How much does payroll really cost? And how to make it more cost efficient

Like many HR or finance executives, you're likely under pressure to reduce operating costs across your business domains — perhaps in your wage bill and global payroll function alike. The drive to optimise costs has acquired a fresh urgency post-pandemic, as business leaders have come face to face with costly inefficiencies that threaten long-term business continuity right across the organisation. In short, businesses can no longer afford to ignore payroll — particularly if they're gearing up for overseas expansion where the focus is on keeping operating expenses lean.

On average, pay accounts for 50 to 60 percent of a company's business spend.[2] Labour cost is inevitable, although there are creative ways to reduce it (a 20-hour workweek, contracting temporary workers or reducing pay frequencies are just a few examples that companies are considering, post-pandemic). But when it comes to your global payroll function, there are certainly actions you can take to make sure it's cost effective.

> "With COVID-19, 66 per cent of decision makers turned their focus to cost optimisation, while 34 per cent prioritised operational efficiencies."[1]

Counting the cost

What it costs you to run payroll will vary depending on your company's size, payroll operating model and the countries in which you have employees, among other factors.

If you're still running payroll in-house, costs will include:

- Purchasing software licences
- Installing the hardware and software
- Ongoing resources to maintain and upgrade the on-premise payroll infrastructure

If you've opted for a cloud (Software as a Service — SaaS) system, costs will typically comprise:

- Fees for implementing your new payroll software. You'll pay a fixed upfront fee, based on how many employees you have, in which regions, and the complexity of your legacy payroll environment. You'll also need to factor in the internal effort required for implementation (from payroll, HR, IT and project management teams)
- Annual, ongoing fees to your payroll provider, usually based on the number of employees and the service level you've contracted

Although there is an initial investment, moving from on-premise to ADP's partially or fully outsourced cloud-based payroll services saves companies on average between 15 and 35 percent.[3]

Download **Debunking the myth that global payroll is too costly for smaller countries**

Download **Building a business case for your new global payroll solution**

Quantifiable payroll costs

In the study the 'Total Economic Impact™ of ADP Global Payroll' conducted by Forrester, commissioned by ADP, the researchers identify the measurable cost savings of investing in ADP Global Payroll in the following key areas:

1 Compliance cost avoidance

The cost of ensuring your company stays compliant with ever-mounting local labour laws around the world is increasing (as are the fines when you fail). Every locale comes with its own tax, insurance and pension requirements, regulatory processes and banking procedures. If you're still employing people to track and analyse the nuances of legislative updates, ensure that records are kept up to date and that your payroll and HR systems comply, as the associated costs quickly become eye-watering.

Outsourcing compliance monitoring to a global payroll provider represents significant cost savings both in terms of in-house legal head count and being able to avoid compliance penalties in the first place.

2 Direct cost avoidance

As Forrester points out, when companies move away from their legacy payroll system and invest instead in a global payroll solution, they avoid the licence fee and maintenance costs of the legacy solution.

Other direct costs that dissipate when you move to a global payroll platform include the time it would ordinarily take your team to manually enter employee data and answer employee queries (in ADP's *The potential of payroll: Global payroll survey 2021*, 61 percent of respondents reported that their payroll staff received too many queries to manage). You'll also sidestep the cost of printing payslips and bank transfer costs to deposit salaries into employees' accounts.

3 Eliminate payroll errors

Mistakes in employees' pay, such as instances of underpayment and/or late payment, have a massive impact on staff morale, potentially undermining workers' ability to pay bills on time and making them more likely to start hunting for a new employer.

Worryingly, companies show no signs of getting to grips with this problem. ADP Research Institute's *People at Work 2022: A Global Workforce View* study finds that the number of employees who report being "always or often underpaid" or "always or often paid late" has increased from 2021's figures.[4]

The cost of employee churn, in terms of recruitment and onboarding, can be considerable. Even if you only make a very modest improvement in employee retention, you'll see significant benefits in terms of reducing your costs to recruit and train new staff. By introducing a unified global payroll system that eliminates errors in workers' wages, you'll save time on rectifying mistakes and reduce employee turnover to boot.

