The Art of Outsourcing Payroll

Key Considerations and Next Steps for Moving to a Managed Payroll Service

Executive summary

Outsourcing payroll has become an increasingly popular option for businesses of all sizes due to the many benefits it offers, such as streamlined processes, improved accuracy, and cost savings. However, the decision to outsource such a critical business function can be daunting, as companies may have concerns about relinquishing control or maintaining compliance. In this eBook, we'll explore the key considerations and provide guidance to help you navigate the outsourcing process with confidence and ease.

Introduction

The concept of outsourcing your payroll is highly appealing. Businesses effectively gain more expertise, experience and resources, and it costs them less.

However, it never feels quite as simple as it should – and there's a good reason for that. Employee pay is a highly sensitive business function. The idea of passing responsibility for it over to a third party can make people feel anxious.

This is fuelled by doubts that niggle away and make the process seem more difficult than it is. Typical concerns include how the organisation will keep control, and whether they'll lose internal expertise, creating a risk to the business in the long term.

Other issues raised are often centred around the need for a smooth transition, or whether businesses can ensure new payroll tech integrates seamlessly with existing HR or finance systems.

These questions are perfectly natural, and fairly common. But making the switch to work with an outsourced partner is not as complicated as people fear.

In this eBook, we'll provide the answers you need and explain how a payroll partnership should work in reality. We'll also highlight things to look out for, to ensure your payroll transition goes smoothly.

Reasons to outsource

Before we address some of the doubts people have, it's worth reviewing some of the reasons why people want to outsource their payroll in the first place.

The obvious driver is cost savings. From the provision of technology to training staff, dedicated specialists can commit more resources into this function. They also enjoy the economies of scale that allow them to operate more cost effectively. It's estimated that on average this will translate to a 20% saving to the end customer.

While this is a clear incentive, it's not the only reason businesses opt to outsource. Here are seven compelling reasons that make outsourcing so appealing.

1 Compliance

Compliance is a critical consideration for any business managing its payroll internally. However, the constant changes to regulations and government guidance can be overwhelming for internal teams to keep up with. Outsourcing payroll to a trusted partner with expertise in compliance can alleviate this challenge, allowing your business to stay up-to-date and compliant with ease. From gender-based pay to other regulatory requirements, a managed payroll service can help ensure your business stays ahead of the curve.

2 Lower Risk

A typical prompt that encourages businesses to consider outsourcing is when an experienced team leader moves on – taking with them vast amounts of knowledge and expertise.

Companies are left with a decision to make. Should they find someone new to put their trust in or take advantage of an outsourcing partner? The latter may be more cost effective, but given the added expertise, experience and resources available, it's also often seen as presenting less risk.

3 Secure data

Companies continue to develop their digital infrastructures, and integrate systems – and, as they do, there's an imperative to keep sensitive information secure. In an era of remote working, with many employees operating outside the office, the need to keep data safe grows even stronger.

It's hard for internal payroll teams to stay on top of information security, as it's not within their core skill set. Outsourcing providers, however, are also technology specialists who are used to working remotely, and they already have the tools, processes and understanding to manage these concerns.

4 Tech investment

What we want technology to do for us is evolving all the time. For example, while we want to be able to access real time data insights, we also expect tighter data controls. Meeting these demands requires ongoing investment into the latest solutions – and puts a strain on budgets as internal teams struggle to keep up.

Payroll specialists, on the other hand, are constantly investing significant resources into new

technology to ensure they're delivering the most up-to-date solutions. That's why outsourcing is often seen as a smart way to future-proof companies against an ever-changing technological landscape.

5 Training

Keeping an internal team's knowledge and skill set up to date requires ongoing training and refresher courses. With the technology and compliance regulations (mentioned above) constantly changing, this will never go away.

If companies opt to work with a specialist, however, they can tap into a large pool of talent, feel confident that the people managing the payroll are up to speed, and no longer worry about training staff.

