Ultimate Software Delivers Ultimate Application Hosting Value

An IDC White Paper
Sponsored by Ultimate Software

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OBJECTIVE

This white paper examines the business impact of application service providers (ASPs) in general and the application hosting services of Ultimate Software in particular. It provides a quantitative return on investment (ROI) analysis and insights regarding the qualitative benefits that also play an important role in the decision-making process. Information regarding the business impact of ASPs is drawn from IDC's *The Financial Impact of ASPs* study — a landmark initiative that involved in-person interviews with more than 50 organizations to assess the ROI of their ASP implementation. IDC also generated case studies of three Ultimate Software customers to examine the financial impact of Intersourcing, Ultimate Software's branded name for its hosted UltiPro solution.

IDC OPINION

Application hosting can provide significant quantitative and qualitative benefits to organizations. IDC research reveals these benefits are particularly acute when businesses choose application hosting for nonrevenue-generating applications that are nonetheless critical to day-to-day business operations, such as human resources (HR), payroll, and benefits management. To maximize the benefits of this technology investment, IDC recommends organizations fully understand how the application hosting project should ultimately impact bottom-line business results and use this analysis as a deployment blueprint.

Note: For the purposes of this white paper, the term application hosting *is used to refer to the hosted application services provided by application service providers (ASPs). IDC typically describes the services provided by ASPs as application service provisioning. Application hosting is the term used by Ultimate Software to characterize its ASP services.*

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Analyze the Future

No organization can afford to make huge investments in technology under the mistaken assumption that it will automatically experience a corresponding increase in productivity. Before an organization makes a technology investment, it must prove that such an investment will yield business benefits. ROI is one of the most well-used and best-understood means of quantifying business benefits.

New and innovative technology offerings are alluring, but they shouldn't be exempt from the same scrutiny afforded more traditional business investment decisions. Application hosting is certainly no exception to this rule.

Unlike traditional outsourcing providers, ASPs deliver application hosting using Internet technologies through a scalable and repeatable business model. Applications are hosted remotely at a central location with less customization than a traditional outsourcing engagement.

Companies offering application hosting have helped hundreds of businesses in all industries by providing rapid access to applications, infrastructure, and talent. However, not all ASPs are the same. Companies offering ASP services range from software suppliers such as Ultimate Software, which provides hosted access to its own software, to ASPs that host other suppliers' software.

There are many benefits to application hosting, but ASP customers most frequently mention the following:

- Ability to focus IT resources on revenue-generating projects

- Transfer of risk, freedom from responsibility of application management

- High degree of responsiveness to customer requests, including upgrades, maintenance, and integration issues

- Increased application expertise and better performance

Customers that purchase ASP services from a software vendor cite an in-depth knowledge of the application and a strong business understanding as additional key benefits. Ultimate Software is considered an ASP because it assumes total responsibility for managing its UltiPro payroll and workforce management software through a hosted service called Intersourcing.

IDC's recent study *The Financial Impact of ASPs* found that application hosting customers have measured significant bottom-line benefits from ASP services, with more than half the organizations interviewed experiencing an ROI greater than 100%, as shown in Figure 1.
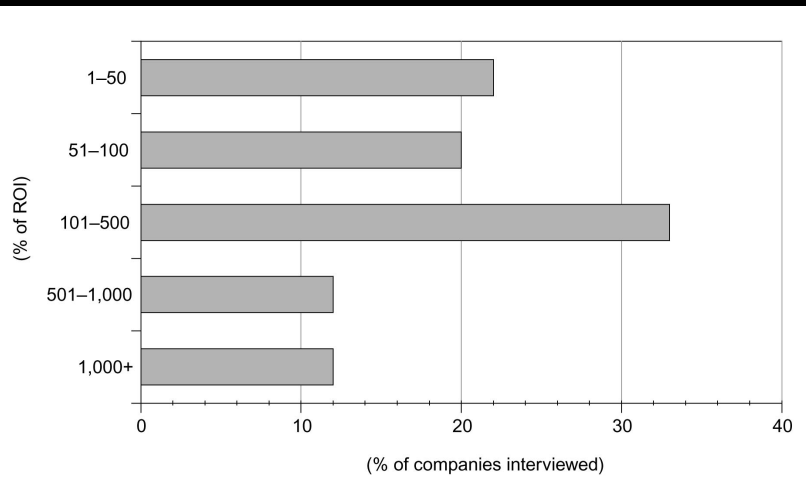
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Figure 1: ROI Range by Percentage of Organizations Interviewed

(% of ROI)		(% of companies interviewed)

Source: IDC's *The Financial Impact of ASPs,* 2002

Forward-thinking decision makers who purchased application hosting services frequently cite peace of mind, an ability to focus on their core business, and a reduction of workload as key benefits of working with an ASP. These incremental benefits, along with incremental costs, are the measure of the value of application hosting to the customer.

MEASURING THE VALUE OF AN ASP INVESTMENT

Understanding ROI

The following points can be used to help evaluate an ROI percentage for an application hosting deployment:

• Companies can employ the following theoretical guideline: If the benefits add up to a value greater than the cost of capital, then it's considered a good investment. Most organizations consider a five-year ROI of 15–25% ample justification, while others may need to adjust this rate for specific business conditions.

• Companies that focus only on technology cost savings will miss most of the potential benefits of using an ASP. IDC's *The Financial Impact of ASPs* ROI study found that more than two-thirds of ASP-related benefits come in the form of productivity increases and process enhancements.

• Although many organizations intuitively consider payback period an important financial impact measure, it has inherent weaknesses and should only be considered alongside other measures. The object of most businesses is not to break even but to continue to realize benefits over a period of time.

Used appropriately, an ROI analysis provides a road map to guide executives in understanding how they maximize returns. It explicitly defines the incremental costs and benefits of a project as a means to commit management to specific behavior or, more likely, to a change in behavior.

- Comparing one ROI case with another can be misleading. A company automating a manual process or whose business processes need overhauling is likely to achieve a higher ROI for the same application service than an organization that is more automated or efficient. But this doesn't mean that one case is better than the other. If both companies achieve their goals, then the implementations are equally successful.

