

THE SMALL BUSINESS GUIDE TO OUTSOURCING

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As an entrepreneur, chances are you started your business because you're passionate about your product or service, not because you love doing payroll or calculating tax deductions. In fact, many small business owners feel that every minute they spend on administrative tasks is a minute they're not building their business.

Outsourcing payroll and other human resource-related administrative processes can help small businesses save time and money, but more importantly, stay focused on what matters: core capabilities, strategic growth, staff and the competition.

What is outsourcing?

Outsourcing simply means using an external supplier to handle a task for you. According to the ADP Outsource It! Index, 92 per cent of Canadians seek outside help with their daily tasks and chores, like housecleaning, yard work or filing taxes. It often makes sense in the workplace too.

For small businesses, outsourcing is assigning non-core, non-revenue-producing activities to specialists. It differs from contracting in that outsourcing is a strategic management tool that involves structuring an organization around what it does best, often described as “core competencies.”

There are many processes that can be outsourced by a small business, but services like payroll and human resources (HR) administration are the most common.

Why?

Because not only do the companies that provide these outsourced services use leading technologies, they also bring exceptional experience and best practices that would not ordinarily be available to small businesses.



Why Canadians outsource

According to the ADP Outsource It! Index, Canadians' top reasons for outsourcing common tasks include:

Don't enjoy doing it themselves – 37 per cent

Don't know how to do it – 36 per cent

Outsource to save time – 27 per cent

Source: ADP Outsource It! Index, May 2007, Environics Research Group

Why outsource?

“Take care of the pennies and the dollars will take care of themselves.”

Smart business owners know that keeping their costs low is part of a sound financial strategy. Unfortunately, when it comes to payroll, the do-it-yourself mentality doesn't pay.

According to the 2006 ADP Price of Payroll study of Canadian small businesses, entrepreneurs who think they're saving money by sweating the details of payroll in-house are in fact spending 28 per cent more time for the privilege. Outsourcing payroll would save many small businesses nearly one-third of the time it takes to manage payroll operations. At the time of the survey, 72 per cent of the participating companies were using the payroll module from an accounting software package, and four-in-ten owners admitted to spending time fixing payroll errors.

Aside from helping to alleviate hidden costs, outsourcing can be a flexible solution. Depending on the needs of your business, you can outsource as little or as much as you need to.

How big do you need to be to outsource?

Owning a small business doesn't mean you have to do everything yourself to save money.

Outsourcing can be affordable for companies of all sizes. In fact, it can cost less than the price of a takeout coffee every day to have an outsource provider handle paying an employee. How you spend the time you save is up to you. (You could even go get a coffee!)



The price of payroll: by the numbers

According to the ADP Price of Payroll Study, the amount of time small businesses spend on payroll processing, when translated into dollars, is significant:

- Small businesses spend 11.7 hours per employee each year on payroll processing.
- That means the surveyed companies, who had a median of 13 employees, spend 152 hours processing payroll annually.
- ADP examined the tasks it assumes or simplifies for a company of this size when it processes its payroll, and determined that outsourcing reduces up to 28 per cent of the hours — saving the average small business (with 13 employees) 43 hours each year — or one full week worth of work.
- The median salary of the surveyed employees responsible for payroll was \$35,000 plus benefits, or \$21.90 per hour. Therefore a small business spends \$3,331 annually to process payroll in-house.
- A 28 per cent payroll time reduction from outsourcing translates to a savings of \$933.

Source: ADP Price of Payroll Survey, October 2006, Environics Research Group

The benefits of outsourcing administrative processes

Greater focus on your business

Outsourcing administrative processes gives you more time to focus on what your business does best – that means improved productivity. It also translates into more time and resources for strategic planning and growth, from streamlining your recruiting and hiring processes to improving your bottom line.

Simplifies payroll

Because most outsourced payroll services are internet-based and hosted by the provider, they're easy to use and don't require expensive software programs or upgrades. Payroll data is protected by multiple levels of security and hosted off-site, which eliminates the need to constantly perform data backups and keeps you compliant with government legislation.

By outsourcing, you can simply input or phone in employee hours, units or dollars, and your provider will take care of processing deductions and produce cheques or direct deposit.

