

News From HR Technology Advisors
An expert on your side



ADP – Friend or Foe?

By Don Rowe and Joe Markland
HR Technology Advisors

NOTICE: This communication is PERSONAL and CONFIDENTIAL.

This communication, including any attachments, may contain privileged or other confidential information. If you are not the intended recipient, or believe you have received this communication in error, do not print, copy, retransmit, disseminate, or otherwise use the information contained within. Any unauthorized review, use, disclosure, or distribution is prohibited. If you are not the intended recipient, please contact the sender by reply e-mail and destroy all copies of the original message.

© Copyright 2007. HR Technology Advisors, LLC. All rights reserved.



News From HR Technology Advisors - An expert on your side

ADP – Friend or Foe?

At HR Technology Advisors (HRT), we make it our business to thoroughly understand the HR and Benefits Technology market. Benefits Brokers hire us to keep them well informed about changes in the market while helping them position their firms competitively when it comes to technology. Recently there has been a lot of talk and confusion in the market about ADP's position as a Benefits broker. Is ADP a Benefits Broker? Is ADP a competitor to brokers? To alleviate the confusion we have researched this issue (more than once) and will answer these questions along with sharing some thoughts about how a broker can respond.

Before diving deeply into this it is important to understand that the Benefits, HR, and Payroll technology and services market is still evolving. There will be more mergers, acquisitions, and company failures, and firms like ADP will constantly modify their strategies as the market changes. Due to the competitive nature of the market, brokers will also continue to be fed information from vendors, some which will be true, more that won't be true, all adding to the confusion in the market. That being said, there are many firms who would like to make sure you believe ADP is a competitor that should be feared and their marketing campaigns are designed to reinforce that idea. At HRT we caution you to approach any information from a third-party with skepticism even to the point where you may challenge the contents of this article.

We also think it is important to understand that there are some new trends in the HR and Benefits Technology market. At HRT we believe that many employers are looking for technology solutions that combine HR, Benefits Administration and Enrollment, and even Payroll. ADP has such a solution and has been aggressively marketing their product through brokers which has added to the confusion in the market. It is this type of technology which has made what many brokers offer almost obsolete and raised the competition to a new level. In this article we will get into why all this is relevant to the core issue of whether ADP is a broker or not.

So, at this time, is ADP competing with benefits brokers? At HRT we first addressed this issue head on by meeting face-to-face with ADP in June. Recently, amongst all the talk of ADP in the market, we connected with ADP again to address the issue directly. The answer from ADP was the same on both occasions, which was for the majority of the markets - NO, for a small portion of the market the answer, is YES.

ADP Market Segmentation Approach

To better grasp where and how ADP may or may not compete with the benefits broker, it's important to understand ADP's approach to the market. ADP has essentially 4 divisions or business units. Their National Markets Division covers firms with 1000+ employees; their Major Accounts Division handles firms with 50-999 employees; the Small Business Services Division handles business up to 49 employees, and they have a Professional Employer Organization (PEO) unit that focuses on the 5-250 market, though their business is predominantly in the 50 and under market. ADP offers a wide range of employer-related services that vary based on employer size and include payroll, 401k, Cobra, FSA, Time & Labor, Tax & Compliance and Job Screening. ADP also offers benefits outsourcing services such as benefits administration, which includes consolidated billing, enrollment management, and a call center. In August 2006 ADP acquired Employease, a web-based Benefits Administration and HR System designed for mid-market employers. ADP's expansion to provide additional services and technology is simply responding to the market's demand of providing integrated technology and outsourcing services.

