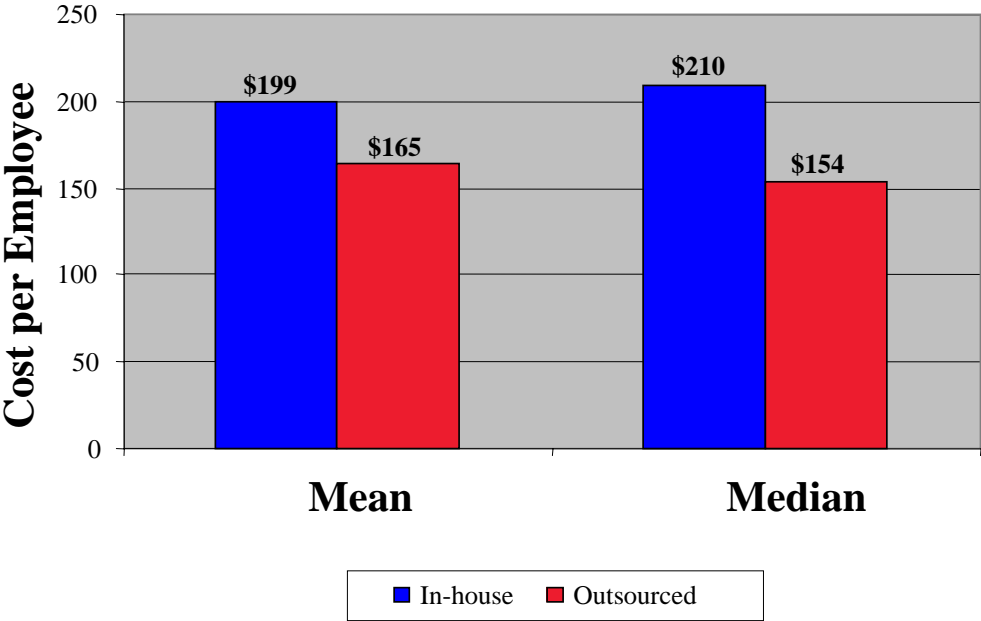
SOURCING ANALYTICS performed a study of the total cost of ownership of health and welfare benefits administration, and compared the costs of in-house administration to the costs of outsourcing to ADP.

- The study is unlike any other benefits cost study available in that it specifically captured the costs of health and welfare benefits administration
- Study companies have over 1,000 employees
- 36 companies with an average 4,155 benefit eligible employees (5,700 US employees) each are included in the study findings
- 20 companies administer benefits in-house, 16 outsource to ADP

TCO for Benefits: A Marketplace Study

The Results

Benefits TCO per Employee



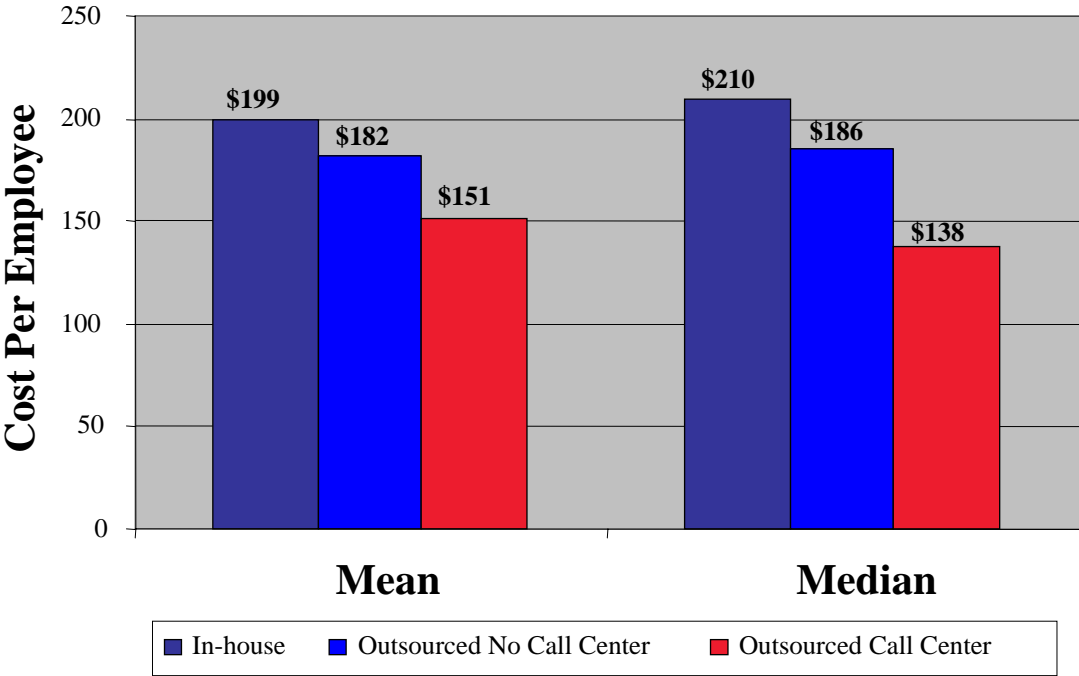
- The average annual TCO for in-house benefits administration is \$199 per employee.
- The average annual TCO for outsourcing to ADP is 17% less at \$165.
- The median TCO is 27% less for companies that outsource to ADP.

