

Total Cost of Ownership:

Craft a Strategy to Lower Your Total Cost of Ownership



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Purpose

The current economic crisis is driving companies to assess their present and planned HR footprint in an effort to identify cost savings and business improvement opportunities. The purpose of this white paper is to provide a road map for assessing the total cost of ownership of your HR technology footprint and to support building a business case to improve it.

Tackling Total Cost of Ownership

In today's difficult business climate, companies are analyzing their expenses to identify areas to cut costs. For every company, it is imperative to understand the total cost of ownership (TCO)—both direct and indirect costs—of the technology and labor associated with supporting the organization. In a small number of cases, where an enterprise is clearly best in class, evaluating the current situation may not be needed.

But for every other organization, an assessment of its technology footprint is necessary to gauge its effectiveness in achieving the financial and business objectives. Doing nothing is not an option.

Every enterprise has distinct challenges to tackle and unique goals to meet. The current situation within each enterprise is the starting point for analyzing TCO and identifying roadblocks to achieving broader business objectives. For example, the situation at a large, global enterprise running multiple instances of an on-premise system is significantly different than the situation of a midsize, U.S.-based company using a payroll-centric solution surrounded by cumbersome manual processes or that of a global enterprise that is stuck with an antiquated legacy system (Exhibit 1).

	HR/Payroll With Manual Processes	Larger 'On-Premise' Systems	Legacy Systems
SITUATION	<ul style="list-style-type: none"> • Payroll-centric system • U.S.-only • Minimal support for full range of HR requirements 	<ul style="list-style-type: none"> • Multi-application footprint, 'occasional' shelf-ware • Typically a patchwork of global systems • Significant investment by company in vendor's product 	<ul style="list-style-type: none"> • Basic HR capabilities, many manual processes • U.S.-only • Lower direct costs, but 'experts' required
CHALLENGES	<ul style="list-style-type: none"> • Limited support for HR objectives • U.S.-only, limited innovation • Manual, cumbersome, costly process typical 	<ul style="list-style-type: none"> • Limited support for HR objectives • Expensive to deploy and support globally • Limited innovation, high maintenance & upgrade fees 	<ul style="list-style-type: none"> • Limited support for HR objectives • Antiquated technology, no innovation • Manual, cumbersome, costly process typical

Exhibit 1: Different situations will have different challenges

In many cases, a mandate from executive management to lower expenses while driving business process improvement is forcing CIOs and HR leaders to analyze their existing HR application footprint to identify and prioritize new projects. The scrutiny on new IT projects has never been higher, and building a business case to justify investment in HR technology has never been more important.

Step 1: Define Business Objectives

The process of building a business case can be intimidating. However, once the process is started, the benefits are quickly realized. In fact, some of the biggest sources of cost are also some of the most surprising. By breaking down the business case into component parts and applying a structured, transparent approach, organizations can quickly identify opportunities to improve their HR and IT operations and/or save money.

To build a successful business case, the objectives of the project must be clearly defined and prioritized. By defining objectives early, the various alternatives—whether it's sticking with the current solution or moving to a different model—can be evaluated to determine whether they will ultimately deliver against these stated objectives.

Types of Objectives

Objectives are typically defined within the context of an organization's current business and HR IT situation. For example, a company with numerous applications supporting its core HR processes may want to consolidate its footprint. Alternatively, a multinational company using a U.S.-only HR system with a hodge-podge of spreadsheets, emails, and manual processes for global workers may have the goal of implementing one global HR system while eliminating all the administrative overhead of manual processes.

Exhibit 2 provides examples of objectives that are typical of HR IT organizations at medium to large organizations.

Objectives
Reduce total cost of ownership of HR applications and processes
Simplify HR application footprint
Decommission homegrown applications
Support global workforce on single HR system
Eliminate manual administrative processes (e.g., open enrollment, comp/merit increases)
Consolidate all HR platforms onto a single platform
Successfully deploy self-service to all workers and managers to reduce HR support costs
Enable a move to a shared services HR delivery model

Exhibit 2: Examples of objectives

Establishing Line of Sight

As Exhibit 2 illustrates, not all objectives are created equal. Some are higher level or strategic, while others are focused on cost savings or business enablement. While each objective on its own may make sense, they must be organized and prioritized so the current environment can be effectively evaluated. Moreover, there needs to be line of sight from high-level company objectives all the way to the HR-specific objectives. Identifying the links between the HR and HR IT objectives to broader organizational objectives is a useful way to establish line of sight (Exhibit 3).

