



Four Ways to Justify Your New HCM and Payroll Purchase

The Human Resource department is the backbone of every organization, no matter how large or small. A critical component of employee well-being, a well-run HR department can help your business meet and exceed its needs by supporting its most valuable resource—your employees.

But who will support your HR department?

That's where a Human Capital Management (HCM) solution comes into play.

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In order to maintain peak performance, the HR Department must have the right resources in place. A good HCM system can revolutionize your current core HR, recruiting, onboarding, payroll, benefits, performance management, time & attendance, and learning management solutions and processes—just to name a few. This will allow your team to minimize the time invested in administrative and payroll activities by streamlining those processes to facilitate strategic decision-making. When you consider that labor and employee costs are the biggest expense for every business, the money and time savings greatly outweigh the initial and long-term costs of an HCM solution.

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Now, let's say everything is in place for you to begin your HCM search. As the project manager for this initiative, you have:

- executive approval
- you've researched different technologies, and
- you've identified your areas for improvement.

Now all you have to do is present the cost justification.

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Calculate Your Return On Investment (ROI) to Justify the HCM Costs

In business, **Return on Investment (ROI)** is traditionally defined as the monetary benefit derived from having spent money revising or replacing something.



In this case, a software system. The costs of the old system are added up, matched against the proposed costs of the new system, and the difference is the return on investment.

You may find it difficult to justify a new HCM and Payroll solution based solely on these visible costs. If your business is only looking for a quantifiable ROI, you may never find enough direct savings to justify a new system and your project will end before it even begins.

That's why, when considering the return on investment for a new HCM solution, it is important to take both the **hard and soft dollar costs** into account. These intangible ROI components are often the most important long-term benefits and therefore difficult to accurately quantify.

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Four Ways to Justify HCM ROI

1 Hard Dollars vs. Soft Dollars

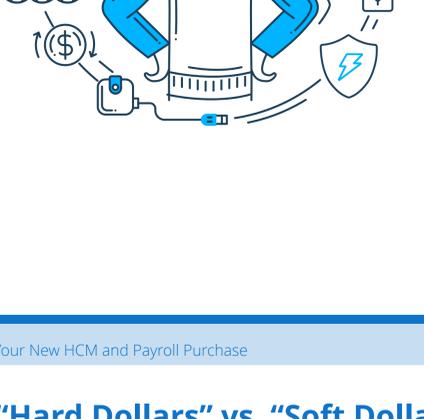
"Hard" dollars are the direct savings or displaceable costs that the new system will provide.

"Soft" dollars are the indirect savings. "Soft" dollars are often associated with productivity improvements and other intangible savings.

4 Headcount Avoidance

Most new systems provide features that will allow the organization to maintain (or in some cases reduce) staffing levels.

Further, maintaining status quo and not making a new system investment often results in having to increase technical and end-user headcount to support a system that is providing less and less value to the organization.



2 Tactical and Strategic Benefits

A new system will provide many benefits to the organization. Some of the benefits will be tactical, such as reducing the number of payroll adjustments each pay period. Others will be more strategic, such as developing a succession plan for each position. Quantifying these benefits is an important part of the ROI process.

3 Areas of Risk Reduction

A new system will offer areas where exposure and risk to the organization can be reduced. Risk reduction opportunities should be quantified.

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1 "Hard Dollars" vs. "Soft Dollars"

The primary goal in investing in any systems technology is improving productivity. This is clearly the case with HCM and Payroll technology. The last several years have seen the emergence of enabling technologies that dramatically improve HR productivity. These technologies are now an integral part of any effective HCM solution. Examples of these technologies include Workflow, Self-Service, Reporting, Analytics and Mobile accessibility.

Many of these technologies did not exist or were not widely used years ago. Thus, in many cases, there is no direct cost replacement for these tools. These technologies have a dramatic impact on employee productivity and the ability distribute data throughout the organization. Although they do not provide hard dollar savings, the soft dollar impact of these technologies needs to be quantified and documented.

Hard dollars are the direct costs that may or may not need to be expended with a new system, but nonetheless are costs that need to be accounted for with a new HCM and Payroll solution. Examples of hard dollars include software maintenance, software add-ons, third-party administrator fees and technical support costs. **Soft dollars** are the indirect costs that are associated with data collection, editing and report preparation etc. **Soft dollar savings** are less tangible than hard dollars. Examples include anytime and anywhere access, redundant data input elimination, improved data integrity, process standardization and improved data controls.

