

Magic Quadrant for Payroll BPO Services

Published: 23 July 2015

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This Magic Quadrant evaluates the capabilities of 12 key providers of payroll business process outsourcing services located around the globe. Buyers of payroll BPO services should use it to identify and assess those providers that can best support their payroll BPO needs.

Market Definition/Description

Payroll business process outsourcing (BPO) services consist of administrative services and support provided by an external party for some or all of the payroll processes historically administered internally by an employer. Payroll BPO service providers offer a broad array of services, including the following, which may be offered individually or bundled:

- Receipt and ongoing maintenance of all employee-indicative data and pay-related data on regular, contract and temporary employees, to be stored on the client's or the provider's system
- Pay calculations, such as source-to-gross, gross-to-net, overtime and holiday pay calculations, made according to the employer's pay policies
- Payroll tax calculations, withholdings and payments to tax authorities
- Regulatory tax form production, print/image distribution and filings
- Third-party deductions and disbursements, such as benefit plan premiums and savings plan contributions, garnishment administration, and other transactions impacting an employee's pay
- Payroll processing and printed/digital checks and payroll advices
- Treasury services, fund disbursements, electronic fund transfers and interfaces to the employer's general ledger system and to third-party systems
- Payroll audit and control procedures
- Data privacy, security, backup and disaster recovery/business continuity responsibilities
- Reporting related to the above processes

Payroll BPO offerings may also include the following related services, most of which are critical to managing the workforce and therefore must be performed by either the client or the provider:

- Employee time and attendance tracking and related management services, software or tools, and related time-to-gross (source-to-gross) pay calculations
- Access to employee and manager self-service tools, often including a Web portal, mobile device apps and social collaboration tools
- Management and resolution of employee and manager payroll inquiries
- Special reporting and other services related to multiple countries, currencies and languages
- Business intelligence and data analytics regarding employer payroll activity and data
- Payroll debit cards
- Payroll administration for employees employed through managed service providers (MSPs), including contract, seasonal, contingent or other temporary employees
- Payment administration of pension annuity payments for participants in the employer's pension/defined benefit retirement plan (participants who normally are not actively employed by the employer)
- Payroll issues arising from merger, acquisition and divestiture events
- Various preimplementation and postimplementation consulting services, such as process re-engineering and continuous improvement initiatives, payroll planning and timetable management, outsourcing business case development, and ongoing payroll administration relationship governance
- Other related payroll administration services

Payroll BPO services are delivered through the cooperation of multiple parties — the employer, the provider, third parties (such as banks or insurance companies) and subcontractors to any of these parties. Primary responsibilities can be assigned to the employer and the provider in various combinations. The predominant examples of payroll BPO service delivery options are:

- *Fully outsourced (or managed) payroll services* — The provider takes responsibility for all payroll process steps; meets payroll-specific performance standards (such as accuracy and turnaround time); and provides the software, technological tools, staff and payroll expertise required to complete the assigned steps, while giving the client's HR leadership, managers and employees access to the data through online tools and reports. In this option, the client may eliminate or reassign most of its internal payroll staff, as the provider's staff would perform almost all payroll functions.

Also, the provider may offer its services, utilizing its own payroll system off-site, or it may manage the services on-site at either the client's proprietary system or a third party's commercial system. The provider normally offers other proprietary or commercial technological tools for delivering its services, which may be hosted at the provider's or the client's site and maintained by that party.

In this service delivery model, payroll processes are not always modified for consistency or for efficiency because the client often has embedded historically important requirements into the

processes (as well as system programming). In these cases, the client would rather have the provider manage the existing environment than change it. Lastly, contracts are structured normally using a menu approach, having a combination of per-transaction, per-activity and flat-rate pricing.

- *Partially outsourced payroll services* — The provider takes responsibility for only some payroll process steps and must meet performance standards specific to those steps; the client retains responsibility for the remaining process steps, as well as the integration of outsourced and insourced steps. Payroll processes may or may not be standardized when a client is partially outsourcing payroll administration, as the client's buying driver is not often process-oriented.

For example, partially outsourced payroll services are often utilized when clients desire to retain administration of executive payroll in-house for confidentiality reasons, or when some aspects of payroll are mandated by legislation, as in China, where government-sanctioned entities must be used to make payroll payments. Contracts are structured normally using a menu approach, having a combination of per-transaction, per-activity and flat-rate pricing.

- *Business process as a service (BPaaS) payroll services* — A payroll BPaaS provider offers clients the benefits of a multitenant payroll platform and related processes via public cloud on the Internet, hosted and maintained in the provider's data center. There is a difference between a BPaaS offering, in which the payroll process steps are mostly or entirely administered by the provider, and a SaaS offering, in which the provider offers only use of its software by the client, who, in turn, is mostly or entirely responsible for administering the process steps. Importantly, the process steps embedded in the BPaaS provider's offering are often 80% or more consistent both *across* all the provider's clients and *within* an individual client's locations and business units. Therefore, BPaaS offerings are usually priced on a transactional basis, such as per paycheck or per pay period.

The degree of responsibility a payroll BPaaS provider assumes can vary within the spectrum of BPaaS offerings. Normally, the provider is responsible for almost all of the payroll process steps, and it is required to meet payroll-specific performance standards, such as for accuracy and timeliness; these standards may be in addition to those standards for application availability and uptime. Services are "one to many," sharing the provider's system, staff and management resources across many of the provider's clients.

Gartner refers to payroll BPO service delivery that is customized, highly labor-intensive, and/or not offered through the cloud as "traditional BPO (TBPO)." We categorize fully outsourced, managed and partially outsourced payroll services as TBPO, and we follow and forecast the market for these services separately from those for BPaaS.

In this Magic Quadrant, we evaluate providers that offer one or more of the above service options. They are headquartered in a variety of countries, and their service delivery footprint varies from two countries to more than 100 countries. Additionally, some of these payroll BPO service providers offer SaaS and/or on-premises delivery options.

A provider's position in the Magic Quadrant graphic is generally determined by Gartner's ratings regarding its *Ability to Execute* and its *Completeness of Vision*. These two broad categories are

divided into a total of 15 factors — including such factors as scope of delivery, quality of services, marketing and sales execution. While some of the 12 providers profiled here are dissimilar on the surface, Gartner's Magic Quadrant provides standardized and consistent ratings so that payroll BPO buyers can compare providers objectively and fairly.

Magic Quadrant

Figure 1. Magic Quadrant for Payroll BPO Services



Source: Gartner (July 2015)

Vendor Strengths and Cautions

New for this year: For purposes of rating vendors to determine their placement on the Magic Quadrant figure, we added quantitative analysis of the customer experience gathered through the use of a structured end-user survey of clients, which were identified by the providers. In all, 78 customers across 11 of the 12 providers in this report participated in the survey. (CGI did not offer a list of clients to participate.) Within the survey, respondents were asked questions spanning the scope of services they utilize from their provider, including such areas as their level of satisfaction with current services, drivers for investment in payroll outsourcing, importance of various factors in selecting their provider, implementation time frames, and current and future adoption of services. The centerpiece of the survey asked respondents to indicate their satisfaction across four major areas — payroll-related functions, technology, provider-customer relationship, and payroll BPO outcomes — and covering 32 satisfaction criteria (see the Evidence section for more detail). Respondents were asked to rate success or satisfaction against various criteria using a 7-point scale, in which 1 equals lowest and 7 equals highest. The survey results factored heavily into providers' ratings among the seven criteria comprising Ability to Execute (and determining their placement on the y-axis in the graphic) as well as into the profile narratives presented below. Refer to the Evidence section at the end of this report for more details on this survey.

Note that all reported customer counts are as of 1 June 2015.

ADP

Based in the U.S. and having 2014 revenue of \$10.3 billion, ADP is the largest payroll service provider in the world. ADP maintains more than 600,000 clients on its various payroll platforms, employing 52,000 staff to administer payroll for 35 million employees in more than 100 countries (in combination with its partners). The company offers payroll administration using multiple delivery models: BPaaS, managed and comprehensive outsourced, as well as SaaS-only and hybrid (combination of BPaaS and SaaS) solutions. The company utilizes domestic payroll solutions in 20 countries and multicountry payroll solutions in more than 100 countries. It also has developed a network of 11 payroll and HR Centers of Excellence. (Note: ADP's total revenue and employee count declined in 2014 after its spinoff of CDK Global, its automobile dealer software and service division, in October 2014.)

ADP continues to grow its partner network, partnering with dozens of providers of outsourcing, consulting, software development and technology services. In addition to its proprietary platforms, ADP is able to deliver integrated multicountry payroll and HR solutions through a partnership with SAP (delivered through SuccessFactors Employee Central).

