

HOW STARBUCKS USES HACKETT'S PAYROLL PERFORMANCE STUDY FINDINGS TO OBTAIN SUPPORT, GUIDE PAYROLL'S TRANSFORMATION

Case Study

For Current Members of Hackett Process Advisory Programs

Adapted from a webcast for Global Time-to-Pay Advisory Program members presented in March 2010.



The world's top specialty coffee retailer, Starbucks has more than 16,600 coffee shops in over 50 countries. Founded in 1971, Starbucks operates more than 8,800 of its shops, which are located in about 12 countries (mostly in the US), while licensees and franchisees operate more than 7,800 units worldwide (primarily in shopping centers and airports). The company also owns the Seattle's Best Coffee and Torrefazione Italia coffee brands. In addition, Starbucks markets its coffee through grocery stores and licenses its brand for other food and beverage products.

BRENT GOW, CPP
Director, Global Payroll Consulting & Compliance, Starbucks Coffee Company



At Starbucks, Mr. Gow oversees vendor relationships and contracts, and directs payroll operations. He also provides consulting services to internal departments on compliance and technical issues involving complex domestic and international payrolls, payroll taxes, benefits and labor laws, and consults on payroll and payroll tax responsibilities associated with mergers and acquisitions.

EXECUTIVE SUMMARY

The desire of Starbucks' HR management team to excel in payroll is the driving force behind the company's multi-year participation in The American Payroll Association's annual payroll performance study, conducted by The Hackett Group. Starbucks' US payroll operation, which handles over 105,000 employees in the US and a further 12,000 in Canada, is both very large and extremely complex. Its goals for participating in the study were to identify and prioritize ways to streamline payroll processes, reduce costs, achieve paperless payroll and improve overall quality and efficiency. By being able to quantify the benefits to the company of recommended process improvements identified in the study results, Starbucks' HR managers were able to obtain executive management's approval on their proposed initiatives virtually immediately.

ALIGNING PAYROLL WITH EMPLOYEE NEEDS AND EXPECTATIONS

Starbucks Coffee Company has participated for many years in The American Payroll Association's annual payroll performance study, offered in partnership with The Hackett Group. According to Brent Gow, Director of Starbucks' Global Payroll Consulting & Compliance organization, the company uses its study results to guide and measure the progress it is making toward achieving its goals. Practices that contribute to "The Starbucks Experience" – that is, the manner in which the company interacts with its employees – receive particular attention.

From a payroll perspective, this means making certain that "partners" (Starbucks' term for its employees) are paid accurately and on time and that they have easy access to tools for inputting personal and time data. Gow says one of the most important findings from participating in the study was that the payroll organization was initially not completely aligned with what its employees wanted or expected in terms of technology tools.

About the study

The American Payroll Association's 2010 Payroll Performance Study, offered in partnership with The Hackett Group, kicked off on April 1. Hackett Advisory Program members are welcome to participate in the study at any time during the year.

The 2010 study introduces several additional peer groups providing regional comparisons, complexity and industry comparisons.