Step 2: Gain Stakeholder Buy-In

Many HR and IT leaders assume that sticking with their current HR application footprint is the best way to weather a recession, but this reaction is short-sighted and potentially dangerous. Obviously, any new project will be scrutinized, which means the acceptance of a business case for HR investment will be based on acceptance from key stakeholders who are impacted by the investment.

And in today's environment, identifying ways to reduce expenses, in 2009 as well as in 2010 and beyond, is imperative for all enterprises and a key to garnering stakeholder buy-in.



Exhibit 3: Establishing line of sight

Step 3: Assess the Current Situation

“The best way to eat an elephant is one bite at a time.”

Unknown

The spirit of the quote remains true when a company starts assessing its current situation in order to build a business case. The business objectives should frame the analysis and help identify what the appropriate components are to analyze. For example, if elimination of manual processes is one of the major objectives, then identifying all the manual processes will be important during analysis. On the contrary, if all that matters is achieving minimal viable business requirements at the lowest possible cost, then identifying opportunities to improve business efficiency become less relevant. Regardless, breaking down your footprint into its component parts will be the only way to effectively and efficiently assess the current situation.

Total Cost of Ownership

Total cost of ownership can be difficult to assess without further breakdown. Moreover, it is critical to understand the full breadth of costs associated with your current situation. There are the easily identifiable costs (license fees, implementation, and maintenance), but there are also a number of costs—particularly for on-premise or older technologies—that are easily overlooked in a TCO analysis. These costs can include hardware infrastructure, databases, hosting and/or datacenter fees, as well as staffing to install, test, tune, and patch the application on an ongoing basis. Many of these costs are ongoing and unexpected, oftentimes adding unforeseen costs to the HR footprint.

Below is a breakdown of costs—some easily visible, others less obvious—often found with the HR IT footprint in medium and large organizations.

Visible Costs	Description
License/Subscription fee	Fees paid to vendors for rights to use/access application
Implementation	For initial deployment of purchased/subscribed to application
Maintenance/Support	Ongoing costs for maintenance
Training	For power users and end users

Hidden costs are easy to overlook, but they are ultimately a material component to a large percentage of TCO analyses of traditional HR systems. Without the analysis of “hidden costs,” getting a true picture of TCO is difficult and will potentially lead the organization astray in achieving its objectives.

Hidden Costs	Description
Upgrade Future Functionality	Common to understate the true cost and reality of required purchase and/or deployment of new functionality. Will you really go five years with nothing new?
Infrastructure	Hardware, software, facilities, datacenter, hosting fee required to support HR applications.
Homegrown Application	Common in many companies, homegrown applications to support HR administration needs (e.g. comp reviews, performance, benefits, open enrollment).
Total Cost of Labor	All the IT and HR staffing to ensure the applications run correctly, accurate HR information gets to all stakeholders, and HR support for business.
Manual Processes	Often the “boat anchor” for HR organizations. The hodge-podge of manual processes required to complete the most basic HR administration and compliance tasks—typically a roadblock in achieving total cost ownership, productivity, and HR transformation goals.

A few notes about these costs:

- Use at least a 3-year horizon, if not longer, and estimate the future expected costs, including upgrades.
- Not all of the costs will apply to your specific situation. For example, you might have a minimal HR technology footprint, run numerous manual processes, and want to move from largely manual processes to more automated processes, your focus will be on elimination of these manual processes.

Many of these costs are avoidable or can be reduced through investment in the most current technologies available to support HR.

Step 4: Analyze Opportunities

Once an understanding of current and projected costs has been established, the next step is to ask whether the objectives articulated in Step 1 can be achieved with your current footprint. If the answer is “No,” steps toward change need to be taken. And given these tough economic conditions, even if the answer is “Yes,” the following questions still must be asked:

- What are the biggest roadblocks preventing your enterprise from reaching objectives?
- What are biggest areas of cost, both tangible and intangible?
- Can the changes be made more effectively and less expensively?

Establishing the Path to Achieving the Objectives

The objectives provide the framework to help identify the opportunities, but in some cases may be too high level to help make concrete recommendations based on the analysis. The next step is to take the high-level objectives and break them down into component parts until they are granular enough to take action on.

