

A Best Software Industry Guide

Analyzing Your Payroll for Maximum ROI

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Executive Summary

Finding a Payroll Solution That Meets Your Needs

Paying your employees accurately and on time is a basic function of operating your business. An affordable, efficient and smooth process is essential. It's an important aspect of employee satisfaction, and it's fundamental to your company's success. Payroll is so fundamental that it's frequently a given, and its strategic importance is often understated.

Many companies have turned to external service providers for functions like payroll processing. According to CFO Magazine, payroll is the most common service that companies outsource. Yet many of these companies have found that the so-called "convenience" of an outside payroll service is bought at the expense of accuracy, control, flexibility, responsiveness and data security—qualities most payroll departments depend on.

Your business is competitive—your payroll processor may not be nimble enough to help you compete successfully. While you wouldn't want to overhaul how you manage payroll every year, it makes good business sense to periodically reexamine your options.

Analyzing Your Payroll for Maximum ROI was created by Best Software to provide you with tools to evaluate your existing method of payroll processing, select the solution that's right for you with a step-by-step guide, and determine your return on investment.

Step 1: Evaluate Your Needs

Take an Objective Look

First, consider how your company arrived where it is today. If your company is like most, farming out your payroll system to a service bureau seemed at one point to be a logical choice. Mainframe computing had driven up payroll processing costs, time, and resources—the computer itself required an operator to run it. The prospect of doing payroll in-house was overwhelming—keeping up with current tax laws alone was a frightening thought. An external service provider also eliminated the need for in-house experts, Certified Payroll Professionals (CPPs), that were dedicated solely to your company's payroll and payroll tax administration processes.

Years ago, outsourcing the payroll function made sense strategically—why expend precious resources on this area with no direct bearing on customers or the company’s competitive advantage? Service bureaus also promised more efficient use of your human and monetary resources.

However, payroll software packages today typically don’t require the high level of in-house payroll expertise that was once needed. With built-in reports, forms and calculations specific to state and local tax laws and convenient quarterly tax updates from your software provider, companies need someone familiar with payroll concepts and trained on the software in order to administer payroll.

Additionally, the service bureau “promise” has not rung true for a majority of organizations. While outsourcing may off-load some of the processing work, that’s typically less than half the work done in payroll. The data entry, interface maintenance, and monitoring of changes must still be done in-house. Payroll adjustments, allocating funds for payroll, and making the necessary in-house deductions, like car allowances, must also be done in-house. Information must then be entered into an in-house computer system, telephoned, faxed, or submitted electronically through web pages or software provided by the payroll outsourcing company. These processes take considerable time and effort – and unfortunately do not guarantee that your payroll will be run correctly or on time. Is this the “paperless,” efficient, prompt, accurate solution you expected? Like many companies, you may be disappointed with the reality—somehow outsourcing sounded much simpler than it actually turned out to be.

QUIZ:
Assessing your payroll process

- Are you currently using a service bureau?
- Do you feel disenchanted with service bureau promises?
- Is your staff spending significant time preparing for payroll processing?
- Is the process smooth and efficient?
- Are employees satisfied with its accuracy?
- Are you limited by service bureau deadlines?
- Do you need pro forma reports for budgets and planning at your fingertips?
- Does the lack of control over this process bother you?

“Service bureaus just don’t know our business as well as we do. If we had been processing payroll in-house, we could have easily spotted a mistake as obvious as double-sized paychecks and saved ourselves a lot of embarrassment.” – *Hospice of Naples*

The first step to determining whether continuing to outsource your payroll makes sense is to step back and look at your company as an outsider—perhaps a potential investor—might see it. As you consider your company’s situation, remember there are no right or wrong answers, just valuable insights.

