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From planning to vendor selection - taking a pragmatic approach to global payroll

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From planning to vendor selection

Taking a pragmatic approach to global payroll

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Global payroll strategic planning

A series of steps to help understand the nuances of the current state and determine the optimal future state:

Discovery

Comprehensive surveys; face-to-face workshops with stakeholders; deep-dive healthchecks; vendor remediation

Analysis of strategic options

Define business objectives; determine shape of future global payroll organisation and supporting vendor strategy

Supporting business case

Costs, risks, benefits and feasibility of possible future approaches, including transition risks

Vendor selection (if required)

Sample global payroll models

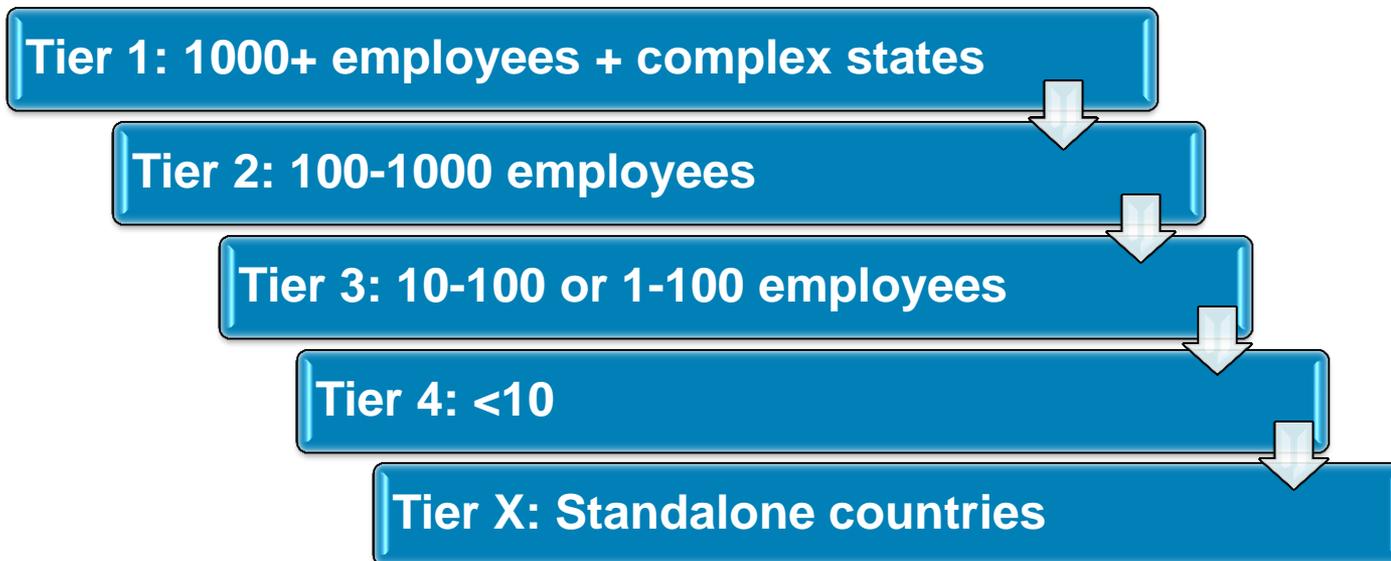
Global & regional strategies:

- **Highly centralised** Central global services, often with supporting regional hubs
- **Regions operating within global framework** Global strategy: global governance: dotted line responsibilities
- **Highly autonomous regions:** Regional strategy: no global strategy or global governance
- **Highly-decentralised organizations** Single country (even single entity) autonomy
- **Small country/long tail** team overseeing multiple countries from a regional/global hub
- **“Deeply scarred” model** Mix of multi-country and single country (e.g. where projects stalled)
- Growing acknowledgement of **exceptions** (single countries)

Example of tiered approach

Different strategies matched to groups of countries:

- Population sizes
- Geographies/country complexities
- Individual county exceptions



Why tiering?

- Large/complex countries often have specific requirements:
 - Scalability/economies of scale
 - Greater depth of functionality
- Small countries have their own challenges:
 - Teams may be multi-functional/lack resources
 - Cost equation can be complex
 - Different systems requirements including integration
 - Sometimes limited central knowledge/understanding of smaller populations e.g.
 - Assumption of compliance
 - Nature of in-house organisation

Regional approach

- Regional strategies for:
 - EMEA
 - APAC
 - Americas
- Sub-regional strategies that reflect geographic groupings and spread of employee populations e.g.:
 - DACH
 - Nordics
 - UK & Ireland

Why regional?

