UNDERSTANDING &REDUCING PAYROLL COSTS

By Curtis Rist

*A focused effort,
with the right technical support,
is the best way to save money.*

In the continual quest to reduce expenses, companies have traditionally focused on the size of the payroll. The actual cost of producing that payroll, however — which includes calculating pay, producing checks, making direct deposits and keeping track of employee information — has emerged as a new arena for savings, particularly since payroll production costs have been rising. Last year, for example, the median cost per paycheck rose 3.5% compared with 2003, according to a survey by the American Payroll Association (APA).

Payroll processing is in the midst of a revolution that presents companies with new opportunities, as well as unexpected challenges. The "paperless payroll" is on its way to becoming a reality for many companies, as paycards issued by credit card companies become increasingly popular. Outsourcing has become a viable option in some cases, and automated time and attendance capabilities have transformed the weekly time sheet to curb "punch-in" abuse and help lower payroll processing costs.

For those companies willing to overhaul their payroll practices, the potential cost savings can be enormous. "If you can save even a single penny per check from payroll processing costs across an entire enterprise, you're talking about an enormous amount of money," says Dan Maddux, executive director of the American Payroll Association.

The APA has identified three ways in which companies are working to reduce the costs of their payroll operations.

Centralizing Operations

Companies can achieve savings by changing the structure of the organization in order to centralize previously disparate tasks, notes Maddux. "We've seen companies that in the past have had diverse and decentralized payroll operations consolidate them into what is called a shared services environment," he says. "They might be doing HR, payroll, benefits or accounts payable, depending on the need at that point in time. The company is more efficient because individuals are used more effectively."

Standardizing Procedures

Many companies are reducing payroll costs by standardizing policies and procedures. "The more ways that pay is calculated and benefits are provided in a company causes the cost to produce the payroll to increase almost exponentially," says Maddux. Many companies have reduced the complexity by eliminating different pay and benefit policies for different groups of employees.

Employee Self-Service

An increasing number of companies are reducing costs by transforming the role of the payroll operation from that

cash. It's a convenience and enabler for them."

Seeking to serve its unbanked employees, AlliedBarton Security Services turned to ADP. "We especially like that our employees can take the TotalPay Card to any Visa-branded bank and receive cash without incurring any fees," says Frank Conforti, AlliedBarton's director of accounting operations. "That's been a huge advantage to everyone."

Employee self-service has also proven popular with both employees and employers. Through this, "employers are looking to employees to take on the responsibility to update their personal information," says Greg Secord,

of a "transaction processor," in which payroll staff members enter all the data, into one that is more of an "analytical processor," in which employees themselves are responsible for entering data. In short, the employees have been given responsibility for entering and updating their personal data — including timesheets and information regarding withholdings, addresses and taxes. "The individual who owns the information becomes responsible for making changes to the information," says Maddux. "It eliminates handling of a significant portion of the payroll environment by a separate staff, and this is done through technology."

To help companies reduce the costs of payroll production, five companies — ADP, Kronos, EDS, Bank of America

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gence of the payroll card, as well as employee self-service.

Payroll cards, such as ADP's TotalPay® Card, eliminate paper paychecks, which are expensive for companies to produce. Equally important, the cards make it possible for employees without bank accounts to access their earnings without resorting to expensive check-cashing facilities. "The TotalPay card works like any other debit card," says Rick Jaros, ADP's vice president of marketing for TotalPay. The card is part

ADP's vice president of marketing for the ADP National Account Services on Employee Self-Service. "This approach gives employees access to their personal records to change withholdings, for instance, or to update their address if they move or have recently been married." This also allows employees to view their paychecks online to double-check deductions, as well as to enroll in flexible spending account programs. "It's no longer a process that the HR department has to get involved with, and the cost savings to a company in terms of administrative work can be substantial," says Secord. There are also advantages for employees. "It gives employees direct control over their records and information, rather than having that filtered through one or more departments."

> ## " [Workforce management] is where some of the biggest savings within an organization can be found. "
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> - Michael DiPietro, Vice President of Product Marketing, Kronos

and CORT Software — have developed innovative approaches in these and other areas that can increase efficiency as well as accuracy.