Assessing Your Payroll Processing

1. ***For how many employees do you process payroll?***

1-49	100-499
50-99	500+
2. ***How complex is payroll processing?***

Simple	Somewhat simple
Somewhat Complex	Very complex
3. ***Are changes to payroll required?***

Not often	Sometimes
Frequently	Always
4. ***Does payroll go out error-free?***

Always	Frequently
Sometimes	Rarely
5. ***Do you have a high confidence level in the process?***

Always	Frequently
Sometimes	No
6. ***Can reports be conveniently run when necessary?***

Always	Frequently—with minimal effort
It takes considerable effort	It's difficult to impossible
7. ***Is knowledge from payroll information being used as strategically as possible?***

Yes, management counts on it	Frequently—it adds value
It contributes on occasion	Rarely or never
8. ***Can various personnel changes and their impact on payroll be viewed and analyzed up-front?***

Yes, quickly and easily	Yes, but it's expensive and slow
Sort of—but it's convoluted	It's difficult to impossible
9. ***What is the company paying for payroll processing?***

A very fair price/good value	Not sure—no one's asked
Not sure—seems like a lot	Way too much
10. ***How are competitors processing payroll?***

Do it themselves manually or use service bureau
 Software and/or service provider
 Software supporting LAN & WAN environments or possibly a service bureau
 More sophisticated software or Enterprise Resource Planning

Where do your answers fall on the spectrum? Do you find it difficult to keep emotions out of the picture as you formulate your answers? Were you able to answer all of the questions? Many companies have not put forth the effort to determine their answer to question 9. If that's true for you, walk through our guide to determining your own true costs for outsourcing payroll.

Step 2: Determine The True Cost Of Outsourcing Your Payroll

Hidden Costs Revealed

Changing how you process payroll would be a big decision. Making the wrong choice could mean headaches. Making the right choice can result in a positive impact to your company's efficiency, employee satisfaction, and even the bottom line. You would not want to make this type of change every year, but you probably do need to know what it costs you to manage the process in a given year.

An essential element of taking charge of your payroll is to see your own costs broken down. Use the worksheet on page 7 to calculate your own cost of outsourcing.

About Sample Company

Sample company ABC Manufacturing pays 250 employees an average of \$10/hour each Friday. ABC runs payroll 52 times a year using a service bureau. ABC's weekly gross payroll is \$100,000, generating an annual taxable wage base of \$5.2 million. Annual federal tax liabilities are approximately \$1.3 million, or roughly \$24,000 per weekly payroll. ABC prepays tax liabilities two banking days before the pay date to their service bureau. As a semi-weekly depositor, ABC's federal taxes are due 3 banking days after the pay date. The float fee in the example above assumes that ABC could invest their federal tax liabilities for 7 days (5 banking days plus 2 weekend days) at a short-term interest rate of 7.75%. Our example does not include state and local taxes, which also must be paid in advance to the service bureau. Adding float associated with state and local taxes, and the ability to increase return on operating cash will increase the float figure markedly.

"Float"

Service bureaus understand the concept of float very well. It is an important part of payroll processing. This is how it works. As an individual taxpayer, you would like to know as early in the year as possible whether you owe money to the IRS. If you owe, you know that waiting until the April 15th due date means that you have earned interest on the money you owe instead of giving that interest earning opportunity to the IRS. Of course, if you're eligible for a refund, you file as early as possible so you get your refund and benefit from being able to invest the cash on hand.

This float principle may be applied to quarterly and yearly business taxes, as well as direct deposits and wage garnishments. Paying your taxes when due, not days or weeks in advance, means your company earns the interest, rather than allowing your service bureau to impound your tax liabilities. ABC would have been able to earn thousands if they had invested it themselves instead of using a service bureau.

ABC contracts with the service provider for a number of services, but must do all of its own data entry. As you can see, ABC occasionally does a bonus payroll. The service bureau charges a flat fee plus additional charges for special reports, additional services, like changes, etc. Only certain line item charges are listed, so some information is summarized. This may be a familiar scenario or it may not reflect your situation at all. It's better if you take some time to do your own calculations.

Payroll Processing Costs Worksheet

Worksheet Tips

1. If you don't see these line items on your invoices, they may be bundled with other services, sometimes referred to as "other processing charges".

2. Labor rates vary widely. This figure depends on the type of employee(s) who perform various tasks. Sample company uses a clerical employee for data entry and related tasks.

3. Training figures vary and are hard to determine. This depends on the number of people who need to be trained in a given year. In year 1, training fees are usually included in implementation.