TCO for Benefits: A Marketplace Study

The Cost Effect of Call Center Solutions

- Companies including employee call center services in the outsourcing arrangement experience lower average TCOs than companies outsourcing without call centers.
- TCOs for outsourcing with call center services is 24% less, on average, than in-house benefits administration TCOs.

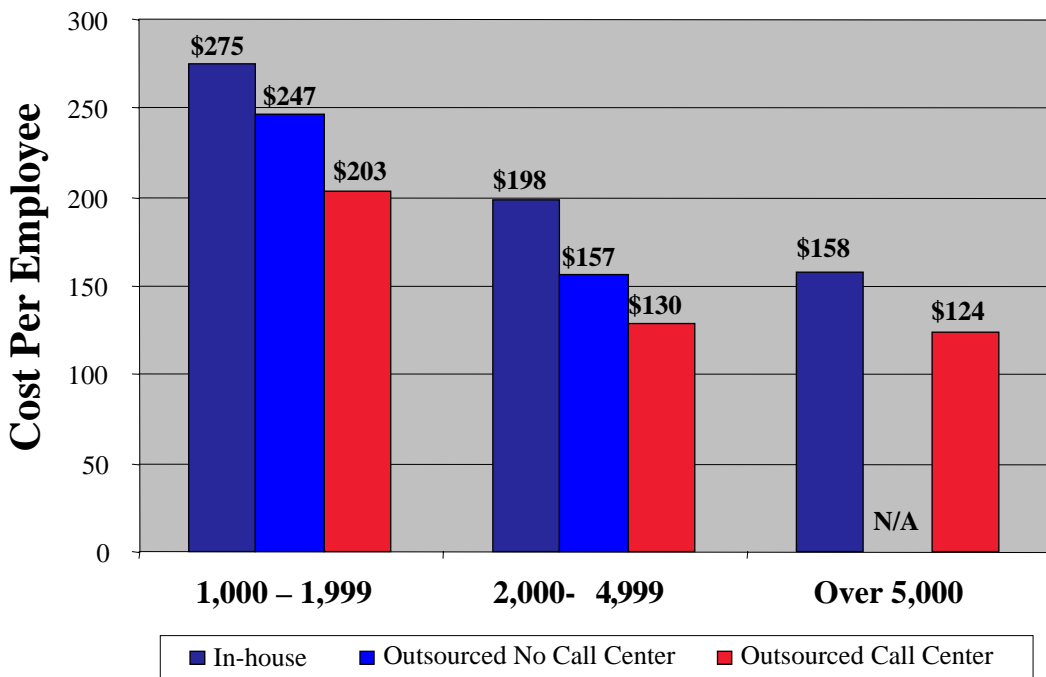
Benefits TCO per Employee



TCO for Benefits: A Marketplace Study

The Cost Effect of Company Size

Average TCO by Company Size

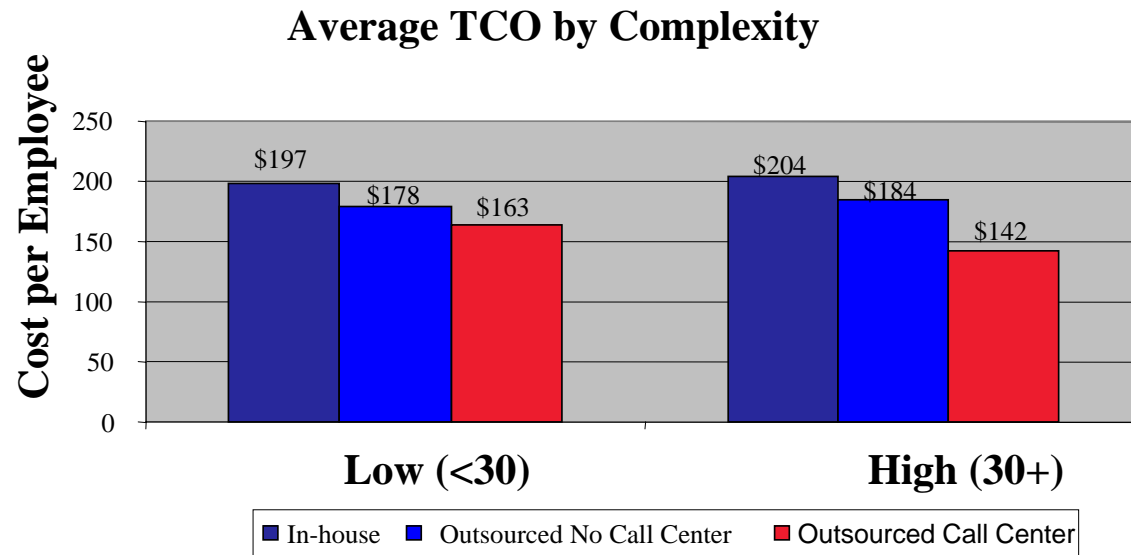


- Outsourcing to ADP is, on average, less costly than in-house administration for all size groups.