ADP: HELPING BUSINESSES DO BUSINESS

The payroll industry has been fundamentally changed by the emer-

of the Visa®-branded network, and allows cardholders to withdraw funds over the counter at banks as well as from ATMs. "The card has been popular, and 94% of customers have stated that they would recommend it to a friend," says Jaros. "Employees appreciate having access to electronic commerce and not having to carry around much

When employee self-service is combined with direct deposit and paycard technology, "companies can deliver a totally paperless payroll solution to their employee base," says Secord. The benefits of this strategy include elimination of all distribution costs associated with distributing a paper payroll, as well as the cost of check reconciliation. "When

Bank of America
ACHIEVING 100% DIRECT DEPOSIT

With more than 15,000 employees, General Parts, Inc. has achieved a phenomenal goal. In recent years, the company has consistently maintained a 99.5% direct deposit penetration.

How does the company do it? With help from Bank of America.

General Parts, Inc., is a wholesale auto parts distributor with CARQUEST Auto Parts Stores. The company's workforce includes union and non-union employees who work in retail sales, warehouses and distribution centers across the nation. Despite the diversity, the company finds that direct deposit has universal appeal — both among employees, because of the convenience, and among payroll managers, because of the cost savings and efficiency it brings.

Maintaining a near-100% direct deposit penetration takes work and dedication from the company, as well as support from Bank of America. "But the efforts are well worth the savings for the company and the added benefits for employees," says Tony Bridges, payroll director.

While every company faces unique challenges in making direct deposit a reality, "we have a full array of payroll solutions and help our clients with strategic ideas, marketing material and promotional campaigns," says Cheryl Soriano of Bank of America.

Bank of America

Higher Standards

you work with ADP, it's a win-win situation," says Secord. "Companies save money, and employees like the fact that they gain greater control over their personal information."

JT3, a Raytheon joint venture company that provides J-Tech services, training and support to the Department of Defense, recently enlisted ADP to help create a paperless payroll system with employee self-service as its nucleus. "Our payroll was initially done in-house, but we wanted to achieve an improved level of service as well as reduce costs," says JT3 Chief Financial Officer Dan Wild.

can be found." Kronos helps organizations manage their workforce while reducing costs, increasing productivity and improving employee satisfaction.

Consistently enforcing attendance and leave policies is critical to any organization's bottom line. With the use of Kronos' total absence management solution, organizations not only are able to eliminate paperwork and manual efforts, but also improve efficiency and help turn employee absences into a controllable expense. A study done by Circadian Technologies, Inc., found that a company of 5,000 hourly employees

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The company turned to ADP to implement and manage a Web-based system in which employees update their own information and print out their own pay stubs. "Over the last year, our costs have gone down in the neighborhood of 15%, and there's been a dramatic improvement in efficiencies as well," says Wild.

KRONOS: ABSENCE MANAGEMENT

Through the years, budget-conscious CFOs have targeted everything from the supply chain to customer relationship management in an effort to reduce costs. Now comes the challenge of reducing costs from payroll — not by reducing the overall number of employees, but by reducing the costs associated with managing payroll and human resources operations.

"Workforce management, as a general category, refers to all the applications that help organizations manage their employees, from human resources, to scheduling, to time and labor solutions," says Michael DiPietro, vice president of product marketing for Kronos (www.kronos.com), one of the most trusted names in workforce management. "It is here where some of the biggest savings within an organization

has the potential to reduce costs by over $7.9 million per year, or 3.2% of total payroll, by automating its absence management processes.

In the area of time and attendance, a study by Nucleus Research found that the average return on investment among a set of Kronos customers was 469%, with a payback period of just five months. Through better time and attendance management, says DiPietro, Kronos has shown that companies can reduce their total payroll expenses by 3.5%. "That's the statistic that has had the most impact with the CFO," he says.

In the realm of employee self-service, Kronos has also made significant advances, particularly among the estimated 60% of employees in the U.S. who do not have access to a computer to update their employee and payroll information. "At Kronos, we're able to deliver self-service to all employees," he says. The result, he adds, can be savings of as much as $210 per employee per year, since it relieves the burden on the human resources department.

BANK OF AMERICA: TOTAL PAYROLL MANAGEMENT

As businesses look for more efficient and cost-effective ways to manage pay-

roll, they often turn to Bank of America, and with good reason.

