Payroll Strategy: Do You Have One or Are You Willing To Try Anything?

Felicia Cheek, GT2P Practice Leader

5 November 2015
Agenda

- **Who Is The Hackett Group?**
- Insight from Global Payroll Study
- Why do we need strategy in payroll?
- What you can use to build a payroll strategy
- What you need to consider when planning a payroll strategy
- Open Discussion
Who Is The Hackett Group?

About The Hackett Group

A global strategic business advisory, operations consulting and finance strategy firm

Leader in business best practices, business benchmarking, and transformation consulting services including strategy and operations, working capital management, and globalisation advice

Our insights are fact based, from over 7,500 benchmark studies and consulting engagements

Our Best Practices Intelligence Center™ is a significant differentiator and enabler. It contains:

- 20,000+ performance metrics updated annually
- 1,500+ best practices across 95 business processes
- 1,000+ best practice-based process maps, requirements and configuration guides
- 1,000+ case studies, implementation examples and research

Hackett Defines And Enables World-class Performance

Hackett Value Grid™
The Hackett Group has 4 Primary Lines of Business

**Membership Advisory & Research (Provides insights into World Class Performance)**
- Library of 2,500+ Best Practice Research Perspectives, Books of Numbers, and Hackett Certified Best Practices through the Best Practice Intelligence Center
- Unlimited inquiry access for members to Hackett experts for transformation steering
- Peer-to-Leader 1-2-1 Best Practices sharing, and Best Practices networking events
- Enterprise, functional and process-based performance studies & value accelerators

**Benchmarking (Defines World Class Performance)**
- “Gold Standard” Benchmark – over 8,000 conducted, the empirical backbone for your transformation at the SG&A Enterprise, Functional, and Process level.
- World-Class, Peer, and Custom Peer comparative metrics and best practices
- Ability to provide multiyear World-Class Program view of performance over time
- Hackett Performance Exchange (automatic accumulation of performance data from Oracle or SAP)

**Business Transformation (Transforms Performance into World Class)**
- Finance
- Human Resources
- Information Technology
- Procurement
- Supply Chain and Operations
- Enterprise Performance Management
- Shared Services, Global Business Services & Outsourcing
- Merger Integration
- Working Capital Management

**Best Practice Technology Enablement (Implements Technology to enable World Class)**
- Oracle EPM (Platinum Partner)
- SAP ERP (Gold Partner)
- Hyperion
- Kronos
- Workforce Management
- Application Managed Services
  - Functional Application Support
  - Technical Application Support
  - Cloud and Hosting
  - Remote Development
Hackett’s Intellectual Capital is Derived From Engagements with Leading Companies

The Hackett Group, a global strategic business advisory, operations consulting and finance strategy firm, is a leader in business best practices, business benchmarking, and transformation consulting services including strategy and operations, working capital management, and globalisation advice.

97% of the Dow Jones Industrials

80% of the Fortune 100

88% of the Dow Jones Global Titans

80% of the DAX 30

49% of the FTSE 100

35% of the CAC 40
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Insight from our Global Payroll Performance Study shows a comprehensive payroll strategy is necessary to move forward.

<table>
<thead>
<tr>
<th>Management of the payroll process continues to move to Shared Services</th>
<th>Which has led the way to the creation of a global payroll process owner</th>
<th>The global payroll process owner is challenged to create a company wide strategy</th>
<th>Process automation is a major part of the global payroll strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>New technologies are a major consideration for the global payroll strategy</td>
<td>Leading to a major focus on aligning core skills required of payroll resources</td>
<td>Payroll leaders are challenged to articulate their performance at the leadership level</td>
<td>Leadership support is necessary to make the radical changes payroll needs to better perform</td>
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</tbody>
</table>
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What is strategy and how do we use it in payroll?

Considerations:
• Where are you today?
• How do you compare to others?
• What drivers are influencing where you are today?
• Where do you want to be?
• How are you going to get there?
• What things should you consider?
• What is your future vision?
Once you know where you are, how do you create a strategy to help move the bar to where you want to be?

Hackett Value Grid™

Payroll Demand Drivers impact workload and/or cost

<table>
<thead>
<tr>
<th>Payroll Demand Drivers</th>
<th>You</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partnership</td>
<td></td>
</tr>
<tr>
<td>Quality</td>
<td></td>
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<tr>
<td>Talent Management</td>
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<tr>
<td>Policy</td>
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<tr>
<td>Strategy</td>
<td></td>
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<tr>
<td>Cost</td>
<td></td>
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<tr>
<td>Productivity</td>
<td></td>
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<tr>
<td>Technology Leverage</td>
<td></td>
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<td>Complexity</td>
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Equal to or Better than Top Performers
Between Top Performers and the Peer Group
Less than Peer Group

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Once in a Shared Services environment, what strategy do you use to continue to increase the value proposition?

- **Stage 1**: Function-Centric - *Unit Cost Reduction Focus*
  - 57% 2015

- **Stage 2**: Process/Service Centric - *Unit Cost Reduction + Service Value Focus*
  - 37% 2013
  - 46% 2015

- **Stage 3**: Value-Centric - *Unit Cost Reduction + Service Value + Business Value Focus*
  - 6% 2013
  - 16% 2015

### Strategic Business Enablement
(Extension of Business Capability, Enhanced Decision Making, Operational Agility, Continuous Improvement, Resource Optimization)

### Operational Excellence
(Accurate and Reliable Reporting, Cash Optimization, Improved Response Times, Reduced Error Rates, Global Transaction Leverage, Systematized Service Provisioning)

### Process Cost Reduction
(Lower Cost per transaction, Increased Spans of Control, Labor Arbitrage, More Consistent Controls Execution, Less Resource Fragmentation, Higher Transaction Automation Levels, Accelerated Process Standardization)
Once you decide to globalize the payroll process, what strategy do you use to achieve global consolidation?