4 Payroll process efficiency gains

If your payroll system isn't integrated with your HR management platform(s), or you're running several unconnected payroll systems and services in different countries, your staff are likely wasting time having to obtain and validate data from multiple sources. All this time that your team spends dealing with cumbersome processes, manual data input and duplicated effort is making your payroll function more expensive than it needs to be.

Ask yourself — how much time do you waste in correcting errors from the previous pay cycle? A global payroll platform will bring the financial benefits of both automating payroll tasks and redirecting employee efforts onto more value-creating activities.

5 Payroll reporting efficiencies

Many firms with a disjointed payroll model lose time trying to track down the cohesive, accurate payroll information they need to answer basic workforce questions, such as 'in which countries is our wage bill highest'? The solution is to consolidate your reporting and analytics, for easy access to reliable global payroll data. This will reveal expenditure, helping you in turn make further efficiencies, as well as reduce the time needed for reporting, which frees up staff time for more strategic pursuits. (Additionally, you'll benefit from greater agility in having such data available in real time, enabling your leaders to make decisions faster with the most current and high-quality information.)

97% of those surveyed see payroll information as a major consideration in cost management strategies and 87% see it as a fundamental part of their commercial and growth strategies[5]

For full information on the return on investment and cost efficiency savings to be made with ADP's Global Payroll solution, **download the 'Total Economic Impact™ of ADP Global Payroll'** conducted by Forrester, commissioned by ADP.

Hidden costs: harder to quantify, but don't discount them

They're less visible but impactful nonetheless. In fact, the 'hidden' costs of processing payroll exceed the visible ones most of the time.

Firms tend to underexploit the productivity gains to be made from analysing and cutting hidden costs. This is because payroll processes normally involve the HR, finance, IT and other departments, and include:

- Onboarding, training and replacing payroll professionals
- System maintenance, reliability and interface costs (creating API integrations with HR and other business software)
- Manually collecting employee information for payroll or manually importing some of the upstream calculations needed to process payroll
- Currency fluctuations and conversion costs. Forrester Consulting finds that firms can gain cost efficiencies by reducing the need to change currency: "One interviewee told us: "We're able to realise savings on money movement — avoiding the 10 percent fee charged by our former payroll provider."[6]

Finally, consider the opportunity cost when your company expands into a new market without the payroll flexibility to integrate it quickly. This cost is one that's harder to pin down, but still one to weigh up as you get ready for further international expansion.

The simple solution to payroll cost efficiency

The single biggest impact you can make to cut payroll costs is to outsource your payroll processing. For most companies, processing payroll isn't a core business or profit-making activity, so it makes sense to entrust this to payroll professionals with the expertise and infrastructure to handle it.

Outsourcing converts the cost of payroll administration from a fixed to a variable cost, based on the number of employees and company locations in scope. As you employ more staff in new geographies, you will already have the global payroll infrastructure in place that can scale to support your growth, so you don't have to spend on adding to HR and talent acquisition head count.

If you find yourself up against internal resistance (perhaps from regional or in-country HR or finance leaders), encourage your board to trial payroll outsourcing when your company expands into a new country or region. That way, you will be able to see and report back on the benefits in action, making it much easier to secure an enterprise-wide commitment further down the line.

All things considered, perhaps the key question isn't how much payroll costs, but how much it could save you. To dive further into the topic of payroll cost efficiencies, download our factsheet 'Debunking the myth that global payroll is too costly for small markets'.

1. CIO Dive: The business technology priorities of 2020 (Copyright © Industry Dive (or its licensors)
2. Deloitte, Labor spending or overspending?, 2017
3. ADP, Payroll Unplugged, 2019
4. ADP Research Institute, People at Work 2022: A Global Workforce View
5. ADP, The potential of payroll: Global payroll survey 2021
6. The Total Economic Impact™ Of ADP Global Payroll Study, Commissioned by ADP

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