Strengths

- **Platform flexibility:** ADP supports some of the largest companies and government organizations in the world. It can manage very large clients, with some having more than 140,000 employees, and it can manage very complex payroll environments for single-country and multicountry clients. Furthermore, ADP has a solution for every organization profile, including large

multinational corporations (MNCs), midmarket companies, and small or midsize businesses (SMBs).

- *Client satisfaction and retention:* In spite of its mammoth portfolio of clients, ADP has retained clients at a rate of more than 91% and has an average client tenure of 12 years. ADP was rated as one of the top three providers in this report based on satisfaction scores from survey respondents across payroll-related functions, technology, and provider-customer relationship criteria.
- *Significant investment in technology and payroll domain innovation, and research:* ADP will invest more than \$760 million in HR, payroll and technology research this year. Recent notable innovations include its modeling tools for the U.S. Affordable Care Act; the ADP Marketplace, allowing developers to expand ADP's services; and the ADP DataCloud, which allows clients to access ADP's (anonymized) database of the 24 million U.S. employees in order to perform their own benchmarking, data analysis and predictive modeling.

Cautions

- *Speed of integration among offerings:* ADP continues the integration efforts — among its several proprietary solutions, and with its numerous payroll and other HR-related providers — in the hope of achieving more seamless global data management and assisting in client migrations from one platform to another. However, ADP's various offerings still overlap market segments (such as by size of company and by country), causing some confusion in the market.
- *Pricing inconsistency:* While ADP has engaged in almost every type of competitive scenario for its services, its pricing can sometimes be uncompetitive and inconsistent. Buyers with almost identical situations, but located in different geographies (and sometimes the same geography), can see significantly different pricing for identical services.
- *Inconsistent customer support services:* While survey respondents scored ADP's client account management and ongoing support above average, a number of respondents also indicated challenges with overall customer support, specifically citing changes in support staff and the centralized support structure that slows access to deep domain expertise.

Aon Hewitt

Aon Hewitt is the HR consulting and outsourcing subsidiary of Aon. Based in the U.S., it has more than 30,000 employees providing talent, retirement and health services globally, generating approximately \$4 billion in revenue. Approximately 600 of its employees focus on payroll outsourcing services, administering payroll for more than 1 million employees in eight countries. For one of its largest clients, Aon Hewitt services more than 147,000 employees across 41 countries. In addition to payroll outsourcing, Aon Hewitt offers outsourcing across the breadth of HR administration.

Aon Hewitt offers payroll BPO services through managed payroll and service bureau models, utilizing SAP, Workday and Oracle's PeopleSoft platforms; however, its largest single solution investment is in Workday, having spent more than \$200 million on this operating model. In March, Aon Hewitt sold its proprietary Asia/Pacific payroll platform, HewittPay, to Everstone; the software

now operates under the name Excelity Global. Aon Hewitt partners with Excelity Global to deliver services to shared clients and to new clients that need global payroll services. Aon Hewitt's ideal payroll outsourcing prospect is a global company that has 10,000 or more employees, that desires to roll out Workday for human capital management (HCM) globally, and that needs payroll services in the U.S., Canada or the U.K.

Strengths

- *Global leader in Workday-based services:* The quickly growing popularity of Workday strengthens Aon Hewitt's position as a payroll outsourcer. The company has more than 500 staff committed to Workday-related services (after its February 2015 acquisition of U.K.-based Kloud). It is one of the largest providers of Workday services in the world, having deployed Workday for HCM for more than 230 clients in more than 150 countries.
- *Comprehensive, market-leading HR consulting assistance:* Since its inception, the former Hewitt Associates has been known for its breadth, depth and creativity. The company offers payroll BPO buyers comprehensive services in HR strategy, program design and implementation, administration, compliance, and HR research.
- *Strong provider-customer relationships:* Survey respondents ranked their satisfaction with ongoing communications and support, general client account management, and live or automated support with employee payroll inquiries as above average. The technologies utilized by Aon Hewitt also ranked above average, with clients specifically noting advantages across system quality and performance, flexibility to support future changes, and embedded best practices.

Cautions

- *Limited geographic service footprint:* Although Aon Hewitt's broader HR BPO services support clients with employees in 65 countries, payroll BPO services are offered in only eight countries. In the growing and highly competitive market for payroll services — whether on a stand-alone basis or bundled with other HR BPO services — the company must quickly work to expand this service footprint or risk stifling the new growth that it is experiencing.
- *Limited analytics:* Until recently, Aon Hewitt offered only limited analytics capabilities, with most of it consisting of basic metrics and transaction reporting and no predictive analytics. The company relies heavily on Workday's analytics tools, on those of its partner Visier, and on ones offered by the providers of the underlying ERP platforms it supports. Beyond its myHR and UPoint portal and interface tools, the company is waiting on Workday to develop mobile apps and social media tools.
- *Cost-effectiveness:* The cost-effectiveness of the Aon Hewitt offerings was rated by survey respondents slightly below the survey average of other providers in this report. When asked about the provider's success in meeting implementation objectives around cost reduction and better cost management, respondents also scored these areas below average.

Ceridian

Based in the U.S., Ceridian provides payroll and HCM services to more than 100,000 clients, administering payroll to more than 25 million employees; in conjunction with its partners (notably, SD Worx and Talent2), it offers services in more than 70 countries in 15 languages. It generated \$900 million in revenue in payroll and other HR-related services; its almost 8,800 employees are primarily in the U.K. (its largest service location), the U.S. and Canada. (Note: Ceridian's revenue and employee count declined in 2014 after its spinoff of Comdata, its electronic payment software and service group, in late 2013.) The company offers payroll services through multiple delivery models, including BPaaS, managed, service bureau and fully outsourced bases, and it offers them on a SaaS basis as well.

Ceridian intends to use its Dayforce platform (acquired in 2012) for administration of all its clients' payroll and HCM processes. Additional platform enhancements have resulted in year-over-year growth in implementations of more than 80%, a growing partner ecosystem, and improved customer service. Ceridian serves clients that range in size from fewer than 100 employees up to as many as 200,000 employees. It generally targets large companies (up to 50,000 employees) that are in growth mode, have a high level of merger and acquisition activity, face major payroll challenges, and/or are attempting to meet cost-cutting mandates.

Strengths

- *Wide breadth of solutions:* Ceridian has payroll solutions for every organization profile — for large or global organizations, for midsize to large organizations, and for SMBs in the U.S. and Canada. Additionally, Dayforce has been structured for ease of integration by external systems in such areas as file import/export, visual integration and Web services.
- *Product stability:* Despite the customer service demands that have accompanied the remarkable growth in Dayforce implementations in 2014, Ceridian has been able to improve its customer service metrics in such areas as service tickets per client, cases closed per Ceridian team member, and clients managed by team member — all serving to improve service as well as generate process efficiency. It also instigated vertical-focused implementation teams, allowing it to maintain implementation time frames of six to nine months and maintain low implementation backlog.
- *Engaged, satisfied clients:* Ceridian's customer interaction program, XOXO, incorporates peer-to-peer engagement and content co-creation. Survey respondents scored Ceridian among the top three providers in this report for satisfaction across payroll-related functions, technology, provider-customer relationship and payroll service outcomes. Clients also indicated that the cost-effectiveness of Ceridian's services were significantly above average.

Cautions

- *Narrow service delivery footprint:* More than two-thirds of its revenue originates from the U.S. and Canada and one-quarter from the U.K. and Ireland. (Remaining revenue is generated in the 65-plus countries Ceridian services.) Prospective clients headquartered outside the U.K., the U.S. and Canada (or those having no employees at all in those countries) will want to confirm Ceridian's resources are committed to their locations.

- *Implementation time frame and resources:* While Ceridian maintains implementation time frames of six to nine months, prospective buyers managing large, multicountry or especially challenging payroll environments should seek confirmation of Ceridian's resources for the critical due diligence and implementation planning phases of a new relationship.
- *Internal knowledge growing pains:* While most surveyed areas scored above average, survey respondents indicated below-average satisfaction with "live or automated assistance with employee payroll inquiries" and "ongoing support and communication," signaling some internal knowledge development challenges as Ceridian replaces older technologies with its newer Dayforce BPaaS platform within its BPO service offering.