While ROI is commonly used to measure the relative attractiveness of a technology decision compared with other technology or nontechnology options, it does have its shortcomings. IDC's approach addresses these shortcomings by including complementary financial measures such as net present value (NPV) and payback period in its analysis. And rather than calculating only technology savings in its ROI analysis, IDC includes three categories of benefits in its approach to capture the full range of incremental economic value to the customer. These benefits are explained in the following sections.

Business Relevance of ROI Analysis

ROI is a measure of change. It captures a snapshot of the project that details the scope of the investment as well as all of the existing and anticipated changes that must occur to achieve the expected benefits of the project. Therefore, an ROI analysis provides both business and technology departments with explicit objectives that contribute to meeting an overall goal. The actual return will be different for each company based on its initial investment, objectives, and priorities.

However, ROI should never the only factor considered when deciding whether or not to move forward with a particular investment. Given that ROI measures change and the ROI percentages are relative to the size of investment made, not all "good" investments are going to yield returns in the hundreds of percent. Therefore, a definite judgment call is required. For example, a 200% ROI on an investment of $10,000 is great, but a 40% ROI on an investment of $1 million, which has an enterprisewide impact and increases the company's ability to compete, is better.
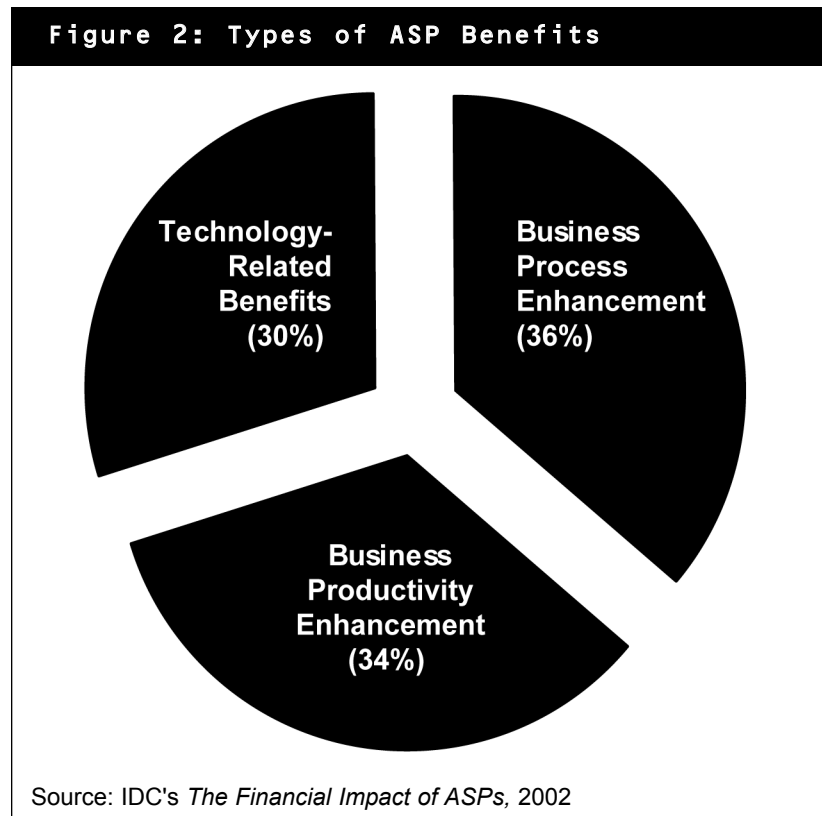
Used appropriately, an ROI analysis provides a road map to guide executives in understanding how to maximize financial impact. It explicitly defines the incremental costs and benefits of a project as a means to commit management to specific behavior or, more likely, to a change in behavior. Therefore, the final ROI number is secondary to the goal of meeting the individual managers' objectives that have an impact on the final number.

IDC's ROI methodology is conservative and realistic. We use a standard set of conservative, basic financial assumptions to calculate ROI across all our case studies to ensure comparability, even across different industries. These assumptions, combined with a standardized data collection methodology, ensure that the results can withstand even the most severe financial critiques.

IDC focuses on the real "hard-dollar" issues — the true incremental costs and incremental benefits associated with ASP implementations. As a result, our case studies and analysis reflect the type of real-world scenarios that a company would likely face in its own decision-making process.

Quantitative Analysis of ASP Benefits

IDC research has concluded that three categories of incremental benefits must be considered when determining the value of an ASP service to an organization. To eliminate any one of these categories from consideration would exclude a large portion of the total benefit (see Figure 2). In *The Financial Impact of ASPs* study, we calculated ROI percentages for more than 50 ASP deployments. When we averaged the benefits experienced by all of the ASP customers, we found that more than two-thirds (70%) of the quantifiable benefits of ASP services were related to business productivity and process enhancements, with the remainder (30%) attributable to technology improvements.

Figure 2: Types of ASP Benefits

Technology-Related Benefits (30%)

Business Process Enhancement (36%)

Business Productivity Enhancement (34%)

Source: IDC's *The Financial Impact of ASPs,* 2002

The benefits experienced by organizations fall into three categories:

- **Technology-related savings** refer to the amount of money saved, or costs avoided, by the decision to use an ASP. In keeping with IDC's practice of financial conservatism, we considered only true incremental (i.e., out-of-pocket) costs, such as hardware purchases, elimination or reduction of services contracts, or avoidance of budgeted expenditures.

Ultimate Software Delivers Ultimate Application Hosting Value

- **Productivity benefits** are efficiency savings due to the reduced amount of time and effort required for particular tasks. This category includes productivity enhancements (when a particular group of people saves time because they can execute a specific task more efficiently), staff redeployment, and workforce reduction or termination.

- **Business process enhancements** include all identifiable annual savings realized due to changes in business processes supported by the ASP implementation. This includes management framework processes (senior management activities, such as strategy formulation, definition of mission, and business planning cycles), core competencies (the essential activities for the company), and enabling processes (necessary activities to support core processes).