Service Bureau Fees	Description	Sample Company (Annual Costs)	Your Company (Annual Costs)
Implementation	Typically one-time fees based on a flat percentage of your first year processing fee. Estimated at 10%	\$2,600	
Standard payroll & tax filing services	Estimated at \$2 per employee x # of payrolls per year	\$26,000	
Examples of Additional Services * New Hire Reporting * Check Delivery/Signing/Stuffing * Direct Deposit * Check Reconciliation * Special Payroll Runs * Reporting - Standard/Custom Reports - Access to data - Report Writer * W-2 Processing	Bonus pays, exception/error handling	\$1,000 \$1,000 \$1,500 \$400 \$1,000 \$850 \$2,000 \$1,250 \$1,500	
Float (see description, p. 5)	Annual payroll taxes x interest rate* x (Avg # days tax liabilities are prepaid to service bureau/360). This prepaid figure will vary based on tax ID	\$200,000 payroll taxes x (364 days/360) x estimated interest rate of 7.75% = \$15,600	
Labor * Cost of data entry * Cost of managing service bureau relationship	Cost per labor hour x # of pay periods x # of employee hours spent coordinating with external provider, handling special requests, customer service, etc.	\$10 x 52 payrolls x 10 hours per week = \$5,200	
Total Year 1		\$58,900	
Total Year 2	Omit implementation fee	\$56,300	
Total Year 3	Omit implementation fee	\$56,300	
3-Year Total		\$171,500	

What do you think of your 3-year total? Is it what you expected? Many companies that farm out payroll are becoming disillusioned, and when they see the true costs, they question the value they are receiving for this price. Why? It is difficult for service bureaus to maintain the service level

you may require, because it inherently means maintaining an understanding of your changing business, keeping up with your management's need for information, and providing a high level of service year after year. The pace of business means that change is the only constant—and change means more exceptions, which result in transaction fees you did not anticipate, in addition to your “regular” transaction fees.

Understanding this cost figure is only part of the reason why many businesses are finding outsourcing payroll behind the times. Now that you have a clearer picture of what your needs and your costs are today, consider the future.

Step 3: Envision The Future

Your Unique Role

With your company's needs and costs understood, set your sights on where your company is headed. You play an important role in your company's growth, because you probably have an in-depth understanding of the combination of your company's business, employees, and payroll needs. What will take your company successfully into the future in terms of payroll? Think broadly—consider the realm of possibilities. How do you think payroll should work in the future? Where do you think your company will be one year from now? In three years? In five years? As you look ahead, consider the following:

Payroll and Employee Satisfaction

Some may argue to the contrary, but you know that payroll is a fundamental element of employee satisfaction. When an employee receives his or her paycheck on time, without error, and regularly, there is an underlying assumption that your company is operationally competent and financially sound—an important aspect of employee satisfaction. If payroll goes out with errors, or if it fails to go out on time, a wave of uncertainty ripples through the organization's ranks. Can your current payroll system overcome the challenges and complexities in making accurate, timely payrolls happen?

Access to Information

Payroll information pertains to your employees, policies, procedures, and your company's money. Can you easily access your information when and how you need it? Will your company need readier access in the future?

Flexibility

People come and go, and their situations change. They get promoted, make changes to their 401(K) elections, insurance, and so on. Consequently, payroll changes do occur and must be managed quickly and easily. Are you able to make changes to your payroll in a timely fashion? Is there a cost associated with each time you have to make a change? How much flexibility does your organization need?

ePayroll: E-mail and Internet Options

With the ePayroll options available today, your company can choose to extend payroll automation and information access to employees and managers to further improve bottom line savings. ePayroll simply means evolving the traditional payroll processing methods by using e-mail and the Internet. More and more companies are using intelligent e-mail alerts and web-based employee self-service to automate the key information and workflow processes that are critical to accurate, on-time payroll.

Would you like to provide your employees with convenient access to view detailed payroll information, pay history and payroll elections online and dramatically reduce pay stub errors and inquiries? How would your company benefit from the savings and unrealized productivity returns by automating and streamlining activities such as timesheet collection, gross-to-net processing, paycheck distribution and W-4 changes?