CGI

Note: CGI did not respond to requests for supplemental information and/or to review the draft contents of this document. The Gartner analysis is therefore based on other credible sources, including:

- *Publicly available information*
- *CGI's website*
- *Discussions through inquiries with Gartner clients to whom CGI provides services*

CGI, headquartered in Canada, is a \$10 billion IT and business process service company with 68,000 employees worldwide. CGI has 1,600 employees in its payroll service organization, located mostly in Canada, Sweden and the U.K. The company provides services to 800 large clients, primarily out of the U.K. and Sweden, through its acquisition of the former Logica, and it services 29,000 Canadian SMB clients (each typically having fewer than 200 employees) through two Canadian organizations that serve as resellers — National Bank of Canada and Desjardins. CGI's largest client has more than 40,000 employees.

CGI offers partially and fully managed payroll solutions utilizing platforms that include Oracle and SAP, its own proprietary systems, and a combination/best-of-breed solution; it also offers a SaaS option. It generates \$200 million in payroll-related revenue and has an extensive partner network. In total, CGI serves 3.8 million client employees who are in six countries. Forty percent of CGI's total BPO revenue is derived from public-sector clients, while 60% is derived from the financial services, manufacturing, retail and distribution verticals.

Strengths

- *Payroll domain innovation:* CGI continues to make strides in creating processing improvements to reduce payroll inputs/interfaces, standardize outputs, and improve portal functionality and reporting features. It supports these improvements with its payroll support call center, which takes approximately 400,000 calls annually.
- *Expertise in complex environments:* CGI is recognized by its large clients for strength in managing complex payroll environments, especially those involving unions and complicated benefits structures.

- *High level of performance and client satisfaction:* Larger reference clients cite the company's stellar performance in meeting SLAs throughout their contract lengths, high degree of professionalism, understanding of clients' business, and partnering with clients when making major changes.

Cautions

- *Unbalanced vertical focus:* CGI is strong in the public sector in the U.K. and Sweden, but its heavy concentration in this one vertical puts it at risk of overlooking demands from other sectors and underinvesting in them.
- *Narrow service penetration:* CGI does not heavily cross-sell its other services — including health and insurance administration, bank and fuel cards, and data exchange services — to its large commercial clients. Failing to do so limits its vertical footprint, limits broader related service areas to existing clients and leaves these clients — each of which generates significant revenue — vulnerable to broader service elsewhere.
- *Limited technological enhancements or investment:* CGI's large-client group has made limited investment in mobile apps, social media and data analytics tools. This puts it at a competitive disadvantage, because this type of technology innovation is gradually becoming a requirement among BPO buyers.

HP

With headquarters in the U.S., HP has 2,900 payroll and HR BPO employees in service centers located across North America, Latin America, Europe and Australia. HP provides payroll outsourcing, utilizing its 2,900 payroll and HR BPO employees located in service centers around the world, and serving more than 30 large-enterprise clients across the globe, as well as more than 700 SMB clients in Germany and Austria; in total, it serves more than 25 million employees in more than 40 countries. HP does not offer a proprietary payroll platform, but instead offers managed payroll services through a payroll and HR ecosystem, utilizing the client's instance of various payroll technologies. Additionally, HP plans to split into two public companies effective 1 November 2015, which may cause some business disruption. HP's payroll BPO services will be a part of Hewlett Packard Enterprise.

The client technologies managed by HP include Workday, Oracle's PeopleSoft, SAP ERP HCM and SuccessFactors (including Employee Central and talent management modules); HP's broader HR BPO ecosystem includes numerous partners and providers. HP itself is Workday's largest implementation, covering 330,000 employees in more than 170 countries, and Workday was implemented by HP's internal HR and IT resources. The company seeks to leverage its lessons from this massive implementation — as well as those gleaned from its other significant payroll implementations — to pursue new Workday-based and other large, complex payroll projects and HR BPO projects.

Strengths

- *Strong global operations:* HP has demonstrated that it can manage very large and complex payroll environments based on its extensive services for large-enterprise clientele. In addition to process administration, HP offers HR- and technology-related support for clients in such forms as contact centers, application hosting, performance and trend analytics, management dashboards, workforce modeling, and competitive intelligence. Survey respondents rated their satisfaction with HP's support for payroll tax compliance, efficiency and timeliness, and ability to support the in-scope payroll volumes as above-average.
- *Wide breadth of solutions:* HP's ability to integrate a broad range of solutions allows buyers to leverage existing ERP and HCM investments, as well as to add other point solutions. HP's managed delivery models allow for hybrid managed SaaS solutions, as well as for migration from one delivery model to another.
- *Balanced distribution of clients and revenue across geographies and client size:* HP generates approximately 25% of its revenue from North American clients, 60% from EMEA clients, and the remaining 15% from Asia/Pacific clients. Approximately 70% of revenue comes from its more than 30 enterprise clients, and the remaining 30% from its SMB clients (all of which are in Germany and Austria).

Cautions

- *Innovation behind its competitors:* HP's lack of a proprietary BPaaS delivery option reflects its relatively slow speed of innovation. Combined with the company's impending split and its failure to promote aggressively its HR BPO services, HP must emphasize all the more its commitment to this service and to its continued growth.
- *Need for improved customer relationships:* Despite slightly above-average results in payroll-related functions, survey respondents scored HP somewhat below average in overall provider-customer relationship. Respondents were least satisfied with the handover from the implementation team to the support team, subsequent deployments and upgrades, and ongoing communications and support.

Infosys

Headquartered in India, Infosys has 1,100 employees in the payroll process and technology areas, providing payroll and related HR BPO services to more than 70 clients, serving a total of 260,000 employees and generating more than 6 million pay slips annually. The company offers payroll services through traditional BPO, managed and SaaS delivery models.

Infosys' investment in vertical expertise has been a factor in winning contracts; the more predominant vertical industries that Infosys serves are financial services, professional services, manufacturing, high tech and retail. Furthermore, the company has made major investments in process automation and other technology capabilities, resulting in performance gains in time sheet entry, virtual agent support, self-service capabilities, mobility, and its analytics and reporting tool,

Decision Insights. The company's partner network allows Infosys to provide payroll services to employees in more than 110 countries.

Strengths

- *Flexibility in solutions:* Infosys adopts and manages clients' current platforms and builds new capabilities wherever a client's employees are located. Its clients also utilize a variety of solutions, including SAP, Oracle and Workday; Infosys' proprietary TalentEdge solution; Infosys' partners' platforms; or a hybrid model leveraging a combination of these. Technologies can be combined in any of Infosys' delivery models.
- *Well-diversified client base:* Infosys has proven it can successfully manage very large, complex clients, but its clients are well-distributed across small, midsize and large categories. This balance has skewed toward the midsize and large clients since last year, as Infosys has won business with larger organizations.
- *Staff training and certification:* Infosys makes payroll expertise a high priority for its staff, emphasizing learning and certification through such organizations as the American Payroll Association and Australia's The Association for Payroll Specialists. This emphasis increases the quality of administration, and especially of consulting, related to payroll.

Cautions

- *Challenges in product focus:* As long as Infosys has a variety of payroll solutions to maintain and support (that is, solutions involving clients' legacy systems and interfaces with partners' solutions), it will have difficulty developing a strong payroll service strategy and increasing its market share. Currently, 85% of the company's clients began as or have become ITO clients, and only 15% are payroll or HR BPO clients.
- *Trailing technology investment:* Infosys continues to trail its competitors in developing BPO- and payroll-related capabilities. Reporting and analytics, for example, are areas in which survey respondents rated Infosys well below average compared with others in this report. Infosys relies on tools developed by provider partners (such as Oracle's PeopleSoft and SAP), whose platforms underlie Infosys' services.
- *Narrow geographic footprint:* Infosys generates only 15% of its BPO revenue from clients in North America (the largest BPO market), 5% in EMEA (the second largest BPO market), and fully 70% in Asia/Pacific (with most of that revenue coming from India). Buyers for North America- and Europe-based services must ascertain Infosys' commitment of resources in these regions.

NGA Human Resources

NGA Human Resources has 8,500 employees in more than 30 service delivery centers that provide payroll services to more than 6 million employees in 145 countries. Headquartered in the U.K., it provides payroll services in more than 25 languages, in any currency, and to every major vertical industry. Its payroll BPO services generate \$350 million annually. Its largest individual client has

more than 200,000 employees in 70 countries. The company targets generally large single-country companies and MNCs located in three or more countries.

NGA Human Resources offers payroll solutions utilizing BPaaS, SaaS, and other delivery models, as well as through hybrids of these delivery models. It offers the NGA Global Payroll-branded managed service that supports the company's euHReka platform (based on SAP ERP HCM technology) and that also accommodates Oracle Cloud HCM, SAP ERP HCM, SuccessFactors, and Workday platforms, as well as other HR-related point solutions. In conjunction with its core payroll administration services, it makes available help desk, payroll SMB access, case management, and document and knowledge management services, as well as an employee portal linking all underlying systems into a unified user interface for HCM applications and services.