6 Fixed costs

As well as lowering costs, outsourcing also removes unknown cost factors. For example, when someone hands in their notice, businesses no longer need to commit resources to hiring and onboarding new members of staff. Nor do they need to pay out for constant tech upgrades or legal advice.

Through outsourcing, companies can simply pay a flat amount based on the level of service they opt for.

7 A good night's sleep

When you take into account all of the above, businesses have the reassurance that their payroll is not just in safe hands, but that it's performing to the highest standard and in the most cost-effective way.

This removes unnecessary stress for people working in HR or finance who are ultimately responsible for overseeing the payroll team.

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Implementation

When people take a close look at payroll outsourcing, and see the value it offers, they start to think about the practicalities of making it happen. There's no doubt that the idea of transitioning to a new payroll system can be daunting. Employees get very emotional, very quickly, if anything goes wrong with their pay, so it's natural to have some anxiety when you're handing that responsibility over.

However, the reality is that the transition process is carefully considered and designed to ensure everything is operating smoothly, before you go live. The 'SD Worx Way', for instance, is a five-step implementation process that focuses on people, along with the processes and technology.

The steps guarantee payroll accuracy from the outset, but they also ensure that all key stakeholders are involved, and no one is an afterthought.

The five steps include:

Launch

The launch phase takes place over the first two weeks, when both sides get to know each other. It's an opportunity for your new partner to build an understanding of your current processes and a practical knowledge of your existing technology.

They'll also want to know when key people are available and when contracts with your current tech provider are due to expire, so they can draw up a plan of action and a timeline can be laid out.

Discovery

Typically taking place over weeks 2-5, the discovery phase moves beyond the initial launch. It allows your provider to gain a more detailed understanding of the workforce – how and when they get paid, etc.

While all companies have their idiosyncrasies, your provider will be looking to develop standardised, repeatable and automated processes where possible. This will all be played back to you in a workshop environment, so you can raise questions before you agree a course of action.

Set up

Once agreed, the set up takes place between weeks 3-6. This involves configuring the new system to your specific needs. It will take everything into account – including pay, pensions, benefits, etc.

At the same time, a training programme will introduce your team to the new technology platform – helping people understand what the system is capable of and where things may be different from the previous system.

Testing

Testing will usually take place between weeks 7-13 (or 7-17), depending on whether an organisation wants to run one or two parallel pay runs before going live. This will include an opportunity to review the interface and offer feedback.

In this phase, data will also be migrated into the new system, still within a staging area, where it will be assessed as if it were live. This parallel testing allows both sides to check performance and identify any data anomalies.

Go live

Typically, the 'go-live' takes place during weeks 14-18 of the implementation period. Once live, there will be a period of 'hyper care' where support will be on hand, at a moment's notice, should you have any questions.

At the end of week 18 (or 22 if there are two parallel runs), the payroll function will then switch to business as usual.

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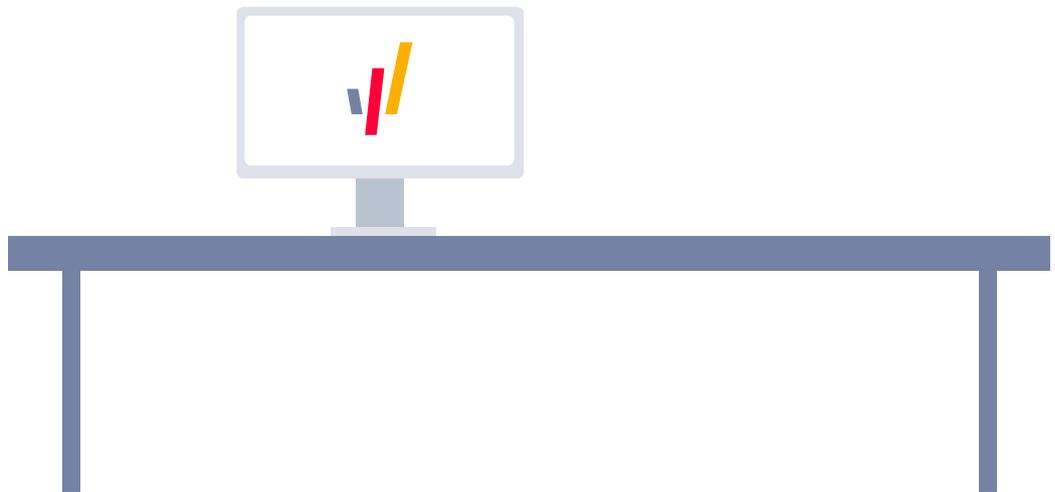
Integration

