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## Right on the Money

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By [Samuel Greengard](#)

**Web-based reforms to the payroll process can substantially boost organizational efficiency and enhance the bottom line.**

Most companies have explored a wide range of technologies that harness the power of the Internet, but many have overlooked one of the most basic fronts in the e-business revolution: payroll. Traditionally, the payroll function has been expensive and labor-intensive. The typical system is still rife with errors. Employees punch in and out, supervisors read time cards and fill out pay sheets, and then payroll clerks enter all the data into a software package that prints checks.

"Payroll is complicated, time-consuming and resource intensive," says David Link, vice president of the e-workplace practice at Cedar, a Baltimore-based human resources consulting firm. "Yet it's among the most important tasks for an organization. Employees expect to receive their pay on time and accurately. A system that doesn't work well can wreak havoc." Cedar has found that Web-based payroll systems can produce labor savings averaging between 40 percent and 50 percent and materials savings in the neighborhood of 85 percent.

Achieving success with e-payroll is no simple task. It requires the integration of diverse technologies, the tweaking of various business processes and the careful management of cultural change. But such an undertaking can be well worth the effort. Ultimately, a payroll system that functions efficiently can boost the bottom line and help the company function better on the front lines of employee relations. "It can provide substantial ROI," says Steve Larson, a senior consultant at Watson Wyatt Worldwide in Miami. The finance department needs to play a key role in selecting a solution by analyzing the costs and benefits of software that automates processes and improves employee access to data.

### **Direct Deposit**

Many organizations have struggled with efforts to eliminate paper-based, manual processes. "The biggest gains come when an organization can connect a series of processes so that data flows throughout the enterprise," says Link. In payroll, that means putting almost everything online.

Direct deposit is a good start; it can reduce check printing and mailing costs significantly. According to the American Bankers Association, each payroll check costs the company an average of \$1.07 to process, while direct deposit costs about 5 cents. What's more, direct deposit allows an organization -- and finance -- to manage funds more effectively.

The question, for many businesses, is whether to give employees the option to continue receiving paper checks. According to Monica Barron, a senior analyst at AMR Research in Boston, an increasing number of organizations are no longer providing payroll checks; they are using direct deposit exclusively.

One company that has migrated to direct deposit is Lee Memorial Health Systems, a Fort Myers, Fla., medical group. Today, approximately 75 percent of employees are on direct deposit, according to Jeff Ward, manager of general financial information systems. It's faster, cheaper and more convenient. "It reduces many of the problems related to getting checks to multiple locations," he says. Using a payroll system from Geac Computer Corp., the organization has

integrated direct deposit into an overall e-payroll strategy that is saving hundreds of thousands of dollars a year.

## **Electronic Pay Stubs**

Many companies are also migrating to electronic check stubs. "Getting out of the business of printing and mailing check stubs is a wise decision," Link says. "It's faster, easier and cheaper to put the data online and allow employees to access it whenever they need it." He points out that many individuals like to review the information on a regular basis and print the documents when they apply for loans.

At present, Barron says, less than 40 percent of companies offer electronic pay stubs to any employees -- though the number is growing rapidly. A key consideration is whether workers have access to PCs. "It can present problems for companies with large numbers of blue-collar or hourly workers. Accessing electronic pay stubs can involve cultural and practical challenges," she says. Some companies have solved the problem by installing kiosks with printers in common areas.

Among the organizations moving to electronic pay stubs is Ruth's Chris Steak House, a Metairie, La.-based restaurant chain. The company allows employees to choose whether to participate in direct deposit, but it is pushing its paperless payroll system, which is based on Ultimate Software's UltiPro. Ruth's Chris is putting PCs in restaurants and is considering kiosks in key locations. "There's a direct cost savings from electronic pay stubs, but there are also the gains that result from using e-business effectively. It eliminates duplication, redundancy and inefficient processes," explains IT director Keith Webb.

## **Payroll Debit Cards**

Direct deposit can be problematic when some of a company's employees lack checking accounts. What's more, when those individuals cash their checks, many use expensive services that devour up to 10 percent of the check's value. As a result, the payroll debit card is gaining in popularity.

"Payroll debit cards are ideal for certain industries, such as retail and hospitality, where there are transient employee populations who do not have bank accounts," says Barron. "It is possible to use the card to pay for almost everything: groceries, clothes, toys and gasoline." In addition, most cards allow at least one free withdrawal from an ATM per pay period (additional withdrawals generally incur a \$1 to \$2 fee).

For an employer, payroll debit cards have several advantages. Generally, the company deposits payroll into a separate bank account, and the cards draw off that account. This scenario provides tighter control over funds because the company no longer has paper checks floating around. Also, the reusable cards eliminate the need to send out checks via overnight courier, which saves money. An added bonus is that the cards can track discounts, coupons and promotions, so the company can use them to offer additional employee benefits. Sears, video-rental chain Movie Gallery and airport newsstand chain WHSmith are among the companies that have turned to payroll debit cards.