Comprehensive Reporting and Strategic Decision-Making

Companies are always looking for ways to tighten their belts. Since payroll is a huge expense, you are probably asked for reports on all sorts of configurations of payroll information, including basic company and employee listings, legislative reports and forms, analytical and audit reports, notifications of upcoming events, reconciliation reports, and date or event-driven historical reports. Can you get these reports when you need them, without error? These reports provide

valuable information for strategic decision-making, and making them available should be simple and straightforward. With your current system, how quickly can you gather the data you need to prepare and distribute a report to senior management? Can you forecast different business scenarios in your reports?

Integration of data with HR system

The ability of your payroll system to interface with a human resources system may be one of the key areas to consider to further improve your company's productivity. As you look for ways to streamline workflow processes, consider alternatives that enable deductions to be automatically calculated against benefit changes made in HR systems, or attendance plan accruals that can be automatically flagged during the payroll time entry process. Think about whether your payroll data can feed other sources of information in the company, like budgeting and general ledger systems. This has become a key requirement for most organizations when evaluating their payroll options.

In what direction is your company headed? The trend is toward more access, more flexibility, more proactive thinking, and more control. With your future in mind, consider the alternatives.

Step 4: Assess The Alternatives

Controlling Payroll Matters

Outsourcing may have been a reasonable option for payroll processing when you chose it, but is it the best alternative for you now? Just as PCs brought tax programs like TurboTax® and TaxCut® to individuals, businesses now have high quality alternatives that are affordable, easy to use and allow payroll processing and tax filing to be done in-house. As a result, many companies are implementing software solutions that provide more control of the payroll process.

The reasons make sense. Consider when organizational changes are imminent—being able to see what happens to your payroll before these changes occur is important, so you can factor in what that change will mean to the company. It is extremely useful to fully understand how different deductions and tax rates impact your bottom line. You also need to make last-minute changes as

necessary—without setup charges or other fees. Ideally, you should be able to cut a special payroll or make last minute corrections without an ordeal. Think about the value of your payroll itself, and then consider the value that information holds. You should be able to preview what a new tax law will mean to your company without moving mountains. Is this too much to ask of your service provider? Or are you afraid to ask for fear of what it will cost?

Here's why many companies are choosing the in-house alternative:

Ready Access to Payroll Information

The software programs on the market today facilitate access to information, when and how it is needed, at no extra charge. You organize and analyze data in the format that best fits your company's unique situation. You keep track of basic employee information, including salaries, benefit plan contributions, and emergency contacts, and make changes quickly and easily—directly into the payroll system.

Flexibility and Ease of Use

With in-house payroll processing, you choose the deadline that works for you, and have flexibility to make last minute changes. You handle benefits enrollment and administration when and how you like. And with software features such as guided setup interviews, built-in calculations and reports, and quarterly payroll tax updates, you don't need an in-house payroll expert to ensure your payroll and payroll tax administration processes are completed accurately and on time.

Comprehensive On-Demand Reporting

A significant difference between what is available with service bureaus versus an in-house software solution is in the number and type of reports that can be run. While both solutions provide standard reports that meet government reporting requirements and common corporate situations, service bureaus typically offer these tools at an extra cost. Additionally, payroll software allows administrators to generate custom reports more easily with report writer tools that are built right into the package.

Proactive Decision-Making

Many companies increasingly need the ability to be proactive—to be able to project different business scenarios and their respective impacts on the business. Having the ability to anticipate changes brought on by government legislation, workplace developments, and economic shifts may be a business necessity. The software solutions on the market today allow you to project different business scenarios and their respective impacts on the business, at no extra charge. This means you can objectively analyze your business units and how they are staffed, and spot trends while monitoring the skills and training of your workforce. You can also develop realistic budgets using historical salary information

ePayroll and Self-Service

Today, companies can conduct in-house payroll services at even lower costs through paperless payroll solutions like employee self-service and business alerts. ePayroll solutions help automate basic, but costly procedures like remote time entry, name and address updates, W-4 changes and access to wage information. In addition, ePayroll enables payroll departments to trigger automated messages that inform relevant parties about key activities and pending issues, including W-4 and direct deposit verification, which greatly improves workflow between departments.