When evaluating the services of ASPs, many companies focus on cost savings alone. This narrow assessment ignores two-thirds of the potential benefits actually experienced by ASP customers. The key to determining the value of application hosting to your business is to not focus strictly on technology-related savings but rather to include productivity benefits and business process enhancements that contribute significantly to your returns.

Limiting decision criteria to include only cost can potentially undermine the value-added services and business understanding offered by an ASP — an understanding that could potentially make the difference between a mediocre and meteoric ROI.

Therefore, IDC adamantly believes that from a business perspective, ASP investments should be based on ROI and not cost (i.e., basic cost comparisons, total cost of ownership, or any other cost-based evaluation).

Maximizing ROI Through Application Hosting

Application hosting offers an attractive alternative to the typical resource constraints associated with in-house application development and deployment. Application hosting allows organizations to allocate resources in a way that is best suited to their current goals and objectives. In particular, application hosting enables businesses to quickly respond to business requirements.

Based on a number of in-depth interviews with organizations that have subscribed to application hosting services, IDC has identified the following benefits:

- Focus on core business

- Enhanced strategic value of IT

- Improved system performance, reliability, and sophistication

Focus on Core Business

Although a company may have the IT resources capable of focusing on the strategic and tactical needs of the business, its resources may be stretched to capacity. Many of those needs will fall outside the scope of technologies that contribute directly to the bottom line and therefore are of lower priority. Application hosting removes the burden of managing applications that are peripheral to the company's core business but are key to keeping it running day to day, such as payroll and workforce management. Ongoing maintenance and performance issues become the responsibility of the ASP.

The following scenarios are just two examples drawn from real-world customer experiences. With a hosted solution, a retail organization was able to move IT staff from managing its payroll software to improving its higher-priority point-of-sales systems. An investment firm that manages more than $1 trillion in assets implemented its new HR management system using an ASP so that it didn't need to hire additional in-house resources.

Enhanced Strategic Value of IT

Ongoing management of an application is time consuming and tedious and requires bug patches, upgrades, and maintenance as well as constant monitoring for optimal performance and availability. The management and monitoring of the network and systems infrastructure require even more dedicated time and expertise. Organizations experience great value in having someone else assume these responsibilities, particularly when those resources are even more steeped in the vagaries of the application than the organizations themselves. Internal IT staff can be deployed to other — more strategic — areas, and additional staff often does not need to be hired.

A venture capital and investment firm realized that it couldn't compete effectively in its market with manual HR processes; however, its custom Lotus Notes application provided a competitive advantage and required a great deal of work to expand its capabilities. Using application hosting, the financial firm was able to implement a new HR system in time for the following year's planning process.

Improved System Performance, Reliability, and Sophistication

Application hosting delivers not only access to the latest technology but also improved system performance and customer service. In many cases, the hosted application outsourcer can provide security, backup, and disaster recovery features that its customer wouldn't have been able to implement or maintain on its own.

In addition, ASPs provide round-the-clock monitoring of applications to ensure optimal performance and availability. This white paper provides three examples of this benefit. Handing off management of the payroll and workforce management software and environment to Ultimate Software (as the ASP) reduced application downtime, increased operational efficiency, and generally translated into real returns for the companies profiled.

Qualitative Benefits of Application Hosting

Although not represented in a financial model, qualitative benefits play an important role in the hosted application hosting decision-making process. Investment decisions must ultimately combine logical financial calculations with solid business judgment that takes into consideration human behavior and management experience.

The application service provisioning value proposition would be incomplete without reference to the following qualitative benefits common to organizations that have implemented ASP services:

- Risk transfer and mitigation

- Single throat to choke

- Access to the latest technology

- Anytime, anywhere access

Risk Transfer and Mitigation

With application hosting, the application outsourcer assumes the risk of delivering the application at guaranteed service levels outlined in the customer's service level agreement or achieving a particular service-level objective. Because most software suppliers and outsourced service providers will need to rely on technology partners to provide some of the critical components of the service (such as the network), the application outsourcer must be responsible for variables it can't always control. If not for the ASP, the customer would have to take on this risk if it wanted an equivalent solution.

This translates into bottom-line benefit when the "cost" of getting it wrong means a loss of credibility or sales, such as the case of one company's ecommerce endeavor, or when a heavy investment in additional technology and training of IT staff can be eliminated.

Single Throat to Choke

Ultimately, the ASP is responsible for delivering on the application hosting contract. ASPs provide the complete range of services — from consulting to training — required to host and manage their application portfolios. They also provide both technical and functional support, which reduces and sometimes eliminates the need to have internal support staff.

Organizations have usually experienced an increase in efficiency because they no longer have to negotiate internal IT issues and scramble for priority over other projects or navigate the technology vendors' equivalent of "passing the buck."

Access to the Latest Technology

Technology churn is a fact of life in most organizations. Rapid development cycles mean that upgrades and maintenance updates are a frequent occurrence, each taking many hours to complete. Often companies simply can't keep up with the latest version. By outsourcing, this burden is transferred to the ASP.

This can — and does — go beyond application upgrades. For example, the ASP can bring customers the latest in security services. While it does not make economical sense for a single organization to invest in full data redundancy systems and a disaster recovery plan, the ASP can leverage its investment across its entire customer base.

Anytime, Anywhere Access

For companies with remote employees or multiple locations, having a single system and repository to which employees can log on at anytime translates into better, more accurate information. Moreover, employees can spend more time in the field with their customers.

Network access to an application makes it feasible for geographically dispersed and mobile workers to have access to the same features and functionality that employees working in the home office have to do their jobs.