- Regional organisational/vendor management set-up on client side
 - Shared resources
 - Hubs and shared services
- Specific technical requirements e.g.
 - Holiday accruals in some APAC countries
 - Language requirements
- Specific regional sensitivities e.g.
 - Platform needs
 - Service set-up

Myth of the single global vendor

Single vendor platform brings benefits:

- Consistent model
- Simpler vendor management

However, it isn't always the best approach:

- Large country platforms unsuitable for small employee populations
- Vendor may be strong/cost-effective in some countries, less in others
- High-performing, cost-effective incumbents may be replaced
- Organisational model may need to be adapted to fit vendor model: countries push back!

In practice, many multinationals take a more pragmatic approach, which evolves over time

Evolving vendor market

**On-premise ERP &
SaaS**

Specialist Services
Reporting, payslips,
payment, etc

Custom-build BPOs

'Backbone' outsourcers

Aggregators
Pure play; hybrid

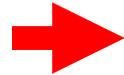
**Accounting networks and
multi-function services**

Regional Providers

**National
Providers**

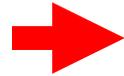
Aggregator and associated models

Pure ICP



Aggregator uses third party “In-country partners” (ICPs) to process payroll: uses middleware to manage input/outputs, consolidate data etc.

Hybrid in-house/ aggregator



Vendor processes some countries in-house (often ‘strategic’ countries with larger volumes of pay slips), using software it develops/maintains itself or licenses: uses ICPs for other countries.

Alliance



Vendor combines own network with large independent in-country/regional providers, each of which may take a lead in sales and account management with different clients.

Accounting network



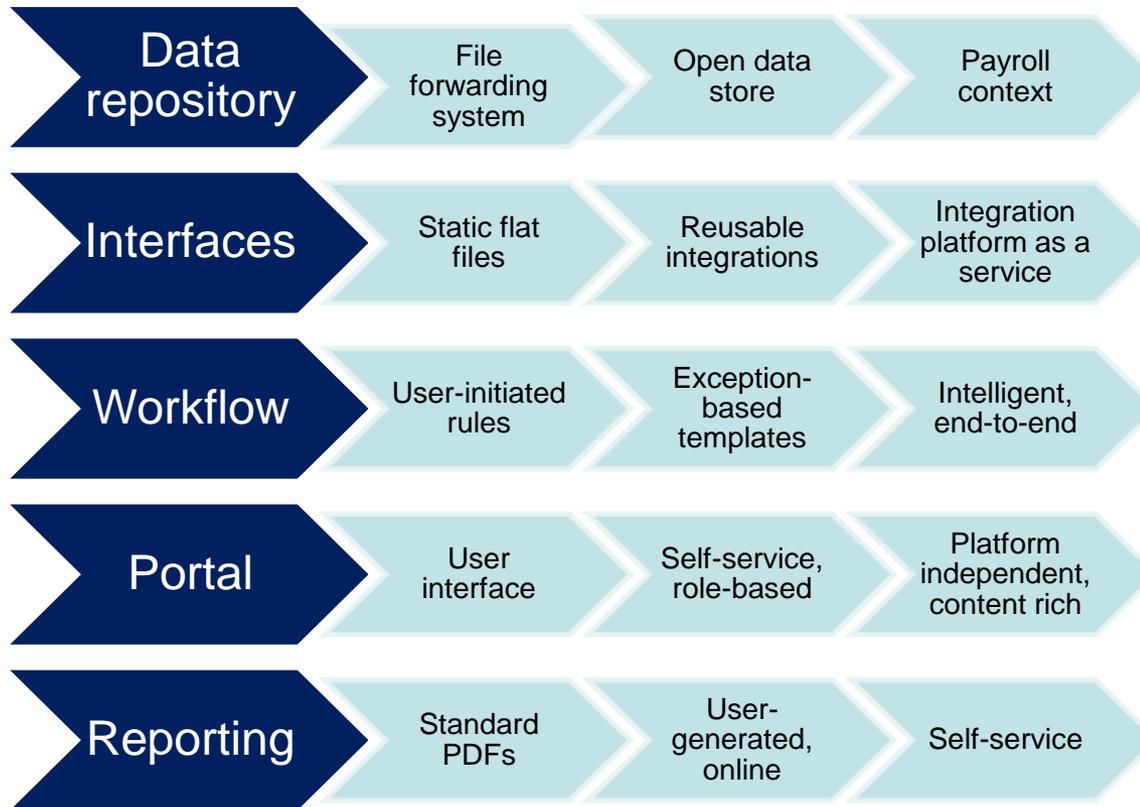
Accounting firm in ‘lead’ country (e.g. US/UK); this firm coordinates with affiliates in international network who process payroll: firms are often separate legal entities, but work under one brand. Extent of central management control varies.