“It probably took me an hour” to process a special bonus payroll. “With the service bureau, it took several days for them to do the run, then return it to us. We had to call and schedule it, and we were charged for the extra service.” — Kelly Williamson Company

How Software Solutions Reduce Compliance Risks

You may be concerned about compliance with software solutions. If you think you’re a candidate for an in-house payroll system, but are unclear about how this issue is handled, it’s an excellent question for potential software providers. The software community is aware of these concerns and the best payroll software does an excellent job addressing them, especially in the following areas:

1. Constant Tracking of Federal, State and Local Payroll Tax Laws

One of the key concerns with bringing payroll processing in-house is compliance with government regulations, including state and local laws. Payroll regulations set forth by the government are

difficult to track; they change regularly, and are different in every state and local tax jurisdiction. Most software providers have experts who monitor and track these laws and build this knowledge into their quarterly updates, so you don't have to worry about keeping up with federal laws, 50 different sets of state regulations or the various laws that apply to thousands of local tax jurisdictions across the country.

2. New Hire Reporting

The software world reduces your compliance worries by offering new hire reporting capabilities. As you know, your company is required to notify various levels of government each time you hire a new employee. Again, this can get complicated, as these requirements vary by state. The more sophisticated software alternatives have embedded each state's current requirements to create a file that can be exported and accepted electronically by the state to meet this requirement.

3. Integrated Service and Software

As an added convenience, certain software packages available today have an integrated service component. This means the administration of payments and quarterly filing of taxes can be handled either through the software (you manage it) or via the software provider's service arm, which can manage it for you. Integration with HR administration and general ledger software provides lots of information that can save time on the payroll side when the data is already entered in the system. Service options are available to maintain compliance in areas of wage garnishment, which helps companies assist the government as it cracks down on child support issues, for example. Using integrated software minimizes not only redundant work but also mistakes that can be made when the same data is keyed into multiple systems. A high degree of integration provides high-level information sharing, improves data accuracy, saves hours of costly redundant entries and provides more control.

Step 5: Compare Costs and Determine Your ROI

Return on investment as a decision factor

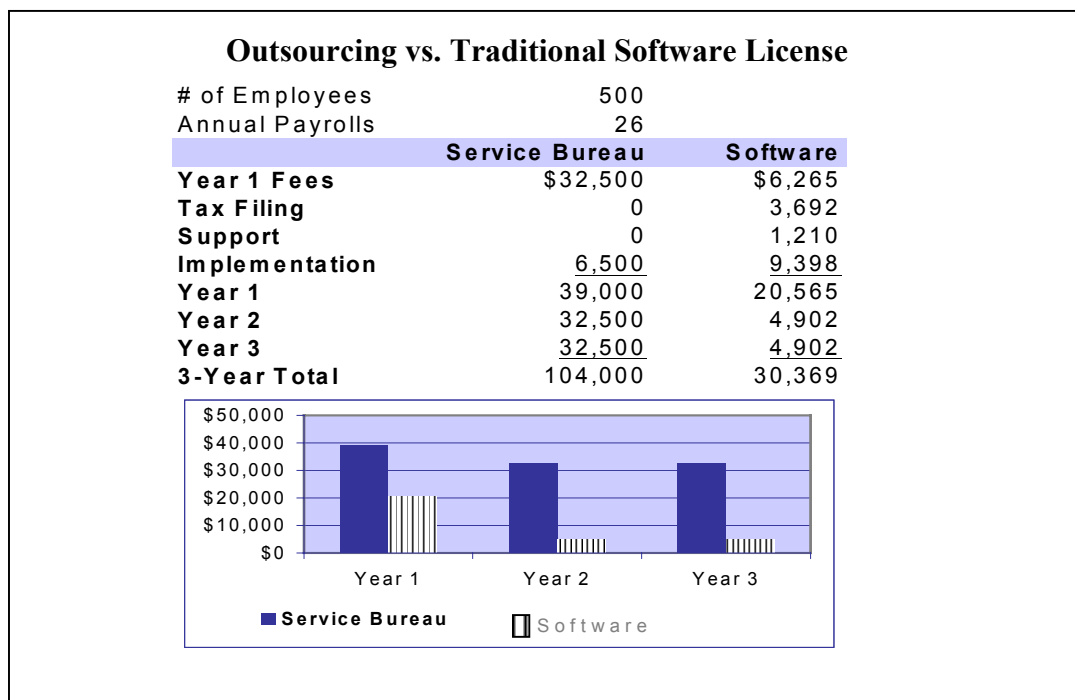
Small and mid-sized enterprises that operate on tight budgets find return on investment a particularly important decision factor because the impact of less control and flexibility, lower productivity, and difficulty accessing and managing basic information can result in significantly

lower profits. So why pay outsourcing fees month after month with nothing to show on your bottom line when there are so many proven in-house solutions available today?