Strengths

- *Innovation in payroll administration:* In addition to the range of platforms and service delivery options it manages, NGA Human Resources has invested heavily in its BPO Wrappers, for tighter integration within a client's tools. Additionally, its Payroll Exchange tool facilitates integration among payroll systems in 145 countries, with multiple core HR systems, and with other HR-related administration systems, such as those for time and labor management and benefits administration.
- *Solid integration of payroll-related systems.* The company continues to improve its technologies for mobile applications; end-to-end process automation and robotics; compensation administration; and analytics, as well as payroll offerings in new countries.
- *Partner integration:* NGA Human Resources has introduced a stricter certification process for third-party payroll providers with which they partner around the world, as well as expanded its network to achieve more complete coverage worldwide and to enable hybrid solutions.

Cautions

- *Acceleration needed in globalization and integration:* NGA Human Resources must continue its efforts to align and integrate its own series of technologies and processes more quickly with those of its partners. Its investments in NGA Global Payroll, Payroll Exchange, BPO Wrappers and myHRW portal are focused exactly where they need to be, but the efforts must continue and even accelerate to keep abreast of other leading providers.
- *Increased focus needed around release management:* Survey respondents' scores fell below average across product, technology, payroll BPO outcomes and provider-customer relationship; respondents indicated least satisfaction in the area of provider-customer relationship. Surveyed customers ranked the "handover from implementation team to support team" and "subsequent deployments and upgrades" as significantly below average, indicating needed improvements in the provider's ongoing technology release management processes.
- *Service considerations when supporting multiple platforms:* With its Payroll Exchange tool and the overall unification of the client experience across software and services, NGA Human Resources' clients on legacy systems are supported without a forced migration to the latest

offerings. However, with survey respondents reporting below-average scores across technology, services and BPO outcomes, NGA Human Resources should consider approaches that will assist clients in getting to the latest technologies and capabilities in order to improve overall customer experience.

Paychex

Founded in 1971, Paychex is one of the world's largest payroll providers, having 13,000 employees in more than 100 U.S. locations and locations in Brazil and Germany, and generating \$2.7 billion in payroll and HR service revenue. With headquarters in the U.S., SMB companies are its target market; it has 590,000 clients — 80% have fewer than 20 employees, but several have thousands or tens of thousands of employees receiving payroll services. Paychex services a total of 10 million employees.

All of Paychex's new business is generated primarily through direct sales and/or through its website, and none through referral partners or third-party sales. Clients utilize its proprietary platform to receive partially managed and fulfillment-only outsourcing services. In addition to payroll services, Paychex offers various bundled service packages; other services can include benefits administration, workforce administration, recruitment, talent management, training, and time and labor management, as well as 401(k) retirement, insurance, and tax preparation and filing services.

Strengths

- *Clear focus on target market:* Paychex targets SMBs ranging from only one employee up to more than 1,000 employees. Beyond offering payroll and HR services, Paychex offers assistance with how SMB entrepreneurs actually run their business, providing such services as push notices regarding the U.S. Affordable Care Act and sophisticated client communication through Web chat and social networks.
- *Ease of implementation and use:* Paychex optimizes the Internet to offer an easy purchase process, simple service delivery models (BPaaS, SaaS and on-premises), and live sales or product support by an assigned payroll specialist. Paychex ranked highest of all participating providers in overall satisfaction across payroll functions, technology, provider-customer relationship and payroll BPO service outcomes, although it should be noted that the survey respondents averaged 1,100 employees and utilized the provider exclusively in North America.
- *Investment in innovation:* Paychex's integrated HCM platform, Paychex Flex, better aligns its technologies internally; the company has demonstrated significant innovation in mobile phone and tablet apps; and it has developed multiple products to address challenges created by U.S. healthcare reform — challenges especially burdensome to the SMB market. To this end, Paychex also sponsors a private healthcare exchange for employers.

Cautions

- *Limited market focus:* Paychex must increase and accelerate its investment in acquiring clients with greater than 500 to 1,000 employees to protect itself from new competition in the SMB market. Furthermore, as economies are gradually recovering from the last recession, small

businesses in particular are growing in number, and continuous technology investments will be mandatory.

- *Limited service delivery footprint:* Paychex has only recently begun building service capabilities outside the U.S. and Germany. It has a joint venture with Semco Partners in Brazil and made an acquisition of Lohndata in Germany, both in 2013. Unless it accelerates expansion to new markets and countries (for example, Canada, the U.K., Australia or Singapore), it will retain the "small company only" and "U.S. only" perceptions the market has of it.
- *Time tracking and external integration:* Satisfaction scores for "services for time and attendance tracking," as well as "ease of integration with other systems," were slightly above average, but they were the lowest of 32 different satisfaction measures for the provider. Prospective buyers will want to ensure proper due diligence of the Paychex offerings if they are interested in these service areas.

SD Worx

Founded in 1945, Belgium-based SD Worx has a foundation of 70 years of payroll services. Its 2,100 employees are located in 40 offices throughout the Benelux countries, France and Germany; additionally, it is a co-founding member of the Payroll Services Alliance, a partnership of six independent payroll providers, through which it offers services in more than 30 European countries. SD Worx offers a complete range of service delivery models — SaaS, managed and comprehensive payroll services — and offers varying levels of service, including "premium" (highly automated) services. Approximately 90% of its \$297 million (€262 million) in revenue is attributable to managed and comprehensive services.

In addition to offering services on its proprietary payroll platform, it maintains partnerships with Workday, Cornerstone OnDemand, Talentsoft, Prottime and PeopleDoc. Its goal is to integrate these technologies to create a seamless, comprehensive international employment solution (SD Worx Connect). SD Worx utilizes its own HR Webworx and also Cornerstone OnDemand for talent management services, and it utilizes Peoplexs (a Talentsoft company) for recruitment services. Almost all of its solutions are delivered through the cloud, and SD Worx is moving from customized to more standardized solutions.

Strengths

- *Strong European provider:* SD Worx provides payroll services — directly or through the Payroll Services Alliance and other partnerships — to 45,000 clients and produces 1.6 million pay slips per month. Large clients can have up to 35,000 employees across more than a dozen countries. It offers extensive experience in the retail, banking/insurance, travel and leisure, transportation, and construction industry verticals. However, SD Worx's sales strategy outside of Belgium has not historically included a major focus on its vertical-related strengths.
- *Extraordinary focus on client satisfaction:* SD Worx has a long history of using client satisfaction surveys to fine-tune its customer experience. Reflective of the high scores for overall client satisfaction that SD Worx received in the Magic Quadrant survey, the company has taken other steps to institutionalize client satisfaction practices, including having 400 employees spend half

a day at 400 SMB clients in order to better understand the client's operations and help the client in its core business. Survey respondents rated SD Worx slightly above average in provider-customer relationship satisfaction, with clients indicating greatest satisfaction with general client account management and ongoing support and communications.

- *Innovation, analytics and thought leadership:* Surveyed clients indicated above-average satisfaction with the technology offerings of SD Worx, giving highest scores to product quality and ease of use for both employees and professional users. SD Worx continues to invest in leveraging the increasing use of technology in HR administration. Among other initiatives, it is developing a SAP-based payroll solution for midsize public-sector organizations, a "no frills" payroll offering, an enhanced HR portal for mobile devices, initiatives to expand data analysis to add value, and its new HR Performance Dashboard and Reward Benchmark tools.

Cautions

- *Uneven service quality:* Despite above-average satisfaction scores in provider-customer relationship criteria, feedback from surveyed clients indicate varying levels of service and knowledge across the multiple country service centers. Prospects and clients should make themselves familiar with support personnel's experience and seek out dedicated resources that will add value over time through deep knowledge of the client's environment and business operations.
- *Cost-effectiveness:* Despite above-average satisfaction with the provider and its offering overall, the cost-effectiveness of the SD Worx offering was rated by survey respondents slightly below average compared with other providers in this report. Configurability and ability to innovate around payroll processes were also slightly below average, perhaps contributing to the below-average score for overall cost-effectiveness.

Sopra Steria

Headquartered in France, Sopra merged with Steria in early 2014 to form Sopra Steria and has begun combining Steria's HR BPO operations with those of its 100%-owned subsidiary, Sopra HR Software. Sopra HR Software has 1,300 employees in 10 countries providing payroll and HR solutions and services to 850 clients and their 12 million employees located in 54 countries. Its clients are mostly larger MNCs headquartered in Europe, having up to 50,000 employees or more, but the company also offers a SaaS solution for SMBs.