The ability to integrate should be a priority whenever you consider a new technology platform or outsourcing partner. Effective integration will cut out huge amounts of unnecessary administration for any organisation – saving them costs, reducing the risk of error and helping to ensure compliance.

When systems are connected it also provides decision makers with access to insights and intelligence which would have previously been much harder or slower to attain. Research conducted by SD Worx, in partnership with Circal, found that 82% of HR leaders are now using this type of workforce data to inform their strategic decision making.

Given its importance, you should expect a payroll provider's technology to work seamlessly with existing solutions in HR and Finance. If this is the case, the transition should enhance your organisation's overall technology stack.

The alternative would be a bespoke integration project – which can cost north of six figures, given the need to pay specialists, licence software and middleware. This also creates unnecessary complexity when software updates are required.

So, to ensure that your new payroll partnership doesn't create complications, it's best to check a few things first.

Does the new system integrate with your HR and finance systems?

Any decent payroll provider should be able to integrate with the major HR and finance software vendors, such as Workday, SAP and Oracle. It's also worth going a little deeper here to check the type of integration available, as more advanced solutions can offer you added detail on the information passed between systems, including error and completion logs.

Can it integrate with smaller vendors?

Many innovative tech solutions are developed independently of the major vendors, and you don't want to limit your integrations – so it's important to check this if it applies to you. SD Worx manages this by offering SD Connect, for example, which can connect SD Worx with any third-party vendor via an API.

How long will integration take and how much will it cost?

You need to know from the start whether an integration project is going to impact timelines or add anything to the overall cost. For example, while standard integrations may be straightforward and have little impact on the implementation, requests for more advanced integrations can take weeks and might be subject to additional charges.

Can your chosen partner demonstrate successful integrations?

It's completely justifiable to do your due diligence to ensure your payroll partner can deliver. Given the importance of the project, it's reasonable to ask for testimonials, case studies or even request to speak to other customers.

Do they follow standardised processes?

In addition to the technology itself, you should also ensure your partner has clear interface specifications that govern the payroll data going in and out of the system. If this isn't the case, you might find that information is missing when data is viewed in other systems. Standardised processes, however, ensure accuracy and consistency.

Expertise

Occasionally concerns are raised that, by partnering with an outsourcing specialist, a business will lose the expertise they had previously built in-house. The reality, however, is that companies gain a more advanced payroll function, with added expertise

It's very difficult for an internal team to maintain the same level of knowledge, and they won't have the same breadth of experience that you can expect from a dedicated specialist.

When things are constantly changing, having that kind of resource available on tap puts organisations in a far stronger position to deal with whatever comes along. Businesses will notice the benefit of this in three main ways:

Compliance

The need for internal teams to keep up-to-date with current legislation is a constant challenge. Each year payroll sees new regulations covering taxation, employee benefits, gender-based pay and bonuses, employee privacy, and more recently furlough schemes, etc. How new legislation should be interpreted is not always straightforward, and it regularly leads organisations to seek the advice of consultants and legal specialists.

In contrast, a dedicated payroll provider should have all the necessary knowledge when it comes to legal changes – they may even have advised government on upcoming legislation or have first-hand knowledge of government intentions. This puts them in a good position to offer clear guidance and advise on the best course of action.

Technology

Given payroll providers are the developers of their technology, they won't just understand how to use the system but also how to get maximise value from it.