INTERSOURCING: ULTIMATE SOFTWARE'S ULTIMATE ASP SOLUTION

Intersourcing is Ultimate Software's application hosting option for delivering hosted application access to UltiPro, its workforce management and payroll solution. Unlike providers of traditional payroll service-bureau outsourcing models, Ultimate installs the software and manages the entire system in a remote facility. Ultimate's colocation facility partner provides the technical underpinnings of the hosted UltiPro offering, but Ultimate's software engineers actually manage the application (see Figure 3). Thus, customers can experience a threefold value:
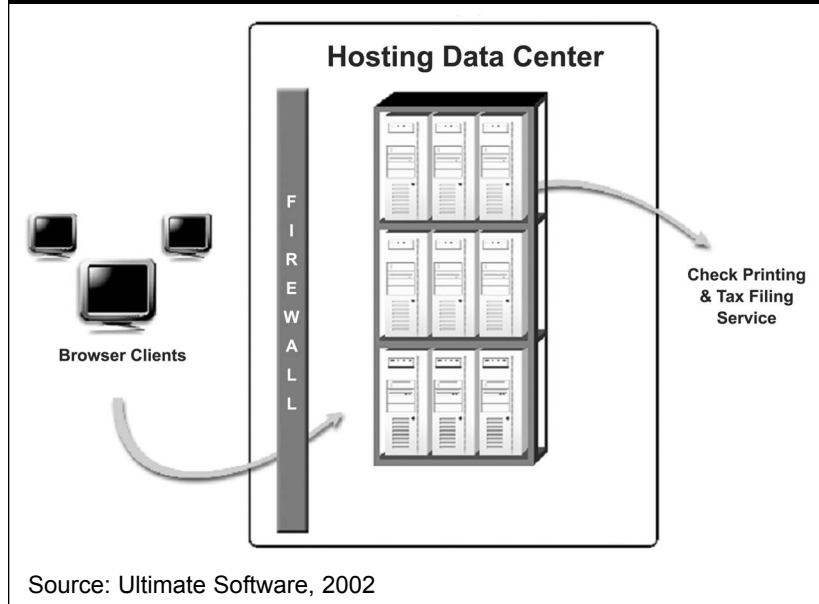
- The benefits and flexibility of application hosting

- The application performance and management expertise of the software supplier

- The control usually associated with in-house deployments

UltiPro provides managers, HR personnel, and payroll professionals with HR, payroll, and reporting capabilities, as well as a Web portal that can act as a central communications hub, with Web-based self-service for managers and employees. Intersourcing delivers all the features of UltiPro without the internal burden of managing the application or the restrictions imposed by a payroll management service bureau. Thus, management and HR staff can execute tasks, analyze business statistics, or customize and run reports at any time and from any location.

Under the Intersourcing model, Ultimate Software offers:

- Full UltiPro installation and ongoing product updates, support, and maintenance

- Critical operations functions such as server installation and management, capacity planning, application performance tuning, upgrade assistance, and 24 x 7 server monitoring and management

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Figure 3: Ultimate Software's Intersourcing Model

Hosting Data Center

FIREWALL

Browser Clients

Check Printing & Tax Filing Service

Source: Ultimate Software, 2002

- Access to Ultimate's award-winning National Customer Support Center where each customer support team member has an average of more than 14 years of service and support experience and is required to obtain Certified Payroll Professional (CPP) certification

- Robust infrastructure and critical application and data support functions, such as security, backup and recovery management and support through its colocation facility

- Ongoing application management for the length of the contract, including performance tuning, quarterly tax updates, timely upgrades, and maintenance

- A guaranteed service-level objective

In addition, Intersourcing customers have the option of taking advantage of UltiPro's Web-based employee and manager self-service features. At least one customer interviewed for this white paper said that it cut employee support calls by 75%.

Reasons to Outsource HR and Payroll Management with Ultimate Software

Ultimate Software targets its Intersourcing application hosting option at companies with between 500 and 15,000 employees. In particular, small and medium-sized businesses experiencing a growth period are prime candidates for Intersourcing, if they are looking to expand their information resources but still struggling with the technological and operational complexities of such an undertaking. However, any organization looking to create operational efficiencies, make savvy technological investments, and reshuffle IT resources to revenue-generating projects should seriously evaluate application hosting.

Ultimate Software's Intersourcing customers claim the following benefits from using the hosted application hosting option:

- Increased operational efficiency and streamlined processes

- Reduced administrative time

- More control over tactical tasks

- Increase in strategic importance of HR/payroll to the organization

- More accurate data

- Constant and consistent access to HR and payroll statistics

- Decrease in system glitches and downtime

- Cost, resource, and time savings over in-house implementation

- Peace of mind resulting from the technological expertise, security, reliable facility, backup systems, system setup, and ongoing maintenance provided without ongoing effort on the customer's part

Another potential benefit is the opportunity afforded by Intersourcing and the hosted application service model to give customers a jump on the latest and newest technology. For example, Ultimate Software has designed UltiPro to be fast and efficient in a hosted environment, and XML is a core part of the application. Therefore, UltiPro can import and export XML data and integrate with any other XML-enabled application. Even more important, because Ultimate adheres to Microsoft's .NET strategy, as Microsoft and others release .NET services and functionality, UltiPro and its customers should be able to leverage those services. Ultimate may even provide these services as part of Intersourcing.

ULTIMATE SOFTWARE ASP CUSTOMER CASE STUDIES

The following case studies present IDC's ROI analysis of three Ultimate Software customers. Our ROI analysis begins by identifying the important business processes that have been affected by the application hosting project. The incremental costs and resulting benefits attributed to the application hosting implementation are then calculated over five years of production. To account for factors such as inflation and interest rates, both costs are discounted so that they can all be expressed in today's dollars. This is what economists call the present value of the investment. ROI uses these present values to assess the relative attractiveness of investments.

Each of these case studies has a potent story to tell about the value of application hosting in general and Ultimate Software's Intersourcing option in particular.

Case Study #1: The MARC Group

Table 1 provides background information about The MARC Group.