Sopra HR Software generated more than \$180 million in revenue in 2014 for HR-related services, approximately 30% of which resulted from outsourcing services. Sopra Steria has a range of flexible service delivery options, including outsourcing, managed and on-premises solutions; however, it does not offer a BPaaS delivery model.

Strengths

- *Integration synergies:* Sopra appears to be integrating Steria's offerings, services and sales successfully — as it did with its acquisition of HR Access, also in 2014 (the results of which

were reported in the 2014 payroll BPO services Magic Quadrant). The two companies' overlapping HR BPO offerings are being integrated quickly.

- *Strong vertical coverage:* Sopra and Steria had complementary BPO offerings in payroll and other HR services, and the merger served to increase the market concentration. Slightly more than half of the new company's revenue is generated by Sopra HR Software's legacy French public-sector clients; additionally, Steria brought significant U.K. public-sector business to the merger.
- *Investment in mobile technology and analytics:* Sopra HR Software continues to enhance its analytics for "smart HR management" and invest in its new user interface and user experience, which offers an intuitive manager space, an employee "digital dossier," advanced context menus and ad hoc analytics reporting.

Cautions

- *Service uncertainty for Sopra HR Software clients:* Sopra's merger with Steria makes sense from Sopra's strategic perspective to grow its market share. However, existing Steria clients should be cautious regarding continuity in services, account teams and other service delivery elements, and prospective Sopra HR Software clients should require specific commitments from the company when planning implementation and ongoing service.
- *Limited geographic service footprint:* Sopra HR Software's services and corresponding strengths lie primarily in Western Europe and are targeted specifically for large companies headquartered in France. Large buyers that are headquartered outside of France or that are seeking payroll services outside of Western Europe should investigate the company's expansion plans, depth of staff and expertise. The Middle East and Africa (MEA) region is another area of expansion for the company, especially in French-speaking countries in Africa.
- *Need for greater focus on customer success:* Overall survey respondent satisfaction was below average for Sopra HR Software across all the major areas of evaluation. General payroll-related functionality and payroll BPO outcomes were ranked among the areas of least satisfaction, including significantly below-average scores for reporting and analytics (although these are continuing priority areas of focus for the provider), and cost-effectiveness.

Talent2

Talent2 is a leading payroll service provider in Asia/Pacific and the Middle East, serving 3,000 client entities and their 850,000 employees located in 30 countries. With headquarters in Australia, the company has 700 payroll staff in 19 countries, including 12 delivery centers, and provides services in 31 languages. The company offers payroll solutions using BPaaS, managed and SaaS delivery options, by using a single proprietary platform with consolidated reporting that is able to utilize any currency or language.

Talent2 has tackled very large, complex clients needing process re-engineering, process standardization and automation, and expanded service capabilities. Its typical clients are MNCs having 3,000 to 20,000 employees located in four to five countries, although its clients range in size

of up to 120,000 employees. In May of this year, private investment group 5Value Capital Partners (5VCP) acquired the payroll, learning and HR BPO operations of Talent2. The company will be rebranded in September 2015 and has outlined a strategy centered on customer excellence, innovation and leadership in the Asia/Pacific region.

Strengths

- *Strong Asia/Pacific presence:* Talent2's market focus is on the Asia/Pacific region, where it has a dominant presence. Its service delivery centers are all in Australasia, Southeast Asia and the Middle East — the first two of which are the fastest-growing regions in the world for HR BPO services, as well as for BPO services in other domains, such as finance and customer management.
- *Investment in innovation:* Along with continuing investment in its signature payroll platforms, Talent2 has significantly enhanced its employee/manager dashboard and mobile app, as well as moved all of its infrastructure to an infrastructure as a service (IaaS) platform. Following the recent change in ownership, Talent2 has announced a Connect program that will support seamless integration with other HCM applications.
- *Extensive compliance and consulting services:* Talent2 serves countries having extremely complicated payroll tax and regulatory compliance requirements. It offers comprehensive compliance services that incorporate internal and external service delivery resources, such as statutory agencies, legislative and regulatory reviews, global consulting companies, and legal and tax publications.

Cautions

- *Distracted internal focus:* This year's survey of clients indicated satisfaction scores that were below average across all measured areas, including payroll functionality, technology, BPO outcomes and provider-customer relationship. (These satisfaction scores may be related to the fact that the survey was administered just as the 5VCP transaction was underway.) The cost-effectiveness of the offering was rated well below the average of other providers in this report. Since the acquisition, the company has been focused on customer excellence and service delivery, with the impact already being noted by clients.
- *Regional service footprint:* Talent2 does not have operations in North America or Europe — the world's largest payroll BPO markets. However, its partnerships with Ceridian and Workday provide access to those markets.
- *Lack of access to productivity tools:* Some survey respondents rated their satisfaction with the reporting and analytics capabilities of Talent2 well below the average of other providers in this report; they also noted below-average satisfaction with "portal or smart device tools for employee and people manager self-service related to payroll," and indicated user experience for professional users, as well as end-user employees and managers, is an area for improvement.

Xerox Services

Xerox Services, the business service arm of Xerox, generated \$10.6 billion in revenue in 2014, representing 54% of total Xerox revenue. Headquartered in the U.S., Xerox Services has more than 500 payroll staff who provide services to more than 270 clients from 12 payroll service centers, delivering services in 23 languages to more than 500,000 employees in more than 30 countries. Its BPO services are offered through BPaaS, managed and SaaS delivery models.

In addition to its payroll services, Xerox Services offers services across the breadth of HR administration, strategy and program design (through its Buck Consultants arm); global learning strategy, administration and delivery; benefit, reward and pension administration; and relocation and international assignment administration. The company offers a sophisticated information management toolkit that includes tools for reporting and analytics, document management, knowledge management, case management and workflow routing.

Strengths

- *Strong global operations:* Xerox Services has demonstrated that it can manage very large and complex payroll environments, having clients in sizes of more than 200,000 employees and pensioners. The company's clients are headquartered mostly in the U.S. (60%), but it has strong representation in Western Europe (30%) and Asia/Pacific (10%). Survey respondents noted above-average satisfaction with payroll-related outcomes, as well the overall provider-customer relationship.
- *Comprehensive, flexible solutions:* Xerox Services offers turnkey payroll, HR and workforce administration services using partners such as ADP, as well as utilizing a global network of regional employee service centers offering multiple languages. The company also offers payroll BPaaS through its Employee Engagement Centers based on a managed service model utilizing a client's instance of other payroll and HR technologies (for example, Oracle, SAP or Workday). It has developed a portal wrapper that provides a consistent look and functionality, regardless of underlying technologies. Xerox Services received above-average satisfaction scores across reporting and analytics services from surveyed clients.
- *Innovation and consulting investment:* Known for its innovation, Xerox Services invests significantly in business service research, including sponsoring an HR Services Innovation Council. It is also expanding its consulting services to meet a growing need from its BPO clients; its consulting services generate more than \$300 million in revenue and include HR transformation and employee engagement assistance to clients.

Cautions

- *Focus on custom-designed client platforms:* More than 80% of Xerox Services' payroll BPO revenue is generated from the management of clients' custom-designed solutions. While almost all new deals are BPaaS- or SaaS-based (or a hybrid), a high percentage of legacy custom-designed business will draw investment away from new BPaaS technology.

- *Difficult technology configurability and integration:* Survey respondents indicate slightly below-average satisfaction with the provider's technology, indicating the least satisfaction with its ability to customize or configure the technology, ease of integration with other systems and flexibility to accommodate future scope.

Vendors Added and Dropped

We review and adjust our inclusion criteria for Magic Quadrants and MarketScopes as markets change. As a result of these adjustments, the mix of vendors in any Magic Quadrant or MarketScope may change over time. A vendor's appearance in a Magic Quadrant or MarketScope one year and not the next does not necessarily indicate that we have changed our opinion of that vendor. It may be a reflection of a change in the market and, therefore, changed evaluation criteria, or of a change of focus by that vendor.

Added

No providers were added this year.

Dropped

Symphony Human Resource Solutions was dropped this year because its revenue fell below the minimum requirement of \$75 million in payroll-related revenue.