- **Stage 1: Local optimization**
  - Optimized local service delivery model
  - Local payroll process owner
  - High level of local compliance oversight
  - High level of best practice leverage
  - Minimal corporate visibility

- **Stage 2: Global consolidation**
  - Global payroll strategy
  - Global service delivery model
  - Global payroll process owner
  - Global vendor management
  - Global business processes
  - Global compliance oversight

- **Stage 3: Global optimization**
  - Effective global oversight
  - Reduced payroll complexity
  - Global reporting capabilities
  - Minimal global compliance risk
  - Lower operation costs across the enterprise

**Strategic business enablement**
- Business intelligence, collaboration, capability, flexibility/agility

**Global awareness**
- Compliance, analytics and reporting

**Local focus**
- No global visibility or ownership

**Decentralization**
- Global payroll consolidation
Part of the payroll globalization journey is to reduce cost, what strategy do you use to ensure global cost reduction?

<table>
<thead>
<tr>
<th>Country-Based Optimization</th>
<th>Growth &amp; Expansion</th>
<th>Enterprise-Wide Optimization</th>
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</thead>
<tbody>
<tr>
<td><strong>Total Process Cost</strong></td>
<td></td>
<td></td>
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<tr>
<td><strong>Strategy</strong></td>
<td></td>
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<tr>
<td><strong>Local Excellence</strong></td>
<td></td>
<td></td>
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<tr>
<td><strong>Global Excellence</strong></td>
<td></td>
<td></td>
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<tr>
<td><strong>Time</strong></td>
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A comprehensive payroll strategy addresses common pain points

- **Cost**
  - FX Rates & Wire Costs
  - Overpayments and fraud not reported
  - Service Provider is Expensive
  - High number of off-cycle checks

- **Complexity**
  - Too many legal entities, pay groups
  - Inefficient processes – done a different way in every location/country
  - Multiple and non-integrated source and output sources,
  - Multiple states, jurisdictions and/or countries

- **Manual**
  - Limited employee self-service
  - Source to Gross
  - Manual Processes = Mistakes
  - Limited Control totals

- **Compliance**
  - Reactive vs Proactive
  - Limited Global Governance
  - Low Visibility
  - Difficult to keep up with Regulatory changes

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A Service Delivery Model can help create a payroll strategy that aligns with company goals and objectives.
It’s also beneficial to understand payroll’s maturity level. This will help identify specific areas that need to be addressed when building your payroll strategy.

Capability Maturity Model (CMM) measures the level of best practices being used:

1. Lagging: Significantly lagging in capability performance (25th percentile)
2. Achieving: Performing capability at peer/industry levels (50th percentile)
3. Exceeding: Exceeding peer group/industry capability performance (75th percentile)
4. Leading: Setting new boundaries of excellence (90th percentile)

Pushing the outer boundaries of effectiveness:

Increasing focus on value delivered.
**Performance Measurement – Hackett Performance Study Elements**

**2014 Global Payroll Performance Study Example**

**Study Overview:** highlights major themes from the performance study

**Global Payroll Transformation:** how will it impact cost?

**Comparison to multiple peer groups to determine best path**

**Identifies the cost gap for your company in comparison to Top Performers**

**Overall performance across all areas of the study**

**Demand Driver comparison to top performers and other peer groups**

- **The gap to Top Performance is more than 106%, representing a cost reduction of $64.18/employee...**

- **The Hackett Value Grid shows how you compare to other companies and details your status for each measurement under efficiency and effectiveness.**

- **Quality**
  - The Quality Demand Driver focuses on the level of excellence throughout the payroll administration process. It includes the payroll processing accuracy rate, the % of corrected uniformed statements, the number and value of tax penalties and payments, the percent of overpayments and the percent of retroactive payments.
Payroll KPIs should be used to measure performance and track to plan

**Cost**
- Cost/Payslip
- Cost/Employee

**Productivity**
- ESS Usage
- Payments/Payroll FTE
- Employees Paid/Payroll FTE

**Quality**
- Payroll Accuracy
- Year End Accuracy

**Timeliness**
- HR Deadline
- Time Reporting Deadline
- G/L Interface
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Top Performers in payroll align *People, Best Practices and Technology* to achieve optimal performance

- More than 50% of top performers manage payroll in a shared services (Global Business Services) environment
- Almost 40% of top performers have a global payroll process owner
- More than 80% of top performers have created a comprehensive service delivery model for the payroll process
- More than 60% of top performers automate routine activities throughout the payroll process
- Approximately 40% of top performers are looking to move to the cloud over the next 2-3 years
- Top performers continue to reduce their transactional focus and now spend more than 40% of their time on analytical type activities
- Top performers continue to increase the level of leadership support with almost 80% indicating they have a high level of support
Looking Ahead:  *How to Prepare for Payroll in 2020*

- Build a strategy that focuses on innovation in order to continue to increase the value proposition.

- Innovation and improvements must focus on the end to end process, embracing a strong partnership with Human Resources, even to the point of increasing ownership of the current payroll process to include what may now be considered HR Operations.

- A major focus on developing reporting and analytical skills in order to maximize the value of data throughout the payroll process. This will include working closely with HR Operations.

- Embrace cloud technology, it’s here to stay! Get excited about it’s capabilities, flexibility and ability to provide the most up to date features and functionality.

- Ensure ESS and MSS are available on the internet in order to maximize the benefits of mobile technology in both Self Service and Time & Attendance.

- Focus on the value of the payroll to the company, ensure your organization provides insight that enables optimal company performance.
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Open Discussion, Questions, Comments
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