



# ADP RACES CONTINENTAL DRIFT TO CLOUD PAYROLL

ANALYST

**Brent Skinner**

## THE BOTTOM LINE

**ADP is wise to develop a cloud-based solution, finally, for payroll.** The following pages, however, are for years in the future—when archeologists might unearth this analysis as they vet the product ADP eventually launches. Why? Nucleus fears the African and South American continents may rejoin before the application becomes available.

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ADP has announced apparently years-in-the-making plans to bring a multitenant cloud-based global payroll solution to market. Nucleus has long argued that ADP must embrace the cloud for payroll, so the move is welcome. But the application is years away from launch, and further, the vendor has shown an unwillingness to commit to a solid timeline for that. Additionally, the announcement runs counter to ADP's heretofore strident assertion, till very recently, that its mainframe-based payroll solution was all its customers needed and the vendor's sole focus payroll-wise. So the announcement that a cloud solution is, in fact, in the works introduces a healthy dose of cognitive dissonance.

## WHERE ARE WE?

Here's what we have been told—and what we infer:

- Years in the making. Early this decade, ADP launched a skunkworks-type project to develop a cloud-based technology for payroll. ADP kept word of the effort close to vest. The original plan was to wait until early FY 2019 to announce the solution's existence. That changed, and the vendor has made an announcement now. Yet ADP will not commit to a go-live date for the new solution in terms of

making it available as a buyable product to existing and prospective customers. An exceedingly rosy guess places that date not to be till late FY 2019 at the very earliest. This suggest that even the originally planned date to announce the program was aggressive in relation to the to-be-determined go-live date.

- Years away from launch. The new solution has one test user, what the vendor identifies as the Alpha customer. This is all the vendor will identify. Indefinitely, ADP is keeping this unnamed customer's identity confidential. It's an employer of approximately 50 mostly salaried staff—a straightforward scenario, if there ever was one, for payroll technology to navigate. ADP RUN is the existing solution that such customers of ADP use. Yet for the foreseeable future the application will be unavailable as an option to users of ADP RUN. A reasonable inference is that ADP has a lot of work to do, to bake class-leading functionality into the new solution—which is the vendor's goal.

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## ASPIRATIONAL IN FUNCTIONALITY

No matter ADP's heavy lifting to pull off the wow factor, we are a long way off from an official product launch of the solution as a customer-ready product. With the solution, the vendor is using global payroll as the benchmark and, incidentally, is testing the application presently for Australian payroll. Indeed, ADP implies heavily that it aspires to create no less than an industry benchmark cloud-based global payroll engine. That's a laudable goal and makes sense for ADP's crosshairs given the vendor's greatest strength being in global payroll (Nucleus Research *r78 – Global HCM starts with payroll and compliance*, April 2017).

## WHAT GOT US HERE?

As recently as late August 2017, ADP insisted that a sophisticated mainframe—not a multitenant, public cloud—remained the sole focus for the company's long-term future in payroll. In every briefing the vendor gave Nucleus over the past most recent years, this was a consistent position of ADP's. Product executives and others were adamant: A mainframe similar to those used by the world's largest banks was not only sophisticated, but adequate and sufficient well into the future for payroll from a vendor of modern technology for human capital management (HCM).

Nucleus has been consistent in holding a different view. Our analysis of the vendor landscape has continued to indicate that the cloud is a defining characteristic of modern technology for HCM (Nucleus Research *r66 – WFM Technology Value Matrix 2017*, April 2017). This includes payroll. Cloud-based payroll technology is necessary for ADP to remain competitive, and it appears the vendor finally agrees—or may have agreed all along.

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At the same time, Nucleus is realistic and doubts ADP’s announcement has anything to do with any of these sage observations on what’s necessary for success in today’s marketplace for HCM technology. The cloud is important, but why the vendor’s public tune has changed now—and on a dime—may have more to do with news in the financial press regarding a proxy war reaching full tempest involving a high-profile hedge fund management company. In the melee, one of the criticisms to surface is that ADP has failed to innovate as it must, to remain competitive. Nucleus agrees (Nucleus Research *r160 – HCM Technology Value Matrix 2017*, August 2017).

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## ARE WE THERE YET?

Despite what ADP says, the vendor has announced this far sooner than it would have liked. Again, the original date to announce the alpha software’s existence was to be early FY 2019. It’s Q4 2017 right now. It appears that the aforementioned outside factors played a role in forcing the company to go public with a very private effort far sooner than desired. The new normal, suddenly, is that ADP ordered all hands on deck several years ago to develop a new payroll solution residing in a real cloud—no less than a moonshot effort, if you listen to the still-developing promotional hyperbole around the still very nascent solution itself; the moonshot metaphor is, in fact, apt: Just like the old Soviet Union beat the United States in the early years of the space race, leaving the latter scrambling, so too have ADP’s competitors beaten the vendor to the cloud with payroll. Is ADP scrambling? Just remember: JFK set a timeframe for his mandate (“by the end of this decade...”). If ADP is committing to a timeframe for a go-live date, the vendor isn’t saying so.

The solution is still very, very much in its infancy, and Nucleus does not find it to be a particularly credible salvo to combat accurate observations that the company lags in innovation. Meanwhile, the announcement of the program puts a punctuation point on ADP's anachronistic mainframe for payroll. Whereas ADP's principle and most formidable competitors have offered payroll in the cloud for years now—some of it exceptionally innovative in functionality—ADP dangles a carrot in front of the market and whispers, "Trust us. It's going to be great." Nucleus asks, "But when?"

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## ANNOUNCING WHAT ISN'T THERE YET

Nucleus doesn't believe this is vaporware, but every so often somebody takes the moral to the story of the tortoise and the hare a little too seriously. Three years is an eternity in the product lifecycle of HCM technology—comparable in time to the distance between the earth and the moon. And in Nucleus's estimation, three years is the soonest ADP's cloud-based payroll solution would exit development to become available for mass consumption.

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ADP has a team dedicated to the company's effort to bring cloud-based payroll to market, and progress—albeit, nascent—is evident. It is clear, however, that the building of native cloud-based payroll is proving itself a considerable challenge for ADP. The details fall outside Nucleus's wheelhouse of expertise, but the dynamics of pressure on ADP from the investment community must be complex. Meanwhile—and relate—ADP likely foresees a growing struggle without cloud-based payroll to win net-new deals. This coming struggle is probable and may already have commenced. Moreover, the circumstances compound against the backdrop of expensive full HCM solutions that Nucleus's analysis shows are not as modern as others. Native cloud-based payroll is something ADP needs. The development is welcome. But Nucleus questions whether the live product will come in time. There are probably faster ways to get into cloud payroll.