Exhibit 4 shows how a high-level objective, such as reducing total cost of ownership, can be broken into component parts. In many cases, organizations that start with a TCO reduction goal identify numerous opportunities to reach their goal, both through direct, hard-dollar savings and through the elimination of cumbersome, labor-intensive, expensive processes.

By going through this process, the biggest roadblocks to achieving your objectives will be identified. In many cases, the core HR system is the primary impediment to achieving a lower TCO. The lack of a modern HR technology foundation stifles the level of business contribution that is now expected of HR and IT leadership. The last generation of HR systems was built with the best intentions—the systems helped HR and IT achieve some of their objectives in the 1990s and early 2000s. However, those systems were not designed to help organizations achieve their business and TCO objectives in today’s environment. (See page 10 for Exhibit 5).

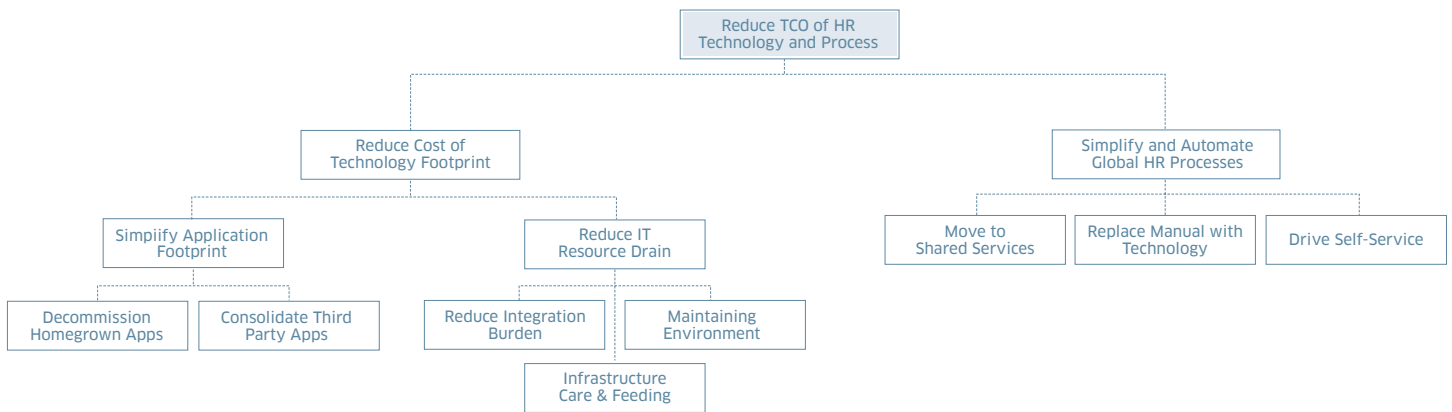


Exhibit 4: Breaking down high-level objectives to identify opportunities

Value Drivers	Description
Total Cost of Ownership	Direct and hidden costs associated with footprint.
Time to Value	How long will it take to achieve objectives?
Predictability	Confidence the costs and payoffs will occur. For example, over a five-year horizon, what additional costs/risks are likely to be added?
Risk	Likelihood of achieving objectives without incurring substantial new cost or having significant project delays.
Innovation	Pace of innovation from vendors. Evaluate today and tomorrow's capabilities for a multi-year investment. Will a vendor's products be where you want them to be?

Aspects to Consider when Evaluating Technology Solutions

For organizations that realize their current HR system is a roadblock to achieving both their cost and business objectives, there are multiple factors to consider when identifying the appropriate replacement. The factors below may have different levels of importance depending on your organization's priorities, and there may be additional ones to add based on specific requirements. Regardless, it's important to take a holistic view of the situation—not just pure costs—when evaluating such a critical investment.

Step 5: Present Findings

"At its core, the worth of a business case is not in its mass of numbers. A business case's value always springs from the quality of the guided conversation it stimulates about the shape of the future."

Jack Keen, Bonnie Digrius
Making Technology Investments Profitable

Many people confuse assessment and analysis—Steps 3 and 4—for the entire business case. The purpose of all the data gathering and analysis is to inform a calculated recommendation and a sound business case to support it. The focus of the presentation should be why the recommendation makes sense versus the alternatives, taking into account all the relevant factors.