Inclusion and Exclusion Criteria

Quantitative Criteria

To be included in this research, a payroll BPO service provider must meet all the following criteria:

- Offer payroll BPO services on a stand-alone basis — that is, a payroll BPO service provider's services are offered and can be purchased without a buyer having to contract for any other HR BPO service (such as benefits administration or time and attendance services) or IT services (such as application management). However, the provider may additionally offer payroll services bundled with other services.
- Have at least \$75 million in annual payroll BPO service revenue in 2014.
- Have at least 10 signed payroll-only BPO service clients, on which at least five are referenceable.
- Provide payroll BPO services outside its home country — that is, provide services to at least one company headquartered outside the provider's home country, or provide services to clients' employees who are located outside the provider's home country.

Qualitative Criteria

There were no qualitative criteria for being included in this report.

Providers Not in Scope

Although 12 providers met the inclusion criteria and were profiled in this Magic Quadrant, several payroll providers did not meet the criteria. This was because their payroll services required bundling with other HR outsourcing services or their annual payroll BPO service revenue was less than \$75 million. Many of these providers offer the same breadth of payroll services mentioned above, as well as serve the needs specific to many geographies and vertical industries, the SMB market, and multicountry/global enterprises. Examples of payroll BPO service providers not evaluated in this document include:

- Accenture
- Capita
- Genpact
- IBM
- Intuit
- MidlandHR
- Raet
- SafeGuard World International
- Tata Consultancy Services (TCS)
- Wipro

Inclusion in this Magic Quadrant does not represent an endorsement by Gartner of the provider or its services, and exclusion from the report does not represent a negative view by Gartner of the provider or its services.

Evaluation Criteria

Ability to Execute

Gartner assesses payroll BPO service providers' Ability to Execute by evaluating their payroll processes, systems, methods and procedures that enable them to be competitive, efficient and effective in the market and to positively impact revenue, client satisfaction and retention, and general market reputation. A provider's ability to execute is judged on its success in delivering on its promises. The following seven criteria are used to determine a provider's Ability to Execute.

Product or Service: This criterion includes core services that compete in and serve the payroll BPS market. This includes current service capabilities, quality, feature sets, and staff expertise and skills, and whether these components are offered natively or through partnerships.

Overall Viability: This criterion evaluates the soundness of the overall financial health, as well as considers the likelihood of the provider continuing to invest in the service offering and advancing the state of the art within the portfolio of services.

Sales Execution/Pricing: This criterion comprises the capabilities in all presales activities and the structure that supports them. This includes the overall effectiveness of sales channels, presales support, pursuit management, and pricing, negotiation and contracting.

Market Responsiveness/Record: This criterion evaluates the ability of the provider to respond and achieve competitive success as opportunities arise, competitors act, customers' needs evolve and market dynamics change. This criterion also considers the provider's history of responsiveness.

Marketing Execution: This criterion refers to the clarity, quality, creativity and efficacy of programs designed to deliver the provider's message in order to influence the market, promote its brand and business, increase awareness of services, and establish a positive identification with the provider's service/brand in the minds of payroll BPS buyers. This mind share can be driven by a combination of marketing and sales activities.

Customer Experience: This criterion includes the relationships, resources and programs that enable customers to be successful with the service offered. Specifically, this includes the ways customers receive technical or account support. This can also include the existence and quality of such customer resources as ancillary tools, support programs, availability of user groups, and service-level agreements.

Operations: This criterion refers to the provider's ability to meet its goals and commitments. Factors include the quality of the organizational structure, staff skills and experience, customer programs, systems, and other resources that enable the provider to operate effectively and efficiently on an ongoing basis.

Table 1. Ability to Execute Evaluation Criteria

Evaluation Criteria	Weighting
Product or Service	High
Overall Viability	High
Sales Execution/Pricing	Standard
Market Responsiveness/Record	Standard
Marketing Execution	Low
Customer Experience	Standard
Operations	Standard

Source: Gartner (July 2015)

Completeness of Vision

Gartner assesses payroll BPO service providers' Completeness of Vision by evaluating their ability to articulate their perspectives on current and future market direction, to anticipate customer needs, and to successfully meet competitive forces. A provider's Completeness of Vision is judged on its understanding and articulation of how market forces can be exploited to create new opportunities for itself and its clients. The following eight criteria are used to determine a provider's Completeness of Vision:

Market Understanding: This criterion evaluates the strategy for communicating, both internally and externally, a clear, differentiated set of messages through the provider's website, advertising, customer programs, positioning statements and other marketing tools and channels.

Marketing Strategy: This criterion includes a clear set of messages consistently communicated throughout the organization and externally through a variety of marketing channels, such as a website, advertising, customer programs and positioning statements. The messages must differentiate the provider's services and articulate the value it delivers.

Sales Strategy: This criterion refers to the strategy for selling services that incorporates the provider's staff, tools and channels, including partners and affiliates, and which leverages the provider's market reach, staff skills and expertise, technologies, services, and customer base to produce sales.

Offering (Product) Strategy: The approach to development and delivery of offerings that emphasizes the offering's functionality, methodology, differentiation and feature set and how they map to current and future market demands.

Business Model: This criterion considers the soundness and logic of the provider's underlying business proposition.

Vertical/Industry Strategy: This criterion refers to the strategy for directing resources, staff and offerings to meet specific needs of individual market segments, such as verticals and SMBs.

Innovation: This criterion refers to the amount of direct investment of expertise, capital and other resources in the development of innovation in the offerings with regard to the use of new technologies and to improvement in process efficiency.

Geographic Strategy: This criterion refers to the provider's strategy to direct resources and skills to meet specific needs of geographies outside its "home" or native geography, either directly or through partners, channels and subsidiaries.

Table 2. Completeness of Vision Evaluation Criteria

Evaluation Criteria	Weighting
Market Understanding	High
Marketing Strategy	Standard
Sales Strategy	Standard
Offering (Product) Strategy	High
Business Model	Low
Vertical/Industry Strategy	Standard
Innovation	High
Geographic Strategy	Standard

Source: Gartner (July 2015)

Quadrant Descriptions

Leaders

Leaders perform exceptionally well by having a clear vision of market direction and client needs and by actively building capabilities and competencies to satisfy clients and to sustain their leadership position. Leaders have superior market understanding, and they manifest it through marketing and sales strategies that both respond to and lead the market for these services. Leaders invest in continuous research and innovation in technology and payroll administration, have strong financial viability, and have customers who consistently testify to an extraordinarily positive relationship.

Challengers

Challengers execute well today, but they have yet to capitalize on their vision. Challengers typically need to refine and enhance their marketing and sales strategies, increase their commitment to innovation and research, and produce innovative results. They may also need to expand their geographic service footprint and emphasize vertical expertise not only to align their services closely to the needs of existing and prospective clients, but also to influence the market's direction.

Visionaries

Visionaries have a clear vision of the market's direction and may be preparing to serve it, especially with innovative technology solutions. But they must improve their responsiveness to current market trends, consistently deliver excellent service, and ensure their clients are fanatics about their service. (Note: No providers evaluated in this Magic Quadrant were considered to be Visionaries; this may be attributable to the fact that payroll services are fundamentally transactional in nature, and providers' performance is heavily evaluated on transactional metrics. Consequently, payroll BPO service providers have not historically focused to any great extent on forward-looking, visionary strategies or services, to the detriment of their service execution.)

Niche Players

Niche Players typically concentrate their strategy and services on particular market segments, such as single-country or single-region segments, specific vertical segments, or segments by client size. They also may not be particularly strong in either execution or vision.

Context

The Magic Quadrant inclusion criteria paint the profile of a provider that is focused, strong and expanding in its offerings and its delivery of them, in various geographic and vertical-specific areas of service. Some providers have fewer service options than others (for example, they offer only fully outsourced or managed payroll services), and some have a narrow geographic service footprint (for example, they serve clients headquartered in only two countries). The number and breadth of their offerings and locations, among other factors, contributed to their ratings in this report. (See the Inclusion and Exclusion Criteria section in this report for a detailed description of all criteria.)

Gartner's deep analysis of the 12 providers' competitive positioning is indicated by their placement in the Magic Quadrant graphic, made according to the criteria described above and strengths and cautions we detailed for each. The ratings were developed through a combination of the following:

- Primary and secondary research
- Briefings with the providers
- An online survey administered to a total of 78 of the providers' clients
- Input from the Gartner BPO research community

- Interactions with Gartner clients through inquiry regarding the providers
- Business and financial press reports
- BPO market developments

A buyer's selection of a payroll BPO service provider begins with a detailed identification of the buyer's own needs, followed by an education about and a comparison of various providers' services and strengths, and leading finally to the selection of the provider that can best meet the buyer's needs and a successful contract negotiation. Gartner's payroll BPO services Magic Quadrant is a useful starting point from which to identify and evaluate the group of providers meeting Gartner's criteria.