Largely-Owned

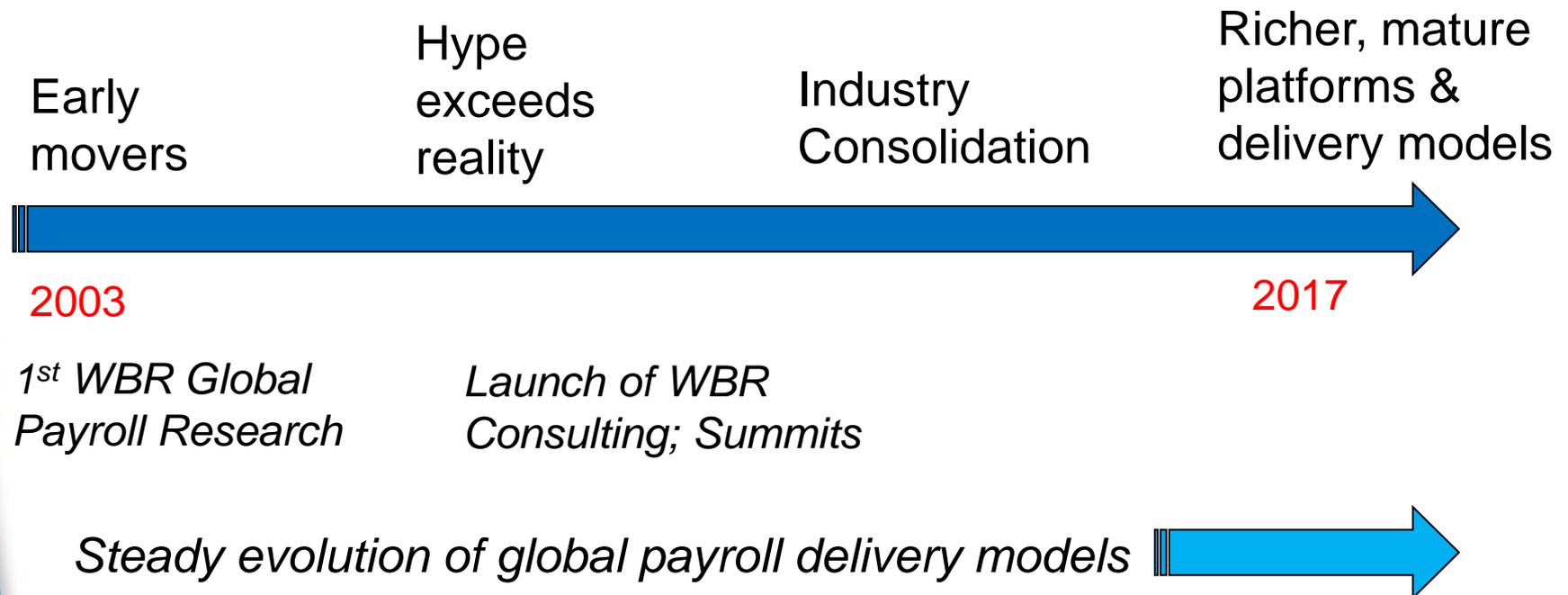


Vendor predominantly processes payroll through its own subsidiaries in each country (and/or via a shared services center): small number of ICPs used to flesh out coverage.