ADP as a Broker Partner

In the Major Accounts and National Accounts Market Segment (50+ employee firms), ADP publicly states that it is NOT competing with brokers, but rather partnering with brokers. Today more than 100 brokerage firms nationally, including several of the nation's largest firms, have partnered with ADP to bring its products and services to their clients. ADP is limiting the number of these relationships in each market. Brokers who partner with ADP bring the Benefits Administration and HR System, now called HRB, to their clients, as well as other ADP products and services. In exchange, ADP provides leads back to their broker partners from its existing customer and prospect base. ADP is leveraging the employee benefit broker as a key distribution outlet and these brokers are using their ADP partnership as a key tool to help win and retain more clients. Therefore, in this segment of the business, ADP is not the competitor. The competitor may simply be another broker, who you may compete with regularly, who made a strategic decision to increase their value proposition through a partnership with ADP.

ADP as a Broker

For ADP to preserve its core business, payroll services, ADP may have had little choice but to gain access to employee benefits broker commissions. ADP's advance may have been based on a logical strategic response to market factors in the small group market segment including:

1. **Client Demand** - There has been increasing client demand to outsource as many overhead services as possible in the predominantly under 50 market through a single source at the lowest possible cost. ADP along with other Payroll vendors including Paychex and Ceridian, PEO's, and other outsourcing firms such as Administaff, rose to meet the demand by offering these services which included brokerage services.
2. **Competition from Other Vendors** - Many competitors to ADP act as brokers and utilize benefits broker commissions to keep their costs competitive. In order for ADP to compete they have to use similar strategies.
3. **Brokers Offering Payroll and Outsourcing Services and Technology** - Employee Benefits Brokers also began offering Payroll, FSA, COBRA, Benefit Enrollment Systems and other products and services either discounted or free, in exchange for Broker of Record letters. If you were ADP and you were losing business to a firm offering free Payroll how would you compete with "Free"? You would have no choice but to either get the brokerage firm to subsidize your products and services with their commissions or get access to the commissions yourself that is being used to subsidize the Payroll and other products and services.

We believe it is for these reasons that the PEO Unit and Small Business Services Unit act in the capacity as a Benefits Broker while at times partnering with brokers by region. In many cases, ADP gets access to only some of the commissions because they do partner with brokers who actually perform the benefits brokerage services. In spite of it all, the large majority of this business is still in the under 50 market.

In the majority of these cases where ADP ends up getting broker commissions, employers are often looking specifically for a PEO or consolidated outsourcing services. These employers have made a conscious decision to look for these outsourcing services and often are not even considering traditional brokers. Therefore, brokers who are not offering such outsourcing services are not competitors. If the broker is offering these services on their own or through another vendor and not using ADP, then the broker is in fact a competitor of ADP.

The knowledge of ADP being a broker on certain business has not been a concern to the over 100 Benefits Brokerage firms who have partnered with ADP through their Major Accounts and National Markets units. Think of this in another way. If you were a broker or consultant just hired by ADP to sell Employee Benefits, how would you feel if many of your competitors had access to your Benefits Enrollment and HR Technologies and could get compensated to sell your Payroll and other services? Does it make sense for ADP to aggressively seek out broker partners while competing with them at the same time?

What Are the Brokers Options?

The market is changing and brokers are often being forced to take action. Often this is not in response to ADP as a competitor but more often in response to other brokers who have raised the bar with some new service and technology offerings. On many occasions the new technology offering by brokers has been the ADP Benefits Enrollment and HR System called HRB.

Since this is an article about ADP as a broker let's play devil's advocate and assume ADP expands their Benefits Brokerage business to include all sized firms. They may even do this by acquiring brokerage firms. This is not so hard to imagine as Paychex, for instance, currently has benefits brokers on staff. To compete, Benefit Brokers have some options, including:

1. Do Nothing – Stay the Course

This is an incredibly risky strategy. An increasing number of employers today are looking for consolidated HR/Benefits/Payroll technology and services. Many brokerage firms across the country are responding to this demand by bringing solutions from ADP or other vendors. Most brokers either have done nothing or have stayed with their current technology partner that may have benefits capabilities but no HR or Payroll components. This has resulted in lost business on many occasions.

2. Extend Technology and Services Capabilities

Another strategy would be to compete directly with firms offering integrated HR, Benefits and Payroll technology and services by somehow acquiring these capabilities. For brokers choosing this option, the question is should the broker develop these capabilities on their own and/or partner with an existing vendor?