Note: Placement of a provider in the Leaders quadrant is not a representation by Gartner that the provider has the best fit with a buyer's needs.

Market Overview

A Business Staple, Payroll BPO Services Continue Worldwide Growth

For organizations — whether small or global — the appeal of outsourcing some part of HR administration continues to expand around the world, and Gartner forecasts payroll outsourcing to continue to grow for the foreseeable future. Gartner forecasts the total HR BPO market to grow 2.3% in 2015 and to grow at a compound annual growth rate (CAGR) of 5.1% through 2019. Gartner forecasts the payroll and benefits administration BPO portion of the HR BPO total to grow 2.9% in 2015 and to achieve a 5.3% CAGR through 2019. Regional variances are described below:

- In North America, which has 56% of the global HR BPO market, Gartner estimates that only approximately 35% of large companies outsource payroll — leaving much room for growth.
- Whereas in Western Europe, which has 22% of the global HR BPO market, Gartner estimates at least 50% of large companies already outsource payroll — such as North America, leaving much room for growth.
- In Asia/Pacific, the payroll outsourcing and broader HR BPO trends started later than in North America and Western Europe, but in some countries (such as China, India, Indonesia and Malaysia), it is growing more quickly — with CAGRs of up to 20.0% or more through 2019.
- Other geographies (such as Latin America and the Middle East) show tepid or erratic growth patterns, due to the vulnerability of their small markets and to currency fluctuations.

The emerging business markets of India and China have produced environments in which domestic companies have become *consumers* of BPO services rather than only *providers and exporters* of these services, as these countries have traditionally been viewed. Also, Mexico, Brazil, Latin America in general and the Emerging Asia/Pacific regional market show similar signs of growing payroll outsourcing adoption by native companies.

Reducing payroll administration cost and risk remains one of the top three drivers for payroll BPO buyers. Organizations worldwide — especially first-time buyers — continue to view payroll outsourcing as a way to reduce larger HR functional costs significantly and quickly through process efficiencies; improve the overall quality of their payroll administration through the introduction or expansion of employee and manager self-service; and utilize staff effort and expertise more efficiently once freed from routine administration responsibilities. Within a typical company's total HR functional cost, payroll administration, while not always the costliest single function, is sufficiently large to warrant an assessment if not currently outsourced.

Providers continue to evolve and innovate their offerings, growing revenue from both established clients and prospective ones. Additionally, the payroll BPO market is growing for services offered through both TBPO (which is heavily labor-based) and BPaaS (which is cloud-based), and both models are growing in mature and emerging business markets. Payroll BPO service providers recognize that, to maintain pace with both technology advancements and buyers' demands, they must compete aggressively by:

- Enhancing payroll offerings through the addition of such capabilities as analytics or consulting
- Developing or acquiring entirely new payroll offerings, such as a cloud or hybrid payroll offering
- Enlarging their geographic service delivery footprint and entering new markets
- Appealing to vertical industry-specific requirements
- Undertaking other strategies

Providers know that buyers won't be attracted to offerings that don't continuously evolve and mature, and worse, buyers will eventually consider such static offerings to be commodities. Buyers will always expect more because they have come to understand that it is *technology* — in the form of cloud functionality, software, mobile apps, and "robotic" or virtual automation — and not simply efficient *processes* that increases the efficacy and value of administration outsourcing.

In addition to payroll, providers are investing in other HR service areas and bundling them with payroll to offer consolidated administration at advantageous pricing. These other HR services include outsourcing for benefits administration, time and attendance, recruitment, learning, background screening, contingent labor management, management of other third-party providers of HR services, and data audit and forensics. By offering services both individually and bundled, providers give buyers increased access, transparency, flexibility, cost benefits (when bundled), and control across the gamut of HR services.

Buyer Trends in Payroll BPO Services

Gartner describes trends in payroll BPO services and the variety of causes of this steady growth in the following section. Payroll BPO buyers and providers must understand these trends and causes to remain at the forefront of functionality and competition.

BPO Providers Deliver Varied Success Against a Variety of Objectives

In this year's survey of payroll BPO customer experiences, survey respondents were asked to identify their top objectives for implementing their provider's payroll BPO offering. The top three drivers were identified as:

- Improving quality of services
- Reducing cost of overall payroll operations
- Standardizing payroll processes

When asked about how successful they were in meeting these objectives with their payroll BPO provider's services, clients gave an overall rating of 5.7 (out of a maximum score of 7), or an 81% success rate against these objectives.

We also surveyed clients' satisfaction levels across four major areas of capability and outcomes: payroll-related functionality, technology, payroll BPO outcomes, and provider-customer relationship. The highest levels of satisfaction were reported in overall payroll BPO outcomes area and payroll-related functionality, with scores of 5.82 (83% satisfaction) and 5.70 (81% satisfaction), respectively. Technology-related attributes scored the lowest in aggregate satisfaction (5.22): None of the 10 measured criteria in this category scored above a 6.0 in client satisfaction, and the lowest rating area was "reporting and analytics capabilities," with an average score of 4.9. Individual providers' scores in this area of reporting and analytics ranged from a low of 2.0 to a high of 5.64, indicating a wide range of satisfaction levels across individual provider offerings.

Regional and size variations affect satisfaction as well. Based on survey responses, overall satisfaction with the payroll BPO provider and its services is highest among clients utilizing services in North America. This is likely due to more concentrated workers in a single region (North America) with fewer compliance complexities compared with other regions across the globe. Additionally, we found that satisfaction levels were highest for clients with fewer than 2,500 employees or more than 75,000 employees. Gartner believes the smaller clients are achieving high levels of satisfaction due to more standardized delivery models and less complexity, while clients with more than 75,000 employees receive typically higher levels of customization or dedicated support from their BPO service providers.

Globalization of Service Provision

Large organizations, and especially those having multicountry operations, see outsourcing payroll as a way to place all global payroll operations on a common platform and/or to consolidate all outsourced payroll services with fewer providers or even a single provider. This situation can, in some client instances, reduce total provider costs for the organization, reduce internal provider management and governance, and allow the organization to manage a provider (or providers) to a consistent set of performance criteria across the organization's country locations and strategic business units (SBUs).

Standardization of Processes

Large or complex organizations also desire to standardize disparate payroll processes used across multiple countries and SBUs, enable consistent and comprehensive data collection and analysis, and simplify data integration among multiple internal and external systems. The organizations often see the introduction of outsourcing as a way to accomplish both globalization of providers (mentioned above) with the standardization of processes concurrently.

Attraction of BPaaS

In response to buyers' increasing demand for standardized processes and technological currency, leading payroll BPO service providers have developed BPaaS versions of their services. BPaaS incarnations of payroll outsourcing services are marked by:

- Enhanced service options that automate judgment and decision making (for example, calculating, reporting on, and then modeling the impacts of shift changes and overtime on both current and future payrolls)
- Reduced number of process steps or elimination of them (for example, building in audit checks and confirmations that previously were manually completed)
- Reduced human intervention, or elimination of it altogether, in the delivery of service (for example, allowing certain tax forms to be confirmed and then generated and distributed automatically)
- Reduced need for client-specific staff at the provider (through reduced need at the provider for manual intervention/oversight, elimination of some contact points and approval steps, distribution of forms, and so forth)
- Decreased cycle time and associated staff at the client (through reduced need at the client for manual intervention/oversight, elimination of some contact points and approval steps, distribution of forms, and so forth)

Because these improvements reduce a provider's overall staffing, they directly reduce its delivery costs — in some cases, significantly — potentially resulting in more favorable pricing, or at least freeing up resources to invest in new products and services.

Demand for Analytics

Reporting and analytics remain the areas of greatest dissatisfaction among BPO clients: In the survey of clients of providers included in this Magic Quadrant report, survey respondents rated reporting and analytics the lowest of 32 separately measured satisfaction criteria, indicating overall satisfaction of 4.9 out of a maximum score of 7 (or 70% satisfaction). Beyond basic reporting and metrics, the more sophisticated payroll BPO buyers at the largest companies want analytical data and associated tools to equip them to make more-informed decisions not only about payroll, but also for overall strategy for their compensation and broader HR programs.

Prescriptive analysis has become increasingly important regarding compliance with regulatory action, and more recently (in the U.S.), the Affordable Care Act; for providers offering prescriptive analysis in this area, employers can model compliance scenarios based upon their taking differing actions.