Knowledge of the tech landscape, and a constant investment in development, will also ensure that the company never falls behind the curve when it comes to accessing and utilising the latest digital solutions.

Processes

Regardless of how qualified individuals within internal payroll teams are, it's hard to compete with the breadth of experience available from payroll specialists. They can use the knowledge gained working with many different organisations to develop standardised processes that ensure accuracy and efficiency.

This experience extends across a range of organisational structures, covering multiple ways of working and types of contract – be they fixed, zero hours, etc.

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Control

Businesses will always want to keep control of their payroll – that's natural. And there can sometimes be a fear that, by outsourcing to a third party, the grasp on this vital business function will be lost.

This isn't what happens though. Instead, companies gain a partner that will work closely with the point/s of contact within your business to develop the best possible payroll function.

The key here is not to look at outsourcing as buying from a supplier. It's a partnership – a relationship that goes way beyond what you might expect from a standard software-as-a-service provider.

You won't be doing the work, but you'll be able to guide and direct what's happening – and feel in control. You can do this in three key ways:

Accountability

It's important to build a close personal relationship between the points of contact on both sides. Partnerships works best if that relationship is honest and open – and allows for frank conversations. You're both working towards the same common goal so you should be able challenge each other.

While the provider will want to do this to develop standardised processes that support accuracy and efficiency, this also provides you with full transparency. You'll be able to ask questions, hold your partner accountable and have doubts allayed at any time.

Oversight

In forming this partnership, you'll also agree to a governance model covering a service level agreement (SLA) with specific KPIs. This will not only ensure that everything is managed smoothly, but also that the relationship remains a healthy one.

It means you never lose sight of what's happening, and you can keep a check on performance and standards. This includes elements such as accuracy and timelines, but also whether support tickets are being responded to within the right timeframe, etc.

Regular reviews

Given that businesses never stay still for long, it's important to hold regular reviews to ensure everyone is happy. If the needs of the company change, this is an opportunity to review service levels and see whether they should be scaled up or down.

The major benefit here is that you can do this quickly with a payroll partner, while it may take time to change the structure of an internal team. You actually gain much more flexibility and control over the set-up of your payroll function.

Risk

Working with a dedicated payroll provider may prove to be a better long-term decision for an organisation, but for all the reasons outlined above, you still need to do your due diligence.

You don't want to find that the partnership has inadvertently caused complications, or that service levels fall below your expectations.

To ensure you're getting all the gains you were promised, and you're confident when you move forward, it's worth keeping sight of the below checklist.

1 Accountability

Do you feel comfortable with the team that will support you and your organisation? Will you have access to them when required? Will you receive regular reports and review meetings?

2 Talent

Are you satisfied with the talent that is replacing your in-house team? How qualified is your support team and what level of training have they received?

3 Legal advice

Is your partner really at the forefront of legal change? Are they capable of providing the level of advice expected from a specialist?

4 Tech

Does your payroll provider's technology integrate with your existing systems? How will their platform help to future-proof your company?

5 Data

Can senior decision makers access key data from different systems? Can your provider guarantee that private data can't be viewed by anyone who shouldn't see it? What information security protocols are in place to prevent a data breach?

6 Implementation

Can your payroll provider walk you through this process step by step and answer any questions you might have?

7 Evidence

Can they prove it all? Can they demonstrate successful implementations, integrations and healthy ongoing relationships? What do their customers have to say?

Conclusion

The benefits of outsourcing payroll are clear. By partnering with a trusted provider, you can future-proof your payroll processes, stay up-to-date with the latest technology and legislation, and enjoy significant cost savings.

Maintaining a close partnership with your provider ensures you retain control while gaining increased flexibility over the level of service provided.

Don't let fear hold you back from improving your business operations. Take the first step towards streamlined payroll and partner with an award-winning managed payroll service provider today.

Discover the true gains of best-of-breed managed payroll

Our no obligation review will highlight the increase in ROI you could get from your payroll operation if you moved to our managed service.

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