Table 1: The MARC Group	
Company name	The MARC Group
Province/state	Texas
Country	United States
Industry	Business services
Employees	Approximately 400
ASP users	11 HR and payroll employees
Primary user departments	HR, payroll, and finance
Solution/application(s)	Ultimate Software's UltiPro
ROI	105%

Source: IDC, 2002

Nobody likes to be challenged with the near-Herculean task of managing conflicting goals, yet that was exactly the responsibility given to Missy Leach, director of payroll and benefits for The MARC Group. Leach was faced with the multiple objectives of updating soon-to-be-obsolete HR and payroll software, saving money, finding a means to operate her department more efficiently, and capturing and disseminating HR and payroll information. It soon became clear to The MARC Group that application hosting was the best alternative, thereby eliminating a potential investment of $500,000 a year to implement and maintain a system in-house. Instead, Leach turned to Ultimate Software to deliver hosted access to its UltiPro payroll and workforce management software for two to three times less overall cost/investment than the alternative.

Background

The MARC Group is a marketing research organization that specializes in gathering brand awareness and market trend information. It comprises two divisions: MARC Research, a market research firm, and Targetbase, a business intelligence and direct marketing solutions provider.

Competition in this market is fierce, with marketing expertise and a high level of customer service being the key elements needed to capture and maintain clients. Because The MARC Group is only as good as the experience and combined knowledge of the professionals that it employs, it behooves the company to keep its employees happy. On the other hand, spending on internal systems and processes is often scaled back in favor of customer outreach and sales initiatives. Thus, cost-effectiveness is a primary motivator for internal investments.

Business Challenge

The MARC Group doesn't spend money on technology merely for technology's sake, but it realized that it was time to reassess its payroll and workforce management software. The company's existing payroll system was getting the job done in a rudimentary fashion, but it was neither meeting several requirements of the finance and payroll departments nor was it able to capture information needed to support important management decisions. A new system was needed to capture information that The MARC Group had never been able to capture before, to make the payroll and HR departments more efficient, and to avoid an upgrade of a payroll system that was adequate but not ideal.

The catalyst for this decision was the acquisition of the software company whose payroll and benefits management software was used by The MARC Group. It was then announced that the application was going to be completely rewritten. Customers would be required to renegotiate and repurchase the software license under an increased pricing schedule. Given the circumstances, it was the right time to look for a payroll and HR application that would meet all of the functional requirements needed to run The MARC Group's two related, but diverse, businesses and capture the HR and benefits data that the HR and payroll departments coveted but had never been able to capture.

Furthermore, the payroll department had the added burden of being required to service satellite and work-at-home employees across the United States. Leach needed a system that would capture and disseminate data as well as one that would meet all the unique reporting requirements of the payroll department itself. The MARC Group looked to application hosting to deliver the software to all its constituents, avoid costs associated with in-house implementation, and provide high-quality software performance and reliability.

Before the ASP Implementation

The basic payroll system used by The MARC Group was missing several key analytical and legal requirements and, to make matters worse, it contained no HR data. Therefore, any data that had to be captured about the workforce, other than payroll data, was handled manually. In a highly competitive business services market where skilled professionals are the bread and butter of the company, timely HR data is important.

The lack of HR data in the payroll system made it difficult for management to analyze costs. In a service-centric business model, it is crucial to compare employee billing rates and time spent on a project versus revenue from that project to determine profitability by client, type of project, and other criteria. This information then feeds management decisions about raising rates, increasing headcount, and adjusting company focus.

Additionally, Leach spent much of her time managing upgrades and working with The MARC Group's IT staff to keep the prior system going.

After the ASP Implementation

With payroll and HR data combined in UltiPro, information was more timely, more accurate, and easier to disseminate via reports or online access to remote offices. The need to keep data in separate spreadsheets was eliminated. Reports that had been manually and painstakingly generated from multiple data sources are now extracted from the new payroll and benefits management system via reporting tools, saving the payroll and HR department several hours a month. In addition, information that had not been tracked before is now available to management, such as the ability to better understand the company's billing rates and analyze costs. Furthermore, the reliability and response of the system has been excellent, according to Leach, without burdening herself or the internal IT department.

The MARC Group expects its ROI to increase once the employee self-service feature is up and running. This feature will further increase productivity because it will free up approximately 20 hours a week for those payroll and HR employees who were tasked with entering employee changes into the system and pulling data from the system to answer employee questions.

Implementation Timeline
- January 2000: Began looking for an alternative to current payroll and HR management software

- November 2000: Began implementation

- March 2001: Launched online application hosting of Ultimate Software's UltiPro HR and payroll management software

- March 2002: Began implementation of Ultimate Software's employee self-service module

ASP-Specific Issues and Benefits
- Access to benefits management available to all regional and local offices

- No need to rely on internal IT staff for ongoing maintenance, performance management, and upgrades

- Real-time access to payroll, HR, and benefits information, rather than a one-day turnaround from an outsourced payroll services firm

- Ability to launch employee self-service module with access to all local and remote employees

For details on The MARC Group's ROI analysis, see the financial spreadsheet in the Appendix.

Case Study #2: A Midsize Telecommunications Company

Table 2 provides background information about a midsize telecommunications company.

Table 2: A Midsize Telecommunications Company	
Company name	A midsize telecommunications company
Province/state	Texas
Country	United States
Industry	Telecommunications
Employees	2,700
ASP users	40 primary users
Primary user departments	HR and benefits
Solution/application(s)	Ultimate Software's UltiPro
ROI	188%

Source: IDC, 2002

The boom of the 1990s is over for the telecommunications industry. Mergers and acquisitions abound, product-line diversification is an imperative, and the focus of management is on cost-containment and revenue-generating initiatives. Given the state of the competitive environment, it's nearly impossible to divert IT staff time from mission-critical applications, such as billing, to fix, upgrade, or maintain the payroll system. Furthermore, the HR department at this midsize telecommunications company found itself playing a strictly tactical, rather than strategic, role within the organization. This was a sore point for the organization, considering that it had undergone three mergers in five years. Hamstrung by internal and market forces, the HR management team turned to Ultimate Software's payroll and workforce management system and its Intersourcing hosted deployment option to get better application performance, process improvements, and more efficient day-to-day operations.