Greater focus on your employees

Attracting and retaining employees is becoming increasingly difficult, so HR plays a strategic role in the success of your business. Offloading tasks to a business administrative services provider helps you manage salaries and benefits and track employee performance and attendance. With these day-to-day tasks out the way, you can focus on tomorrow's needs – hiring and keeping the right people, and ensuring you can fill key roles from within your business.

Helps you avoid 'taxing' headaches

According to the ADP Price of Payroll study, 11 per cent of small business owners who process their own payroll admitted they have received a penalty for late payment remittances.

Outsource providers are experts in calculating payroll and ensure that employment tax reports and end-of-year paperwork are submitted accurately and on time.

Assumes compliance risks

Unless someone at your business keeps up to date with changing legislation and best practices, you could be at risk for costly compliance failures. As experts with complex legislation like the Personal Information and Protection of Electronic Data Act (PIPEDA) and the US Sarbanes-Oxley Act, business administrative services providers help you stay current and compliant.

Someone to turn to for expertise

It can be lonely at the top, and many small business owners have few places to turn when they need advice. In addition to handling processes on your behalf, an outsourcing partner gives you readily available experts who can leverage best practices, produce time savings and minimize the use of costly external resources.

Working with an outsource provider

Once you've decided to outsource your administrative processes, it's important to choose the provider that's right for you and your business.

1. Determine your needs

Business administrative services providers range from one-person shops to multinational companies, so consider whether the provider has the resources and know-how to handle both immediate and gradual shifts in your business. For example, if you're planning to open another office, increase your workforce or make an acquisition to grow, your provider must be able to accommodate this quickly and accurately. Don't forget to ask for references.

2. Do your homework

You need the right advice and expertise to help your business succeed, but your outsource provider also needs the right information from you to give you good advice.

At the beginning of your partnership, take the time to brief your provider thoroughly and honestly about what's going on in your payroll and HR department, if you have one. Keep them up-to-date regularly to make sure they understand your business so that they can provide the best value.

3. Plan ahead - together

Once you've hired an outsource provider, communicate what you want to accomplish for your business by streamlining its administrative processes. A good provider will come to the table with their own ideas, as well as some insight on your goals. However, keep in mind that things can change unexpectedly, so keep your plans flexible. A business administrative services provider can adapt to organizational changes quickly, while in-house programs cannot.

While no one knows your business better than you do, your outsource provider should assess your needs in order to provide the best service possible. When creating your outsourcing plan, treat your provider as a trusted advisor.

4. Look back and evaluate

Don't expect your outsource provider to read your mind when it comes to evaluating the services delivered. If you feel something is missing, tell them. Ask them for feedback as well.

Glossary of terms

Outsourcing

A long-term, results-oriented relationship with an external service provider for activities that are not part of a company's core business. Outsourcing usually applies to a range of business and administrative processes and can include different levels of service. It implies a degree of managerial control and risk on the part of the provider.

Hosted Human Resources (HR) service

An Internet application that allows easy access to business administration services.

Time and Attendance system

A process that allows business administrators to collect employees' time and apply business rules and pay policies.

Payroll compliance

The process of ensuring that an organization's practices meet the terms of federal and provincial government payroll regulations. In Canada, those regulations include the Canada Pension Plan, Employment Insurance Act, Income Tax Act and Employment Standards legislation.

Record of Employment (ROE)

A form indicating how long an employee has been employed and how much he or she earned. Generally, a ROE must be issued within five days of an employee leaving an organization.

Garnishment

A court order served on a third party, such as an employer, to withhold a person's earnings on behalf of a creditor.

Third party payroll remittance

A process in which third parties, such as benefit carriers, government or garnishment recipients, are paid through company payrolls.

Resources

Canadian Federation of Independent Business www.cfib.ca

Canada Revenue Agency www.cra-arc.gc.ca

The Canadian Payroll Association www.payroll.ca

Business Development Bank of Canada www.bdc.ca

Human Resources and Social Development Canada www.hrsdc.gc.ca

HR for Employers www.employers.gc.ca



About ADP

Who we are

ADP Canada (ADP) is one of Canada's leading providers of integrated business administrative solutions, and now pays one in five Canadians. We help over 50,000 businesses manage their internal processes, whether they have 1 employee or thousands.

Our services

As the largest Canadian business administration service provider, we offer a broad range of outsourced solutions, including:

- Payroll Management
- Human Resources Management
- Time and Attendance Management
- Travel and Expense Management
- Comprehensive Outsourcing Services

To learn more about ADP, visit www.adp.ca.