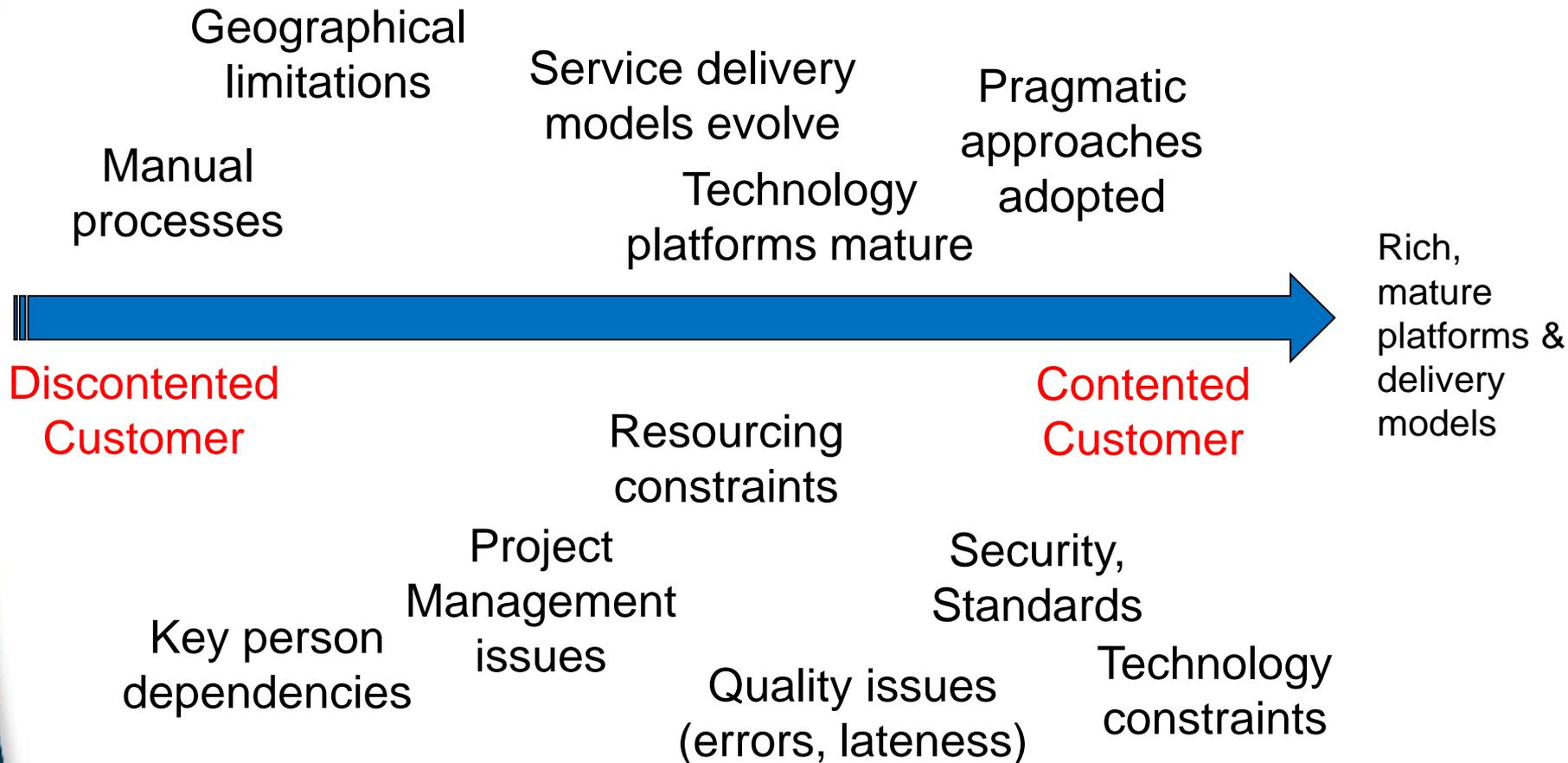
Middleware jigsaw: highlights



Evolution of the market: What we hoped for



What really happened: “Fragmented Maturity”



Vendor market: differentiators

- **Size of employee populations:**
 - Sweet spot (1+, 1000+)
 - Thresholds (e.g. volume of countries/payslips)
- **Regional/sub-regional vs. global**
- **Breadth/depth of technology**
- **Maturity of service delivery model**
- **Specialist capabilities:**
 - Hard-to-reach countries
 - Vertical specialties
- **Additional non-payroll services:**
 - Global mobility
 - HR administration
 - HR/Tax advisory
 - Time management capability

Selection: ask the right questions

Typical Procurement RFP Question: “Explain how many customers you have lost over the last two years”

Attrition rate in global payroll can be misleadingly low because

- Customers are locked into multi-year contracts, and this is still a relatively young market
- The cost of switching is high vs making the most of sunk implementations costs
- Unhappy customers may retain a vendor in countries where they have already implemented (sunk investment), but switch remaining countries to a new vendor. Technically, they still count as a customer of the original vendor!

Ask more nuanced questions, and drill down into detail – we ask over 100 questions!

Vendor market: Pause for thought

- **How to analyze historical issues**
 - Do past growth pains imply future pain, or a lesson learned?
- **Some rethinking in the market**
 - The resilience play?
 - Growing acceptance of individual country exceptions
- **Who's selling to whom?**
 - Historical high RFP failure rate
 - Poorly conceived strategies
 - Overly-prescriptive demands
 - Quality of salespeople: from mediocre to too good!
- **Identify “showstoppers”**

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