## **Automated Time And Attendance**

In order to build an e-business infrastructure, an organization needs to have systems in place to automate the entire payroll process. If at any point clerks enter data manually, inefficiencies creep into the picture, and time and cost savings evaporate. "Integrating electronic time and attendance is essential," says Barron. "With electronic systems in place, data can flow across the organization without falling into an abyss."

Of course, companies have a wide range of time and attendance options, including phone-based and Web-based tools. "The key is to make sure that it is architected in such a way that all the various systems can be plugged into one another," Barron says. For example, at Pacific Republic Mortgage, an Anaheim, Calif.-based mortgage company, workers log in and out through their PCs. At the end of the pay period, Pacific Republic sends the data, which is stored in an Excel spreadsheet, to Ceridian Corp. for processing. "There's no paper anywhere in the process," says David Herz, the firm's human resources officer.

## **Employee Self-Service**

It's no secret that employee self-service has taken the corporate world by storm, and nowhere are the benefits greater than in payroll. Web-based systems enable employees to update W-4 data themselves, which reduces errors and eliminates the need for payroll or HR clerks to constantly update records or pull copies of old check stubs. "It provides an extremely high level of value for both the organization and employees," says Watson Wyatt's Larson. "The Web eliminates significant volumes of paper and offers the opportunity to cut costs and improve profitability."

With these Internet systems, employees can check their pay stubs online 24x7 and view year-to-year summaries, reducing questions to payroll clerks and providing a benefit to workers. "People are able to access whatever information they want, from work, at home or while traveling," says Link. Meanwhile, the finance department can view reports and conduct a detailed analysis whenever it's required -- using portals, business intelligence systems or built-in reporting tools. Moving data between systems is easier, and payroll clerks and others require less training.

## **Electronic Tax Filing**

Another way to achieve gains in the payroll arena is through electronic filing of payroll taxes. "Increasingly," says Barron, "the government is moving toward an electronic platform. Companies that submit tax data electronically can realize enormous cost savings by eliminating the need to ship tapes or actual files." What's more, organizations that file tax documents electronically know that documents and media arrive at the appointed destination safely and intact. "There's far less chance of data becoming corrupted," she explains.

At Gevity HR, a human resources outsourcing firm in Bradenton, Fla., that works with small businesses, electronic tax filing has been the order of the day for the past three years. Using Oracle's HRMS and payroll module, Gevity has created a totally paperless payroll environment. "The system improves the speed and accuracy of the process," explains Lisa Harris, senior vice president and CIO.

## **Putting It All Together**

Companies that have adopted Web-based payroll systems are achieving significant gains. Some, such as Lee Memorial Health Systems, are not only cutting costs, but also improving business intelligence and forecasting. The medical center generates reports from its general ledger to track workers' hours and expenses and determine which areas are over budget. Departments can spot problems and make adjustments on a nearly real-time basis. "Since we began using the reporting capabilities, we've been able to stay on budget," Ward says.

Gevity HR is also reaping big rewards. E-payroll has doubled the productivity of its call center; the same number of representatives can now service 1,000 outside employers, up from 500 a couple of years ago. Likewise, other organizations say they have trimmed their overall payroll expenses by 20 percent or more using various Web-based applications. According to Larson, the biggest gains come when organizations integrate multiple tools and streamline the flow of data between systems.

To be sure, smart companies no longer view payroll as an administrative task. They now consider it a value-added activity that can impact organizational efficiency and boost the bottom line. As a result, they're looking for ways to automate and outsource processes by harnessing the power of the Internet. "Payroll applications are gaining a lot of attention because they offer enormous potential gains," concludes Link.

### **5 Ways To Put E-Payroll To Work**

1. Develop a strategy. No two organizations are the same. It's important to tailor solutions to the company and its employee base. At one company, a phone-based time and attendance system might work best; at another, a Web-based system might provide the biggest gains. Likewise, direct deposit and electronic pay stubs might fly within a high-tech, professional environment where workers use PCs. For a hotel chain or a manufacturing firm, payroll debit

cards might provide the greatest ROI.

2. Crunch the numbers. A payroll system must provide flexibility and a high level of usability, but it also needs to provide a solid ROI. Finance should take a close look at the costs and benefits of all options before buying.

3. Crumple paper. Automating individual tasks such as time and attendance, payroll processing, tax filing, and employee deposits can pay dividends for any company. However, the biggest gains come when an organization connects various payroll systems and eliminates paper altogether.

4. Pay attention to cultural issues, and educate employees. At most organizations, some employees will resist direct deposit, electronic pay stubs and other electronic processes. Other workers do not have checking accounts. Companies should understand the needs and requirements of their work force as they drive change. In some instances, that means eliminating paper checks altogether and putting pay stubs online, then installing kiosks for workers who do not have a PC. Likewise, employees must understand how e-payroll systems will work and how they can benefit. That requires ongoing communication, education and training.

5. Outsource when appropriate. Increasingly, companies are turning to outside payroll service providers to handle specific tasks or the entire payroll function. In most cases, it's not a decision based on cost, since firms like Ceridian and ADP usually cost as much as handling the process internally. The advantage is that the enterprise can focus on its core competencies and offload payroll to a firm that specializes in the function, says AMR Research senior analyst Monica Barron.

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