Demand for Ideation

As in previous years, clients indicated dissatisfaction with providers' lack of proactive ideation around payroll best practices, technology advancements or other improvements for them to consider. Even experienced payroll administration leaders desire to hear about and learn from their provider's experience with other clients, whether those experiences included:

- General trends in administration and alternative administration practices
- Successful, cost-saving payroll administration practices to implement, lessons learned from (unhappy) competitors' experience, and mistakes to avoid
- Trends in technology adoption and benefits derived from utilization of capabilities, such as self-service, smart devices and predictive analytics
- Future improvement opportunities (especially in anticipation of an upcoming renewal of services with the provider, when new functionality or capabilities may be implemented, or when fee changes may be involved)

Differing Demands in a Bifurcated Buyer's Market

Payroll BPO buyers fall into two types: First-time, and usually unsophisticated payroll BPO buyers (or first-time buyers of any type of BPO); and experienced, sophisticated buyers, confident in their provider analysis and decision-making skills. Payroll BPO service providers are becoming more adept at understanding the differences between first-time and experienced payroll BPO buyers in their service requirements, buying criteria and decision-making processes, and providers are approaching them differently.

First-time buyers especially must understand that these major buyer trends are both responses to and drivers of providers' offering enhancements, and therefore they demand the broadest and most sophisticated services offered, regardless of the extent of their own experience. Both first-time and experienced buyers listed the areas in which they desired more education and assistance from a provider. They include the following areas, although the importance varies with each client:

- Demonstrating experience in the buyer's vertical industry
- Assisting in developing a business case for outsourcing
- Accurately predicting the implementation effort needed for migrating to a new system and new processes
- Determining the number, organization and responsibilities of retained staff
- Knowing what type of change management effort may be required and the resources required to undertake it

Buyers clearly understand their responsibility to investigate potential providers; however, they are increasingly asking providers to uncover potential problems of which the buyers themselves may be unaware. While third-party sourcing advisors can assist with some of these items, many of these issues are best-resolved jointly with the provider.

Legislative and Tax Compliance and Coordination

Tax compliance is driving many organizations to evaluate payroll outsourcing, with compliance bundled with it, for the first time. Tax compliance becomes more complicated and demanding every year, and for some organizations, the demand reaches an inflection point at which they are ready to transfer payroll administration responsibility, risk, and related tax and legislative compliance to a third party. The more pressing legislative requirements include the Affordable Care Act in the U.S., changing superannuation requirements in Australia, and upcoming Social Security requirements in Japan. Payroll BPO adoption has been accelerating in countries when that inflection point is reached.

Targeting the SMB Market

Historically, most BPaaS offerings were developed for large and complex BPO clients; they were not developed (at least initially) for the SMB market. But now, during just past two to three years, most payroll BPO service providers have begun offering services to a gradually shrinking target size. In North America especially, continuous advancements in underlying cloud, software and infrastructure have increased the feasibility — and decreased the price — of offering payroll BPO services to the SMB market (generally, companies with as few as 10 employees up to 500 employees). Several providers evaluated for this report have developed new payroll offerings specifically for these smaller companies, and they have placed new marketing and sales emphases on the markets.

A BPO Provider Is Only as Good as Its People

Ultimately, BPO offerings depend on a combination of technology and service, but people deliver the service. Respondents to the client survey conducted in conjunction with this report were generally consistent in their scoring and written feedback on the important role that knowledge and experience played within the implementation and support staff of the BPO provider. Even in situations in which providers received all above-average scores in service, clients noted that it was the people — especially staff located in service centers — that made the difference in overall satisfaction. Both the best and the worst experiences centered on the knowledge and experience of the support center crew.

Evidence

In April 2015, Gartner conducted an end-user survey of 78 clients across 11 providers. In addition to questions spanning areas such as scope of BPO services, deployment models, implementation time frames, current and future planned service adoption, we asked about the clients' satisfaction with

the provider and their services across four major categories of BPO offerings. These four major areas include:

- **Satisfaction with the payroll BPO provider's payroll-related functions across eight criteria** (payroll production; payroll tax compliance; tax form production/filings; portal and smart device support for self-service; tools for time and attendance tracking; debit cards; live/automated assistance with employee payroll inquiries; and payroll-related analytics services)
- **Satisfaction with the payroll BPO provider's technology and technology-related attributes across 10 criteria** (such as product quality; incorporation of best practices; system performance; ability to customize/configure the application; ease of integration with other applications; ease of use for professional users; ease of use for employee/manager users; flexibility to accommodate future changes)
- **Satisfaction with the provider-customer relationship with the payroll BPO provider across seven criteria** (experience through the sales process; initial implementation and deployment; handover from implementation team to support team; ongoing support and communication; subsequent deployments and upgrades; general management of the customer account; and enhancement or modification request process)
- **Satisfaction with the payroll BPO provider's payroll-related outcomes across seven criteria** (cost-effectiveness; accuracy and quality of payroll services and deliverables; efficiency/timeliness of payroll processing; ability to support the payroll volume in scope; ability to innovate around payroll processes and services; ability to adequately meet legal and compliance requirements; and quality and depth of payroll reporting and analytics provided)

Gartner Recommended Reading

Some documents may not be available as part of your current Gartner subscription.

"How Markets and Vendors Are Evaluated in Gartner Magic Quadrants"

"The Impact of BPaaS on HR Outsourcing"

"Taxonomy of HR BPO Service Delivery Models: Select the Right Model to Meet Desired Outcomes"

"Predicts 2013: The Future of Business Consulting and Business Process Outsourcing Revealed"

"The Challenges of Moving Payroll to the Cloud Vary by Delivery Model"

"Market Guide for Human Capital Management Suite Applications"

Evaluation Criteria Definitions

Ability to Execute

Product/Service: Core goods and services offered by the vendor for the defined market. This includes current product/service capabilities, quality, feature sets, skills and so on, whether offered natively or through OEM agreements/partnerships as defined in the market definition and detailed in the subcriteria.

Overall Viability: Viability includes an assessment of the overall organization's financial health, the financial and practical success of the business unit, and the likelihood that the individual business unit will continue investing in the product, will continue offering the product and will advance the state of the art within the organization's portfolio of products.

Sales Execution/Pricing: The vendor's capabilities in all presales activities and the structure that supports them. This includes deal management, pricing and negotiation, presales support, and the overall effectiveness of the sales channel.

Market Responsiveness/Record: Ability to respond, change direction, be flexible and achieve competitive success as opportunities develop, competitors act, customer needs evolve and market dynamics change. This criterion also considers the vendor's history of responsiveness.

Marketing Execution: The clarity, quality, creativity and efficacy of programs designed to deliver the organization's message to influence the market, promote the brand and business, increase awareness of the products, and establish a positive identification with the product/brand and organization in the minds of buyers. This "mind share" can be driven by a combination of publicity, promotional initiatives, thought leadership, word of mouth and sales activities.

Customer Experience: Relationships, products and services/programs that enable clients to be successful with the products evaluated. Specifically, this includes the ways customers receive technical support or account support. This can also include ancillary tools, customer support programs (and the quality thereof), availability of user groups, service-level agreements and so on.

Operations: The ability of the organization to meet its goals and commitments. Factors include the quality of the organizational structure, including skills, experiences, programs, systems and other vehicles that enable the organization to operate effectively and efficiently on an ongoing basis.

Completeness of Vision

Market Understanding: Ability of the vendor to understand buyers' wants and needs and to translate those into products and services. Vendors that show the highest

degree of vision listen to and understand buyers' wants and needs, and can shape or enhance those with their added vision.

Marketing Strategy: A clear, differentiated set of messages consistently communicated throughout the organization and externalized through the website, advertising, customer programs and positioning statements.

Sales Strategy: The strategy for selling products that uses the appropriate network of direct and indirect sales, marketing, service, and communication affiliates that extend the scope and depth of market reach, skills, expertise, technologies, services and the customer base.

Offering (Product) Strategy: The vendor's approach to product development and delivery that emphasizes differentiation, functionality, methodology and feature sets as they map to current and future requirements.

Business Model: The soundness and logic of the vendor's underlying business proposition.

Vertical/Industry Strategy: The vendor's strategy to direct resources, skills and offerings to meet the specific needs of individual market segments, including vertical markets.

Innovation: Direct, related, complementary and synergistic layouts of resources, expertise or capital for investment, consolidation, defensive or pre-emptive purposes.

Geographic Strategy: The vendor's strategy to direct resources, skills and offerings to meet the specific needs of geographies outside the "home" or native geography, either directly or through partners, channels and subsidiaries as appropriate for that geography and market.

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