Being the largest treasury management provider in the U.S., Bank of America takes a consultative approach to deliver innovative payroll solutions to businesses. Its integrated payroll solutions include direct deposit, flexible card programs for payroll, bonuses, incentives, travel and entertainment, as well as value-added employee benefits programs.

Bank of America's direct deposit of payroll offers many advantages, such as reduced costs, timely delivery of pay, enhanced employee convenience and reduced exposure to check fraud.

"Despite all its benefits, some businesses had not previously transitioned to direct deposit of payroll because they needed to offer paper checks to employees without bank accounts," says John Gruce, senior vice president of Prepaid Card Services for Bank of America. "However, by using our CashPay Visa payroll card, we are seeing more and more businesses implement or expand their direct deposit of payroll."

Businesses can offer employees financial benefits through Bank of America Group Banking programs, such as complimentary checking options with direct deposit, loan and mortgage discounts, online banking with bill pay, discounted credit cards, easy access for account opening and benefits information via a dedicated Web site, and more. "These programs are offered to clients at no cost," says Ron Benton, senior vice president of Group Banking at Bank of America. "We'll even send bank associates to the workplace to enroll our clients' employees in these benefit programs."

The Bank of America advantage is plain to see. With 17,400 ATM machines, and some 5,800 banking centers throughout the U.S., the organization has about 33 million consumer relationships. "This makes us the natural provider for payroll and financial benefit solutions," says Benton. "We have robust programs, as well as dedicated teams to help design and implement the most advantageous payroll program."

If your business is looking to streamline

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> - Steve Bohannon, Chief Executive Officer, ExcellerateHRO

Bank of America CashPay is a Visa®-branded payroll card that allows businesses to offer recurring direct deposit to employees who do not have a checking account or who do not want their pay deposited into their existing bank account. Pay is directly deposited to FDIC-insured accounts, from which employees can withdraw funds or pay bills via their CashPay card. There is no credit check required for CashPay, so employees with no credit history or poor credit qualify. The account owner has access to his or her pay everywhere that Visa debit cards are accepted, and can access cash via pinned point-of-sale terminals and ATMs. Additionally, Bank of America is the number-one issuer for the Visa® Payroll Card.

its payroll program and provide additional employee benefits, Bank of America can help. Contact a treasury management sales officer or e-mail Bank of America at globaltreasury@bankofamerica.com.

ExcellerateHRO: EXPLORING THE PAYROLL PROCESS

To understand payroll with an eye toward reducing costs, it's best to view it as a series of core processes rather than a single operation.

"First, there is the set-up of rules used to determine gross pay. Next there are the calculations to determine net pay, taxation and withholdings. This is followed by fulfillment activities to distribute employee payment including producing the check," says Steve

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Bohannon, chief executive officer of ExcellerateHRO (www.excelleratehro.com), the jointly owned human resources outsourcing business of EDS and Towers Perrin. "If your goal is reducing the cost of payroll, the most complex piece of the entire transaction is in the front end, in determining gross pay." ExcellerateHRO helps clients optimize their investment in human resources processes and programs while better aligning their HR agenda and delivery model with their overall business objectives.

Depending on the industry, setting up an employee's gross pay can include a variety of commission plans, pay scales and an assortment of other complex factors that require significant human input. "In some companies' minds, calculating gross pay is outside the scope of what they consider payroll outsourcing — but, in fact, it is the critical first step," says Bohannon. "To reduce the cost of payroll, you must first address the pay practices in your organization — how you determine gross pay and the employee pay cycle."

Recently, Bohannon worked with a client in the nursing compensation industry who had identified 75 different ways of calculating a nurse's gross pay. Despite all those calculations, there was less than a 10% difference in a nurse's paycheck based on the number of years of experience. "It wasn't cost effective to have those 75 different ways of determining pay, when the result was actually fairly minor," says Bohannon. The solution for that company was to reduce 75 processes to a more manageable half-dozen, which not only simplified the calculation of gross pay, but decreased the cost of the process as well.

"We firmly believe that if you're seeking the lowest-cost delivery of services such as payroll, you must connect it to the company's business plan," says Bohannon.