Background

After 10 years of high growth rates following deregulation, the telecommunications industry is now saturated. Consumers are making purchase decisions based on which telecommunications company has the most services to offer at the lowest price. Market pressures are forcing telecommunications firms to focus on controlling costs, revenue-generating initiatives, and diversification by moving into wireless and the Internet.

Business Challenge

This midsize telecommunications firm was challenged with redundant systems and an overloaded IT staff whose top priorities did not include upgrading payroll and HR management software. Not only did the company have two different applications tracking the same

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information, but its HR information system (HRIS) was a poorly implemented stopgap measure that was costly to maintain.

It was time to step back and look at the broader picture. A new vice president of HR was hired to implement process improvements and overhaul HR, emphasizing its strategic value to the organization first and its administrative function second. The company needed a more functional payroll and HR management system. After considering all the options, the company decided on application hosting. The firm's goal was to alleviate the stress on internal IT resources related to maintaining HR systems and enable the department to drive more stringent service levels without negatively impacting the business.

Before the ASP Implementation

Three core issues plagued the telecommunication company's HR department. The first issue was that the company was spending an inordinate amount of its resources on keeping payroll and HR data up to date. Although the company had implemented a large enterprise resource planning system, a third party still supplied its payroll management software. This scenario made for redundant data entry and less reliable data. Furthermore, the HRIS was costing the company a significant amount of money annually to maintain. Because the system had been implemented quickly, the HR department constantly had to call in application-specific consultants to rework business rules and processes. This became a very expensive proposition with highly paid consultants onsite about four months of the year.

The second issue faced by the HR and payroll department was the difficulty in getting IT mindshare for necessary workarounds, bug fixes, or upgrades to the system. HR and payroll were considered secondary business priorities for the telecommunications firm because they were administrative functions rather than revenue-generating functions. Thus, the HR department wasn't getting the necessary response from the IT staff. "If a need arose in HR or payroll, and a billing issue came up at the same time; it was pretty cut and dry that billing would get priority," said the HRIS manager for the midsize telecommunications firm.

The third major issue faced by the HRIS manager was the enormous block of time he spent baby-sitting the systems. "I spent 80 percent of my time making sure that there were no system issues and in designing workarounds," said the HRIS manager. This was certainly a waste of his valuable time, especially given the corporate mandate to focus on reporting, strategic planning, and process automation.

After the ASP Implementation

Moving to Ultimate Software's UltiPro payroll and workforce management software as a hosted solution enabled the telecommunications firm to alleviate its issues of system reliability, IT availability, and HR responsibilities while adhering to the overall corporate mandate to contain costs.

The HR department was able to continue to outsource its tax service and tax printing at a reasonable cost while eliminating the payroll processing portion of the contract, which it is now able to do via the hosted UltiPro payroll and HR management software. The company was able to reduce its HRIS/payroll workforce from 10 to 3 people who were better able to utilize their skills as well as eliminate time spent on tedious and manual tasks. The payroll function was moved into the HR department, and displaced full-time employees were reallocated within the workforce into accounting and receivables to expand their knowledge of finance rather than payroll.

Furthermore, "hosting has allowed us to drive service levels without any guilt," said the HRIS manager. "We needed to have a quality integrated HRIS and payroll management system in a hosted environment, and Ultimate Software's UltiPro fit the bill."

Other immediate benefits of the hosted UltiPro application include:

- Payroll productivity increased

- Payroll processing was trimmed from three days to one and a half, saving two weeks a month

- IT staff members were refocused

Now that the ASP manages the application, the HRIS manager has been able to fulfill many of the goals set for him by management. One of these goals was online reporting. UltiPro now allows for ad hoc reporting and eliminates the redundant effort of creating the same report across multiple business units. The company's previous software was difficult to use. In addition, the data was implemented incorrectly and contained no business rules, resulting in inaccurate and inconsistent reports. Now that the data is more consistent, the department has experienced a reduction in time spent dealing with the problem, and it has gained credibility, a valuable commodity.

Another goal was to move benefits enrollment online, which the HRIS manager was able to do because he didn't have to spend his time struggling with the technical infrastructure of the HRIS and payroll system. After implementing the system, the company cut HR call volume in half. Now HR staff members can focus on more complex HR questions that require their unique expertise.

Ultimately, the greatest benefit of application hosting of the telecommunication company's payroll and HR management system for the HR department was the ability of the department to rechannel its efforts to become a strategic resource and a value-added department rather than just a tactical clearinghouse. "Since we have a good data repository for our information, and now that everybody agrees that the data is accurate and sound, we've been able to facilitate a lot of cross-functional initiatives," said the HRIS manager. One such initiative is streamlining the employee entrance and exit processes. "Now we are focused on determining how can we help other functions within the company become better at what they do," said the HRIS manager.

Implementation Timeline

- December 1999: Began evaluating hosted payroll and workforce management software suppliers

- April 2000: Started UltiPro implementation

- August 2000: Went live with hosted UltiPro

ASP-Specific Issues and Benefits

- Refocus IT onto revenue-generation initiatives, such as billing and marketing application support

- Drive service levels to an acceptable standard versus in-house "customer" response

- Implement a solid payroll and HR application that will support a newly streamlined HR department and improved business processes

Lessons Learned

- Hosting for the sake of hosting isn't necessarily the way to go. Measure and compare service levels between what you are getting before an ASP implementation and what you would get from the ASP, and make sure it's worth your while.

- If your payroll- and HR-related processes aren't strong already, then the ASP isn't going to take care of them.

- Hosting is really an alternative to tying up IT resources. It allows you to maintain more control and drive stricter service levels. If that's what you want, then hosting is for you.

- Application hosting is ideal for a smaller company and a good fit for a midsize company. Small to midsize companies don't have to incur the costs of maintaining an IT resource or compete for internal IT resources.

For details of the telecommunication company's ROI analysis, see the financial spreadsheet in the Appendix.

Case Study #3: Edward Don & Company

Table 3 provides background information about Edward Don & Company.