When determining your ROI, you should evaluate and compare the costs of traditional payroll software licensing, lease programs and ePayroll options to find the in-house solution that best fits your company's needs and budget.

Traditional Payroll Software Licensing

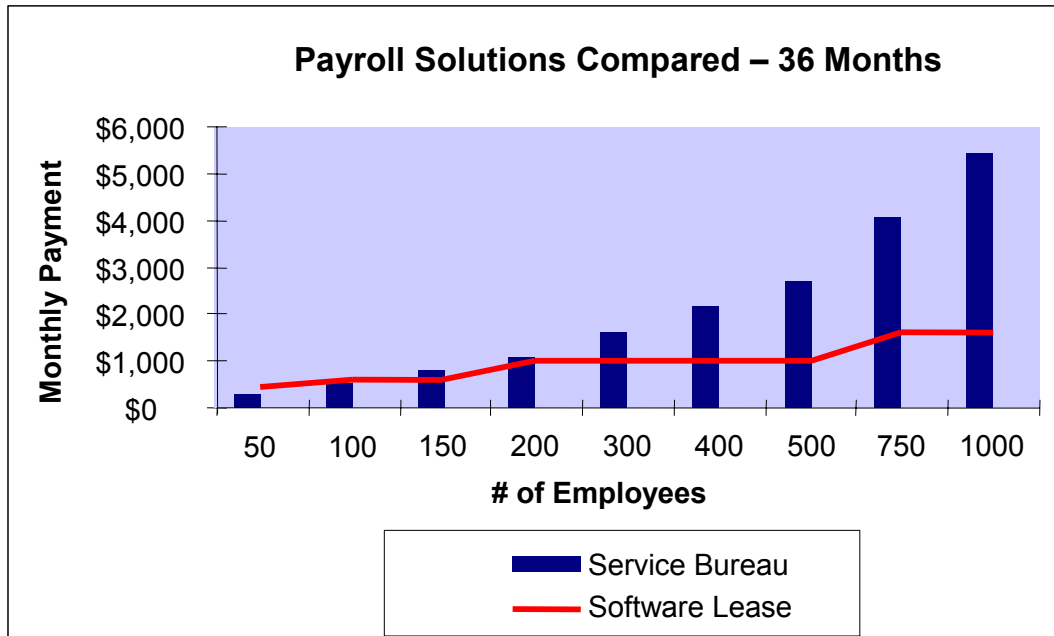
A traditional payroll software package offers greater control, flexibility and a quick return on your investment – in most cases, literally paying for itself in less than a year. In addition to eliminating endless and ever-increasing outsourcing fees, you can take control of your payroll data with an easy to use, secure software solution.



The graphic above shows how much a company with 500 employees and 26 payroll runs per year can save by choosing a traditional payroll software license. Even though companies typically associate higher upfront expenses with a traditional license, that cost in many cases is still less than service bureau fees in the first year. And, once you own the software license, your fees for tax filing services and software support are just one-eighth of what you'll pay in service bureau fees in the following years.

Software Lease Programs

Many software providers are now offering lease programs to companies who are seeking lower up-front costs and predictable monthly payments. Leasing eliminates the upfront strain on your budget by offering monthly rates that are competitive with service bureau fees.



There are other advantages to software leasing:

- Ownership of the software license at end of term reduces your long-term costs even further
- An all-inclusive monthly price that covers your seat licenses, support, training and implementation fees. Depending on your needs, your monthly price can also include hardware and installation costs.

Added Benefits of ePayroll

Many companies today are taking their payroll processes to the next level by combining powerful payroll software with Internet and email technologies. ePayroll further improves your bottom line through productivity gains and the proactive availability of key information so management can make more timely business decisions. ePayroll options can be purchased via a traditional software license or gained through a leasing program.