"Certain complexities may be essen-

America Works

NATIONAL PAYROLL WEEK 2005

September 5-9, 2005

National Payroll Week (NPW) is a public awareness campaign celebrating paychecks and the people who make payday happen. Starting on Labor Day, NPW educates workers about the payroll withholding system and how they can take advantage of payroll-driven benefits. Now in its tenth year, National Payroll Week also celebrates the fact that payroll collects 71% of the U.S. Treasury's revenue, keeping our nation strong. This fact is the inspiration for the NPW slogan: America Works Because We're Working For America. More information and resources are available at www.nationalpayrollweek.com.
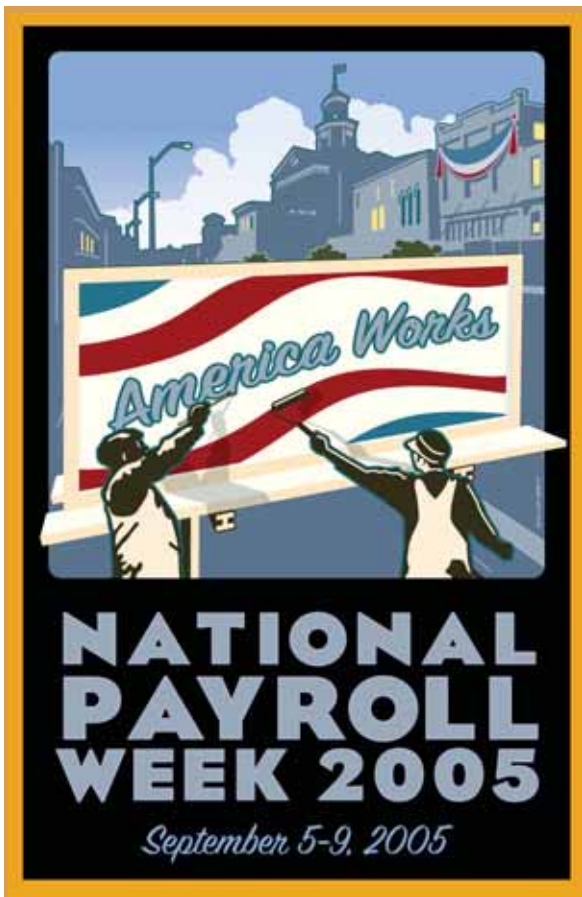
tial for your business. But whenever possible, opt for processes that are streamlined, effective and efficient to produce the desired outcome. Focus on the outcome, not the input."

CORT SOFTWARE: IN-HOUSE SOLUTIONS THAT WORK

When it comes to reducing the cost of producing a payroll, there is no "one-size-fits-all" approach, says David Flaningam, president of CORT Software (www.cortsoftware.com), which has been creating world-class payroll and human resources management software since 1975.

While many companies with whom CORT works have outsourced their payroll production through a service bureau in the past, "what we're seeing now is a trend in our market space to return to in-house processing," says Flaningam. The reason is cost, he explains. With outsourced production, "there is a fixed per-employee, per-month cost." However, this does not apply to an in-house owned and operated solution. "Many companies are finding that, as they grow, the way to reduce payroll costs is to bring payroll back in-house," he says. By doing so, costs can generally be reduced in the related area of human resources as well.

CORT Software installs the payroll and human resources management software at a company, trains users to operate it and provides ongoing support. The result is a smooth transition to the new payroll production system, combined with cost reductions. "Through our metrics, we show cost savings when transferring from an outsourced solution to an in-house solution," says Flaningam. "In most situations, our product pays for itself in about 18 months." ■

You can live without CARBS.
Most people have enough energy stored to run 600 miles.

You can live without CAFFEINE.
You might be cranky for a few days, but your body adjusts quickly.

But you can't live without YOUR PAYCHECK!
That's a fact. More than half the workers in America could not meet their financial obligations if their paychecks were delayed for just one week.*

YOUR PAYCHECK.
IT'S WHAT YOU REALLY NEED.

Celebrate payday and the payroll professionals who make paychecks happen during **National Payroll Week, September 5-9, 2005**.

America Works Because We're Working for America®.
National Payroll Week was founded by the American Payroll Association, the nation's leader in payroll education since 1982.

* Based on results of the 2004 "*Getting Paid In America®*" survey. Participate in this year's survey, now through September 9 at www.nationalpayrollweek.com, and be eligible to win a free paycheck.