Make a Recommendation

The purpose of all the analysis is to present a recommendation. If the process was executed properly—starting with articulation of objectives and getting stakeholder buy-in to the identification of alternatives—the recommendation will be a logical outcome of the process.

Make Assumptions and Process Clear

Making assumptions is inevitable in the business-case process. For example, assumptions about the future costs of upgrades, the ability to replace homegrown applications and manual processes, or vendor pricing are all part of the process. It is important to document the assumptions about all the factors that may have an impact on the outcome of the analysis. Within the scope of the business case, make the assumptions clear. And in cases where a slight change in one variable could significantly change the outcome of the business case, make sure to highlight the variable or present multiple scenarios.

Present Graphics, Numbers, and Appropriate Commentary

A picture speaks a thousand words. No more is this true than in summarizing lots of numbers. Simple visual depictions of the numbers can be very helpful in supporting the conversation, particularly for people who are not as close to the data and analysis. For example, a year-by-year comparison between two options for total cost of ownership for the next five years can give a visual snapshot of the recommendation.

Prepare for the Next Steps

Along with a recommendation, a list of “next steps” should be presented. In some cases, these will focus on executing the recommendation—for example, how to move forward in replacing an old HR system with a solution that will help achieve the company’s objectives. In other cases, there may be further costs to quantify. Regardless of what the next steps entail, a recommendation that comes with actionable future items is more credible and tangible.

Summary

No matter your situation, assessing your HR technology footprint to identify opportunities to drive down total cost of ownership is a requirement in today’s environment. And short-term, direct expenses are not the only factors to consider—enabling the organization to grow, obtaining predictability, benefitting from vendor innovation, and eliminating non-core activities that drain HR and IT resources are all important to considerations. By building a well-structured business case, identifying cost-savings opportunities becomes a straightforward process, even in today’s economic environment.

	HR/Payroll With Manual Processes	Larger ‘On-Premise’ Systems	Legacy Systems
CHALLENGES	<ul style="list-style-type: none"> Limited support for HR objectives US-only, limited innovation Manual, cumbersome, costly process typical 	<ul style="list-style-type: none"> Limited support for HR objectives Expensive to deploy and support globally Limited innovation, high maintenance & upgrade fees 	<ul style="list-style-type: none"> Limited support for HR objectives Antiquated technology, no innovation Manual, cumbersome, costly process typical
	▼	▼	▼
OPPORTUNITIES	<ul style="list-style-type: none"> Automate core HR administration, driving down resource needs Enable more strategic HR contribution Support global workforce 	<ul style="list-style-type: none"> Simplify footprint Drive cost out Single system of truth for global organization 	<ul style="list-style-type: none"> Bring HR into the 21st century Simplify HR administration, drive new value for business Reduce risk from unsupported systems

Exhibit 5: Example of opportunities across different situations

Workday Delivers Real Results

SaaS Leads to Savings: Tight budgets are driving enterprises to optimize every dollar spent. SaaS is quickly becoming recognized as the delivery model of choice for business applications. Because there is no hardware, software, middleware, database or business intelligence tool to buy, install or maintain, on-demand solutions save money in the short- and long-term. With Workday, companies don't just survive the downturn—they thrive.

Rapid Deployment Is a Reality: Gone are the elongated implementation and re-implementation cycles of the past. Workday saves time and money by getting companies up and running in weeks, not the standard months or even years many companies experience with on-premise applications.

A Real System of Record: Workday HCM provides the core system-of-record enterprises need to manage the full hire-to-retain process for both employees and contingent workers in an increasingly global environment. With Workday, companies can align and realign the organization, workers, and the supporting HR processes in real-time to support the company's strategic objectives.

About Workday

Workday is the leader in enterprise-class, software-as-a-service (SaaS) solutions for managing global businesses, combining the lower cost of SaaS with a modern approach to applications. Founded by PeopleSoft veterans Dave Duffield and Aneel Bhusri, Workday delivers Human Resources, Financial Management, and Payroll solutions for mid-sized and Fortune 500 companies. Workday's next generation system-of-record leverages standards-based integration and provides a new enterprise foundation for global companies. Workday's innovative thinking, new technologies, and SaaS solutions provide a fresh alternative to legacy, on-premise ERP. More than 130 customers have selected Workday. Visit us at www.workday.com.



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