At HRT, we believe the best option is to acquire these capabilities through a partnership. Many brokers have tried to develop their own technologies only to find they simply could not keep up with many well funded companies such as ADP. How would you like to have spent over \$200,000 building some technology only to find out it lacks much of the functionality needed to compete, and you still lose the business?

When it comes to processing Payroll there are brokers who have partnered with local Payroll Administrators. These are the firms that ADP would consider competitors.

If ADP were a competitor, would you prefer to have access to the ADP technology and services, or would you partner with a competitor of ADP? ADP is the leading Payroll Administrator and their HR and Benefits technology is considered one of the market leaders in the mid-market. If you were to choose another vendor, this would require in depth market and vendor analysis to guarantee you had a competitive offering.

The advantage of taking this position is that one can often negotiate a better deal for pricing because the broker would promise to place larger volumes of business with a single vendor. The disadvantage is that the broker has fewer options for their clients.

3. Maintain Your Position as an Advisor

A broker can also simply choose to play the role of advisor when it comes to evaluating which HR, Benefits, or Payroll technology or service provider is best. Of course, this is a natural roll for the broker and aligns perfectly with his or her roll as benefit advisor. Rather than partnering with one vendor, they maintain vendor neutrality. Under these circumstances the broker is obligated to be objective and advise their clients on the best products or services a client should buy. At HRT, we believe you should be focused on understanding your clients' problem and finding the right solution to meet those needs. Simply stated, there will be times where ADP's solution is the best option for your clients' unique needs, and there will be times when it may not be the best fit.

Let's assume your client asks you to help find the best enrollment vendor. As you start to speak with them you find out they have ADP payroll and they really are looking for a full-featured HR Administration System with enrollment capabilities. Are you going to exclude ADP's HRB solution as an option even though it may simply be the best solution for your client? If so, are you obligated to disclose to your client that specific vendors, such as ADP, are not being considered because you view them as your competitor?

A broker can leverage their objectivity to be a competitive advantage over a broker who only offers limited products or services. Your clients will value this objectivity as you ultimately are delivering a solution with real value, not focused on pushing a select product or ignoring a logical choice.

Conclusion

The lines between who is a friend and who is a foe in many businesses are getting very blurry as clients demand more integrated services. In the financial services business, Banks have been acquiring benefit brokerage firms for years. Yet many brokers still do their banking with banks who are competitors. Many brokers are also in the COBRA Administration and FSA businesses and compete with TPA's and even insurance companies who also provide these services.

With the internet, buyers can now buy direct from the supplier versus going to a retail store. The laptop I am typing on can be purchased on the web or at Best Buy and Circuit City. Suppliers and Retailers competing for the same buyers is something that is relatively new in many industries but something businesses have had to adjust to.

This article started by asking if ADP is a Benefits Broker. The answer is yes for a small segment of the business and no for a majority of the market. The question was independently asked if ADP is a competitor to brokers. In most cases no. In fact, in most cases, it is another broker who is an ADP Partner that is the competitor. In many other cases it is the broker who made a conscious decision to be a competitor of ADP by forming their own partnerships with competitors of ADP.

We believe the market is going to continue to change, and the lines between who are partners and who are competitors is going to become more unclear every day. Benefits Brokers, like others in many other industries, simply have to adapt. Ultimately, the customer will create the demand and drive the market. Brokers will simply have to respond to client demands.

About HR Technology Advisors

HR Technology Advisors (HRT, <http://www.hrtadvisors.com>) is a national, independent technology reseller and consulting firm focused entirely in the HR & Benefits technology marketplace. Unlike many others, HRT is not a manufacturer or builder of technology. Instead, we are independent and objective. Our approach is simply to find the best vendors available in the marketplace and bring that technology to our clients. We resell best-of-breed technology and provide consulting support to ensure appropriately solution implementation and successful adoption. HRT's clients include principally Employee Benefit Brokers and their employer clients.