- All outsourcing companies with more than 5,000 lives chose to include call center services.
- The study shows that outsourcing with call center services provides significant savings at all company size groupings.

TCO for Benefits: A Marketplace Study

The Cost Effect of Complexity

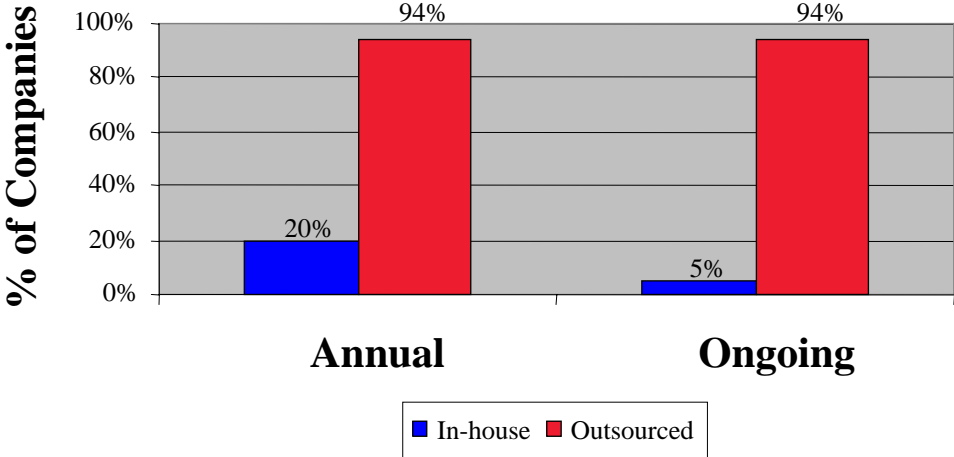
- Complexity = the number of plans in a benefits program + the number of data exchanges.
- On average, the program administration outsourced to ADP is over 38% more complex than the administration performed in-house.
- The average TCO is less for companies that outsource to ADP.
- Higher complexity programs benefit significantly from the outsourcing of call centers.