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2 Identifying Benefits

The foundation for any successful HCM is a stable technology platform that can be easily supported by the internal Information Services staff. Of course, a new system should provide both tactical and strategic benefits to the organization. Identifying these benefits is an important part of the cost justification process. Some of the areas where a new system can add value include:

Automate

Benefit Enrollments, Training Registration, G/L Interface, Job Postings, Incident Tracking and Reporting, Tax Administration Capabilities, Attendance Tracking, Benefit Inquiries

Reduce

Forms Processing, Payroll Adjustments, IT Support, System Interfaces, Benefit Overpayments, Payroll Cycle Time, System Downtime, Workers Comp Claims, Exposure to Wrongful Termination

Improve

Service to Employees, System Security, Staffing, Time and Attendance Reporting, FTE Tracking, Compliance Reporting, Pension Administration Capabilities, Wage Assignment Capabilities, Tax Reporting, Diversity Tracking and Reporting, Manpower Tracking and Reporting, Staffing and Headcount Capabilities

TACTICAL

Reduce
Job Vacancy Costs, Absenteeism, Hiring Costs

Improve
Internal/External Recruiting, Employee Retention Rate, Labor Relations, Decision-Making, Consolidated Reporting, Budget vs. Actual Reporting, Employee Communications, Employee Training, Compensation Analysis Reporting

STRATEGIC

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3 Risk Reduction

Risk is not something that is often considered in traditional ROI exercises. There are no direct, predictable, or quantifiable savings associated with risk reduction, however, it should absolutely be factored into the overall ROI plan.

There are three risk areas to be explored:

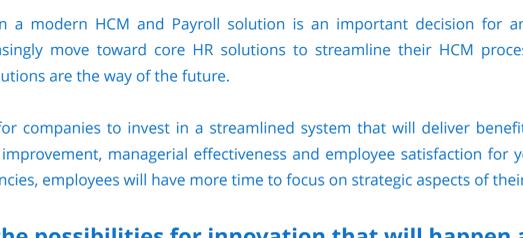
- **Security:** Choices abound today regarding deployment options and the safeguarding of your data. On-Premise deployments place security control in the hands of your IT staff. Hosted and SaaS deployments offer varying degrees of security safeguards depending on the vendor's offering, such as Public Cloud and Private Cloud.
- **Employee Litigation:** An effective HCM can play a vital role in reducing the exposure to litigation by current and former employees. Standardized Workflows ensure that all employees are treated fairly and timely. By having a unified system of record regarding an individual's employment history, and by documenting disciplinary actions, organizations can minimize the possibility of litigation regarding unlawful treatment.
- **Government Compliance:** Ensuring that the policies, practices, and processes of the organization are in compliance with federal, state and local government regulations is a critical task for every Human Resources Department. This compliance need is ever more so with the requirements of the ACA.

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4 Headcount Avoidance

As systems age, they tend to need an increasing amount of support. For many organizations, an older HR system is governed by the law of diminishing returns: more and more effort is expended on a system that is providing decreasing value to the organization. These organizations can factor headcount avoidance into their ROI.

In addition to the increased technical support, older systems tend to create more administrative burden for the users. For example, non-optimal, and usually non-integrated processes, are created to replace system inefficiencies. Manual databases and the use of Excel and sub-systems begin to proliferate due to functionality issues. Some of this cost is hidden and hard to quantify while the deployment of subsystems has quantifiable acquisition, subscription and implementation costs, all of which is difficult to manage and correct. This all leads to employee dissatisfaction, wasteful spending, incorrect data, and poor managerial decision-making.



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Conclusion

The investment in a modern HCM and Payroll solution is an important decision for any organization. As companies increasingly move toward core HR solutions to streamline their HCM processes, it's clear that centralized HR solutions are the way of the future.

Now is the time for companies to invest in a streamlined system that will deliver benefits in terms of cost, business process improvement, managerial effectiveness and employee satisfaction for years to come. With all of these efficiencies, employees will have more time to focus on strategic aspects of their work.

Imagine the possibilities for innovation that will happen as a result!