Table 3: Edward Don & Company	
Company name	Edward Don & Company
Province/state	Headquarters in Illinois; five other locations nationwide
Country	United States
Industry	Hospitality, retail
Employees	986
ASP users	16
Primary user departments	HR, payroll, finance, and accounting
Solution/application(s)	Ultimate Software's UltiPro
ROI	25%

Source: IDC, 2002

An industry heavyweight in the food service equipment and supplies market, Edward Don intends to defend its title with an investment in internal systems to make itself more efficient and cost effective in every aspect of its business. Its previous payroll and HR application was lacking features and flexibility, so Edward Don turned to Ultimate Software and the application hosting model to deliver the software it needed to run the business. As a result, Edward Don can capture, disseminate, and analyze critical information for savvier management decisions, and the HR and benefits department is more efficient in every respect.

Background

Edward Don & Company can sell institutional kitchen managers everything, including the kitchen sink. The company provides food service equipment and supplies to cafeterias, restaurants, hospitals, hotels, and schools. It stocks bar and fountain supplies, catering and cooking equipment, tableware, tables and chairs, linens, paper goods, cleaning products, sanitation supplies, and 12,000 other products. Edward Don distributes these products across the United States.

The privately owned company was founded in Chicago in 1921 and remains an industry institution. As increased competition and decreased travel and entertainment expenditures by consumers put pressure on Edward Don, the company focused on maintaining the status quo.

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Senior management is now heavily focused on sales, expense management, and inventory levels, soliciting action from every corner of the organization to boost the bottom line. To date, the company has reduced its workforce by 10% and inventory by 20%. Now the organization is focusing its efforts on increasing sales. With 80 years of business experience, conservative financial management, and savvy reinvestments in technology over the last few years, Edward Don seems to be in a good position to ride out economic and competitive storms.

Business Challenge

In 1999, Edward Don was perfectly content with its DOS-based payroll management software. The DOS product handled the basics, but it had no reporting capabilities and very restricted functionality. However, the company was investing in technology for future growth and increased productivity, trying to establish a reputation as a leader in its industry. Taking an edict from the CEO, HR management reviewed the payroll and benefits management system and decided that it wasn't up to par.

Before the ASP Implementation

Edward Don had outsourced its payroll processing to a payroll services firm and was using a DOS-based product with no reporting capabilities and very restricted functionality. The benefits and HR staff used a separate desktop database to maintain employee benefits and HR information. The two systems did not communicate. Therefore, every time employees were added or information was changed, the data had to be entered twice, once into the database and once into the payroll system.

While the desktop database was able to produce some reports, its range was limited. Those familiar with the database could write custom reports, but these skilled individuals were few. To guarantee data security, only the manager of the benefits group and the administrator used the desktop database.

Thus, there was no sharing of resources. The payroll and benefits management process was labor intensive given the duplication of effort, and there were data integrity issues because of the multiple data entries to two systems. For three years, Edward Don was unable to get accurate data from its systems. It was an untenable situation for a growing company that intended to establish IT leadership.

After the ASP Implementation

Access and accuracy are the keywords for the benefits experienced by Edward Don. The company went from two to 16 employees who now have access to benefits and HR information that enables them to do their jobs better. For example, local HR representatives in the field have immediate access to accurate data for the employees they support. The finance and accounting departments get accurate information on payroll for budgeting and other financial purposes. Other systems, such as that of the company's 401(k) vendor, are

able to get data feeds when needed. Training and employee development will now have access to UltiPro and its training module, according to Kate Mahoney, manager, HRIS and Benefits.

Better still, Mahoney didn't have to downsize her department; instead, she was able to enrich jobs, moving several staff members from data entry to processing paychecks. Her current staff can perform more tasks associated with payroll for less cost and within the same amount of time. The bottom line is that Edward Don can take care of all of its payroll and HR processing needs with in-house staff, and it is enjoying hosted UltiPro for less than it paid the outsourced payroll processing service the company had previously used.

Information is available and more accurate. The flexibility of the reporting tool now available to Edward Don allows the company to "write reports on anything and everything," said Mahoney. "The ad hoc reporting tool is invaluable to us." The company can track in-house and external training, giving it the ammunition to apply for grants and tax credits. In addition, critical statistics that have a huge impact on the company's performance are available through the reports. For example, the company has never been able to perform turnover analysis, said Mahoney. Because a high turnover rate negatively affects sales volume and percentage, accurate tracking of this particular statistic will allow the company to make proactive decisions about employee retention.

In summary, Edward Don can capture, disseminate, and analyze information critical to keeping its business on track and has a system in place that makes its payroll and HR department more efficient in every respect.

Implementation Timeline
- September 1999: Evaluated payroll and benefits management software suppliers

- February 2000: Proposal made to board of directors to get UltiPro and hosted application provisioning model approved

- March 2000: Laid out scope of project

- April 2000: Involved consulting with laying out project scope and completed plan in June

- November 2000: Went live with ASP deployment of UltiPro

ASP-Specific Issues and Benefits
- Immediate response to issues. "When I call Ultimate Software, they call me back 10 minutes later," said Mahoney. "The service is unparalleled. You can't underestimate how people treat you when you are a paying customer versus an internal customer."

- Disaster recovery is built into the application provisioning option provided by Ultimate Software and its datacenter, requiring no thought or effort on Edward Don's part.

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- Upgrades, maintenance fixes, and tax-related upgrades are all taken care of during off-hours as contracted by Edward Don with Ultimate Software. When it came to tax-related upgrades once a quarter and a yearend release to help print W2 forms, Mahoney would have had a hard time getting IT's attention under the previous system. "I would have hated having to convince IT about why we have to do these upgrades," she said.

Lessons Learned

- Evaluate your business processes. You need to have good processes to help technology work and be able to reap the benefits of your investment.

- Analyze all the services you are providing and be sure that everything you are delivering can be recreated in the new system. Don't discontinue capturing data until you realize how and why people want the information.