TCO for Benefits: A Marketplace Study

The Services Factor

% of Companies Offering Web Based Services



- Companies outsourcing to ADP are over 4 times more likely to offer web based annual enrollment.
- Companies outsourcing to ADP are over 18 times more likely to offer web based ongoing enrollment.

Additional Observations

■ Sarbanes-Oxley

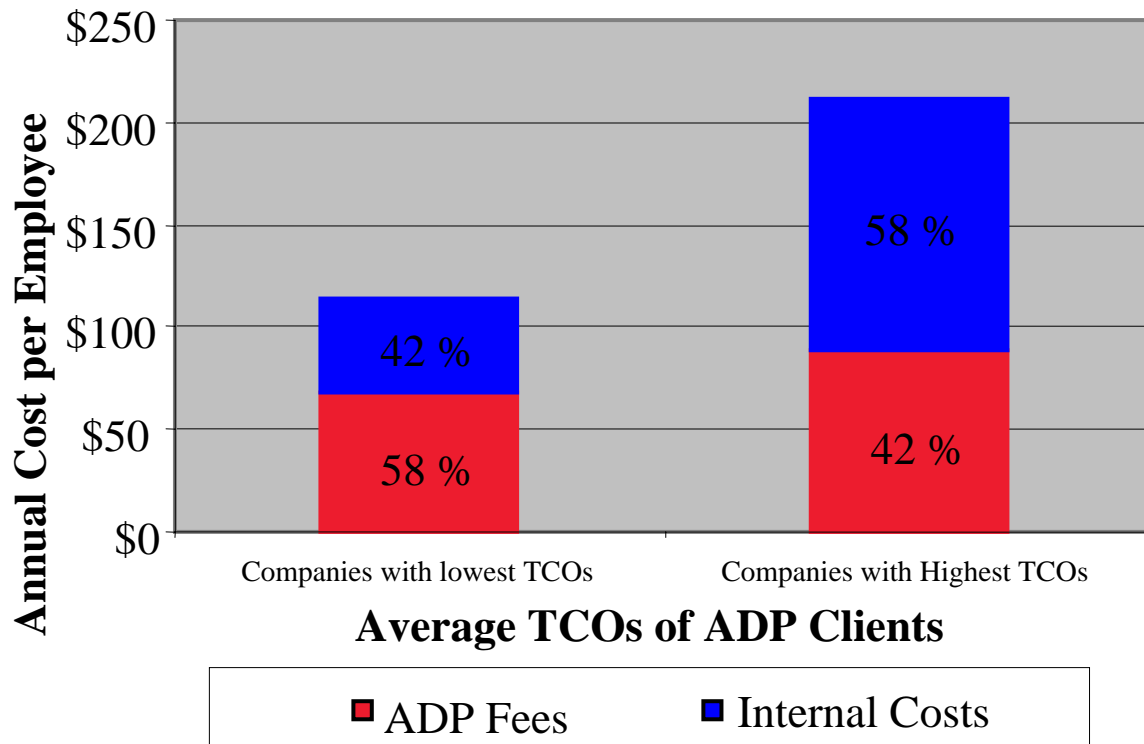
- Not included in TCO study results
- Type II SAS 70 reviews and 404 reviews

■ Processing FTEs/1,000 employees

- In-house environment revealed nearly twice as many employees as the outsourced to ADP environment

Additional Observations

Relationship of TCO driven by ADP fees vs company costs



- Where outsourcing fees represent a larger percentage of TCO, TCO tends to be lower, implying a “right” way and a “wrong” way to outsource

In Summary

- ADP commissioned this study to objectively determine if its outsourcing service model provided cost savings over an in-house service delivery model for health and welfare.
- The study results provide new benchmarking data for both outsourcing and in-house administration models for health & welfare.
- The results quantified specific findings that consistently showed lowered TCO with outsourcing to ADP.
- The results are independently derived and you can immediately use them in your evaluation processes or business cases as needed.

Questions?

More Information

SOURCING ANALYTICS

is available for detailed cost analysis to determine your own company's TCO and to develop strategies for cost containment in a risk reduced environment.

For more information
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