



Human Capital Management
& Payroll Software/Services

How to build a business case for payroll outsourcing

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Developing a compelling business case for outsourcing payroll is a crucial step toward achieving your goal. The business case document is the tool by which decision makers, who may not have a good understanding of the payroll function, can evaluate the risk and benefit of adopting your recommendation. Decisions are rarely based on facts without quantifiable data, so this document tells you what to cover and what figures to include as supporting evidence.

Your business case for outsourcing payroll should have the following sections.

1. Introduction
2. Current Payroll Processes and Costs
 - Current payroll process description
 - Calculation of total payroll processing costs
 - Current state analysis
3. Benefits of Outsourcing Payroll
4. Potential Risks and Challenges
5. Outsourcing Options
6. Evaluation & Recommendation
7. Conclusion

Let's break them down so you can see what to include in each.

1. Introduction

The introduction should provide a brief overview of the business case, including the reasons for considering outsourcing payroll. This section should also highlight the scope of the business case and the expected outcomes.

2. Current Payroll Processes and Costs

Current process description

Describe the current payroll processes used by the business, including any manual processes, software used, and staff involved.

Calculation of total payroll processing costs

Calculate the total cost of payroll processing, including direct costs (e.g., staff salaries, software licensing fees) and indirect costs (e.g., staff training, support costs). Once total costs are known, calculate a cost per process figure as follows:

Total cost to process per annum / Total payslips produced per annum

Remember, to calculate total payslips produced per annum, you need to multiply the number of payslips per week * 52, per fortnight * 26, etc. So, if you produce 4,380 payslips per year at an annual cost of \$175,000, the cost per payslip is $175000/4380 = \$39.95$.

Current State Analysis

This section should identify and describe the problems and challenges associated with the current payroll processes. This could include issues related to accuracy, compliance, efficiency, and

timeliness. It should also highlight any risks or potential negative impacts associated with the current processes.

3. Benefits of Outsourcing Payroll

The benefits of outsourcing payroll can vary depending on the business's size and complexity. Some common benefits include:

- Time savings: Outsourcing payroll can free up time for HR and finance staff to focus on core business functions.
- Cost savings: Outsourcing payroll can reduce the costs associated with employing payroll staff, purchasing software, and maintaining hardware.
- Compliance: Payroll providers are experts in payroll regulations and can ensure compliance with local and national laws.
- Accuracy: Payroll providers use advanced software to ensure accurate payroll calculations and can reduce the risk of errors.
- Scalability: Outsourcing payroll can support business growth by providing scalable payroll solutions.

This section should also include any specific benefits that apply to your business, such as reducing the burden on HR/Payroll/Finance staff or improving accuracy in complex payroll calculations.

4. Potential Risks and Challenges

Identify any potential risks or challenges associated with outsourcing payroll, such as data security concerns, service level issues, or increased costs.

Consider how these risks are being mitigated or managed by vendors, and the potential impact on the business if they were to occur.

5. Outsourcing Options

Briefly describe your process for selecting vendors to evaluate and list each one under consideration. Discuss the options available when outsourcing, such as:

- Partial outsourcing
- Managed outsourcing
- Business process outsourcing

Specific descriptions of each can be found on the Frontier Software website at: <https://au.frontiersoftware.com/frs-download/file/646>.

6. Evaluation and Recommendation

The vendor evaluation and selection section should describe the process for evaluating and selecting potential providers. This section could include criteria such as reputation, experience, compliance, technology, service level agreements, and pricing. It may be useful to present evaluations visually by using a table with icons or scores to compare vendors easily.

Criterion	Vendor A	Vendor B	Vendor C
Cloud based solution	✓	✗	✓
Documented DRP	✓	✓	✓
Data Security Accreditations	✓	✓	✗
etc			
etc			

7. Conclusion

The conclusion section should summarize the key findings of the business case and provide a clear recommendation on which vendor to engage. It should also highlight the expected benefits, risks, and implementation considerations.

By structuring the business case using these sections, you can present a comprehensive and well-organised analysis of the opportunity to outsource payroll. It allows stakeholders to understand the current state, potential benefits, risks, and the recommended approach for implementation, facilitating informed decision-making.

Success Tip!! Ensure there is a Focus on Costs

Business cases invariably need tangible figures to support contentions. Here are a number of costs that you may wish to estimate for inclusion in specific sections of your finished document.

Section 2: Costs of the Current Process

To build a compelling business case, you need to demonstrate the financial benefits of outsourcing payroll. This section should outline the costs associated with the current payroll process, including salaries and benefits for payroll staff, software and hardware costs, and overhead expenses. You should also calculate the cost of errors, compliance risks, and any penalties or fines incurred due to payroll mistakes.

Section 3: Benefits of Outsourcing

Outsourcing payroll can reduce the costs associated with employing payroll staff, purchasing software, and maintaining hardware. Estimate the potential cost savings of outsourcing payroll, based on the costs identified in the current process and the expected cost of outsourcing.

Compliance risk is difficult to quantify, but it is a critical consideration for payroll processing. By outsourcing payroll to a provider with expertise in payroll compliance, businesses can reduce the risk of compliance issues and potential fines or penalties. Reiterate what fines for non-compliance may cost the business.

Efficiency Gains: By outsourcing payroll, businesses can potentially improve the efficiency of payroll processing, leading to time savings and increased productivity. By estimating the amount of time currently spent on payroll processing and comparing it to the expected time savings from outsourcing, businesses can estimate potential efficiency gains.

Staff productivity: Outsourcing payroll can free up staff time to focus on other areas of the business, potentially increasing productivity. By estimating the value of staff time currently spent on payroll processing and comparing it to the expected value of staff time freed up through outsourcing, businesses can estimate potential staff productivity gains.

Section 6: Evaluation and Recommendation

Consider the potential cost savings and benefits of each provider, as well as any risks or challenges associated with working with them.

Return on investment (ROI): The ROI of outsourcing payroll will depend on the costs and benefits identified in the business case, as well as the expected cost of outsourcing and the expected time frame for realizing benefits. By calculating the expected ROI of outsourcing payroll, businesses can evaluate whether the investment is worth it.

To find out more information contact us on 1300 555 884
or visit www.frontiersoftware.com

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Michael Howard, Founder