Use of ePayroll options can yield additional ROI benefits such as reduced operating costs. Companies who have deployed ePayroll solutions have reported overall reduction in operating costs of about 25-30% due to reduced staff hours required to service employees and process payroll, and reductions in paper printing and distribution costs.

When considering ePayroll options for your company, make sure you:

- Determine what additional bottom line benefits you will receive. What are the operating cost reductions likely to be? What other business benefits will the company enjoy?
- Recognize that ePayroll means enhancing and automating communication outside of the traditional payroll department. Management buy-in will be important. What processes or procedures need to be changed, added or eliminated as a result of your ePayroll initiative?

Step 6: Implement The Best Option For You

Make an Informed Choice

You have examined your needs, reviewed your true costs, considered the future, and examined the alternatives. Will a service bureau meet your company's needs moving forward? Should you further explore an in-house payroll processing system? The options are:

- Retain Service Bureau for most payroll processing and other service options
- Retain Service Bureau for selected processing
- Move to an in-house solution and augment with services
- Move to an in-house option for total control of payroll processing

If you decide to change from a service bureau to a software solution, use the following checklist when you talk to software providers:

1. How long has your company been around?
2. What experience does your company have with payroll processing?
3. What version of the software is currently available (be wary if they say 1.0)?
4. Is the software integrated with other programs? If so, what types of packages are they? Can they be of use to me?
5. Try to determine their service reputation? (Have they won awards, will they readily provide references, etc.)
6. What does it cost to implement?
7. What training is involved? What is the learning curve?
8. What does maintenance cost? What does that figure include? Is 24x7x365 help available?
9. How frequently are updates sent (to stay current with tax regulations)?
10. How many customers are supported?
11. How do customers rate the product and support?
12. Is the payroll software fully integrated with an excellent HR package?
13. Will the payroll software work with your GL?
14. Is local support, either from the company or via consultants, readily available?

Summary: The In-House Decision

The payroll process should be affordable, efficient and smooth. It is an essential element of business operations and its accuracy is important to your most valuable asset—your employees.

Many companies have begun to explore alternatives to the traditional service bureaus approach for small to medium-sized companies to manage payroll. Due to increased dissatisfaction with service bureaus, in addition to tremendous advancements in capabilities of payroll processing software and ePayroll options, many companies are finding the latter an easy, flexible, cost-effective alternative which puts control of payroll processing back into the organization's own hands.

But before making a change, you must evaluate your own company's situation and determine whether this might be for you.

Look at your company objectively—write down company goals, costs and expectations. Then evaluate the alternatives. Ask a lot of questions. Expect real answers. Look beyond what is available today and consider the future.

If your company is like most, you will be making major changes to bring about more access, flexibility, control and responsiveness to your payroll processing system. Companies that must keep pace with rapid changes in their business environment are increasingly implementing in-house software solutions to address these requirements.

Abra is Best Software's industry-leading integrated HR/Payroll solution. Designed for completeness, ease of use and affordability, Abra offers comprehensive HR and payroll processing, recruiting, training, and benefits administration with self-service and business alerts options. The software also allows users to effectively track and prepare reports on employee benefits, employee attendance, payroll processing and taxes, job and project costing, EEO, Workers Compensation, FMLA, COBRA, OSHA, and numerous other areas of concern to human resource and payroll professionals.

About Best Software, Inc.

Founded in 1982, Best Software is the world's leading provider of software solutions that allow organizations to better manage their people, fixed assets and planning process. With over 40,000 customers worldwide, Best Software is dedicated to delivering scalable solutions for growing businesses.

Today, tens of thousands of businesses benefit from the improvements in organizational effectiveness that our high-value, feature-rich solutions deliver. By truly automating and streamlining the management of employees, assets and the annual and ongoing budgeting and planning process, companies are now able to make strategic long-term decisions based on solid data, giving them a competitive edge.

Industry-leading products from Best Software reflect a richness of expertise and long-term commitment to customers. The full line of solutions from Best Software include best-selling Abra Suite® for HR and Payroll management and FAST™ solutions for fixed asset management and tracking.

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