- Don't underestimate the accounting department as a partner. Edward Don postponed its launch date because the accounting department wasn't convinced that everything was okay. The HR staff needed to make sure that the accounting department was on board and should have made the department a partner at the beginning of the endeavor.

- When your employees (or internal customers) figure out what you can do with your new system, watch out! You'll need to have a system in place for processing requests for new and better information and reports because they will come to you with numerous requests.

For details on Edward Don's ROI analysis, see the financial spread-sheet in the Appendix.

CONCLUSION

The Ultimate Software Intersourcing case studies prove that choosing the right applications and implementing them in a thoughtful manner can lead to a noteworthy outcome. The organizations profiled in this white paper and IDC's ROI research indicate that application hosting can offer significant value, particularly when the applications being outsourced are not considered mission critical but are critical to daily operations.

Organizations cannot afford to overlook the value that application hosting can provide — from the rapid implementation time and application access from anywhere to the peace of mind afforded to an IT department that is free to concentrate on strategic technology initiatives rather than application maintenance drudgery.

This study confirms that the application hosting model is and will continue to be a viable and potentially rewarding option for application implementation for many companies. In a competitive environment where improving productivity and intellectual capacity to compete more effectively is the ultimate goal, application hosting enables companies to focus energy on improving the effectiveness and competitiveness of the business rather than on application management.

ASP Financial Spreadsheet for the MARC Group

Annual Increased Revenue + Savings	Base	Year 1	Year 2	Year 3	Year 4	Year 5
Total	$0	$183,629	$183,629	$183,629	$183,629	$183,629

Capital Expenditures	Initial	Year 1	Year 2	Year 3	Year 4	Year 5
Total	$0	$0	$0	$0	$0	$0

Depreciation Schedule	Initial	Year 1	Year 2	Year 3	Year 4	Year 5
Total		$0	$0	$0	$0	$0

Expensed Costs	Initial	Year 1	Year 2	Year 3	Year 4**	Year 5**
Total	$148,524	$22,620	$22,620	$22,620	$22,620	$22,620

Basic Financial Assumptions						
All federal and state taxes	40%					
Discount rate	15%					
Depreciation — straight line (years)	3					

Net Cash Flows	Initial	Year 1	Year 2	Year 3	Year 4	Year 5
Net cash flow after taxes	($89,114)	$96,605	$96,605	$96,605	$96,605	$96,605

Financial Analysis	Results					
Five-year ROI	105%					
Payback (years)	1.07					
Five-year NPV using 15% discount rate	$204,106					

Notes
1.) When hardware costs are in excess of $50,000, they are depreciated over three years.
2.) When software costs are in excess of $50,000, they are depreciated over three years.
3.) Hardware and software costs less than $50,000 are expensed as incurred.
4.) Software upgrades are treated as a depreciable asset if greater than $50,000; otherwise, they are expensed as incurred.
5.) Assume a 220-day working year, 35-hour productive working week.

ASP Financial Spreadsheet for a Midsize Telecommunications Firm

Annual Increased Revenue + Savings	Base	Year 1	Year 2	Year 3	Year 4	Year 5
Total	$0	$1,161,820	$1,161,820	$1,161,820	$1,161,820	$1,161,820

Capital Expenditures	Initial	Year 1	Year 2	Year 3	Year 4	Year 5
Total	$0	$0	$0	$0	$0	$0

Depreciation Schedule	Initial	Year 1	Year 2	Year 3	Year 4	Year 5
Total		$0	$0	$0	$0	$0

Expensed Costs	Initial	Year 1	Year 2	Year 3	Year 4**	Year 5**
Total	$563,760	$98,000	$98,000	$98,000	$98,000	$98,000

Basic Financial Assumptions						
All federal and state taxes	40%					
Discount rate	15%					
Depreciation — straight line (years)	3					

Net Cash Flows	Initial	Year 1	Year 2	Year 3	Year 4	Year 5
Net cash flow after taxes	($338,256)	$638,292	$638,292	$638,292	$638,292	$638,292

Financial Analysis	Results
Five-year ROI	188%
Payback (years)	0.61
Five-year NPV using 15% discount rate	$1,566,433

Notes
1.) When hardware costs are in excess of $50,000, they are depreciated over three years.
2.) When software costs are in excess of $50,000, they are depreciated over three years.
3.) Hardware and software costs less than $50,000 are expensed as incurred.
4.) Software upgrades are treated as a depreciable asset if greater than $50,000; otherwise, they are expensed as incurred.
5.) Assume a 220-day working year, 35-hour productive working week.

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ASP Financial Spreadsheet for Edward Don & Company

Annual Increased Revenue + Savings	Base	Year 1	Year 2	Year 3	Year 4	Year 5
Total	$0	$138,805	$138,805	$138,805	$138,805	$138,805

Capital Expenditures	Initial	Year 1	Year 2	Year 3	Year 4	Year 5
Total	$0	$0	$0	$0	$0	$0

Depreciation Schedule	Initial	Year 1	Year 2	Year 3	Year 4	Year 5
Total		$0	$0	$0	$0	$0

Expensed Costs	Initial	Year 1	Year 2	Year 3	Year 4**	Year 5**
Total	$106,000	$99,228	$99,228	$99,228	$99,228	$99,228

Basic Financial Assumptions						
All federal and state taxes	40%					
Discount rate	15%					
Depreciation — straight line (years)	3					

Net Cash Flows	Initial	Year 1	Year 2	Year 3	Year 4	Year 5
Net cash flow after taxes	($63,600)	$23,746	$23,746	$23,746	$23,746	$23,746

Financial Analysis	Results
Five-year ROI	25%
Payback (years)	3.69
Five-year NPV using 15% discount rate	$13,914

Notes
1.) When hardware costs are in excess of $50,000, they are depreciated over three years.
2.) When software costs are in excess of $50,000, they are depreciated over three years.
3.) Hardware and software costs less than $50,000 are expensed as incurred.
4.) Software upgrades are treated as a depreciable asset if greater than $50,000; otherwise, they are expensed as incurred.
5.) Assume a 220-day working year, 35-hour productive working week.

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