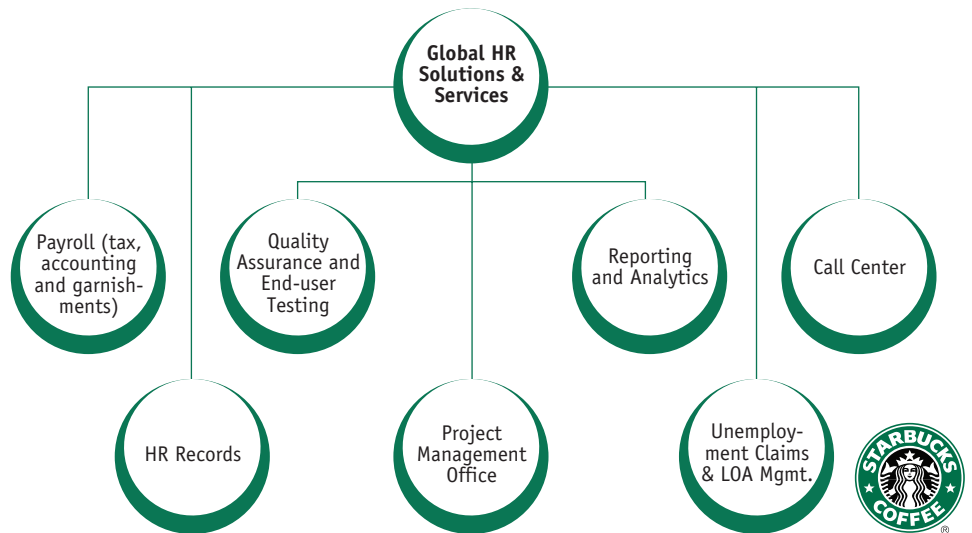
According to Brent Gow, "Starbucks decided to participate because we wanted to be top performers in payroll. It is noteworthy that when we presented a proposal based on our study results to HR senior management, they accepted it right away."

In addition to the improvements described in this report, Gow indicates that Starbucks is already benefiting from many of the process improvements put in place as a result of the study.

STARBUCKS PAYROLL PROCESSES: COMPLEX, CHALLENGING

Starbucks' payroll organization is one of a number of departments reporting up to the company's Global HR Solutions and Services group (Fig. 1). A call center handles all HR-related inquiries, including payroll. Partners in the field are encouraged to use self-service tools wherever possible, but in many cases out in the field, computers are shared and therefore not always available for use when needed. Employees therefore can still make use of the call center, which has access to payroll data.

FIG. 1 Starbucks' Global HR Solutions & Services organization



Source: Starbucks Coffee Company

Starbucks' payroll is exceptionally large. Within North America alone, there are over 105,000 employees in the US and a further 12,000 in Canada. Its payroll processes are also very complex. For example, Gow's organization processes more than 3,500 garnishments each week, along with related activities. Further, the payroll tax team completes over 650 returns and 1,200 tax deposits every quarter, doing most of the work at the company's Seattle headquarters.

Elsewhere, business takes the form of joint ventures. Countries where Starbucks is responsible for at least some level of payroll activity include Australia, Germany, the United Kingdom, Thailand and China.

DESIRE TO EXCEL IN SPECIFIC AREAS DRIVES STARBUCKS' PARTICIPATION IN HACKETT'S PAYROLL PERFORMANCE STUDY

The original impetus for Starbucks to participate in Hackett's payroll performance study two years ago was the company's impending decision to outsource payroll operations. Accurate metrics were needed in order to create a service level agreement (SLA) with the outsource provider. However, the decision to outsource, which coincided with the global economic crisis, was rescinded by management. Instead it chose to contain costs by maximizing the efficiency of its HR and payroll operations (by authorizing the purchase of new, best-of-breed technology) and increasing the use of automation. "This is one of the areas identified as needing work, based on our performance study results," says Gow. "We learned that we had a lot of room to improve in electronic transmission, not only of tax returns but our payments as well."

Another reason for participating in the 2009 study was to identify and prioritize ways to improve the quality and efficiency of pay processes based on specific SLAs and key performance indicators (KPIs). This will help Starbucks' payroll department fulfill its longer-term mission, which includes:

- Functional/operational excellence.
- Quality service delivery.
- Delivering on-time payroll every week.
- Providing consulting services and resources to implement projects or initiatives prioritized by the company's leadership.

Gow states that payroll wanted to be measured by specific KPIs that would guide it toward top performance. These included:

- Partnering with HR to streamline the end-to-end pay process.
- Increasing the use of employee self-service for personal data modifications and set-up.
- Consolidating transaction processing under one application.
- Increasing the percentage of partners opting for paperless payments.
- Reducing payroll costs per employee and per payment through enhanced processes, tools and services.

Gow makes the point that the company's decision to participate in the study began as an effort to make certain its outsource provider would be able to meet its SLAs. Now, he reports, "It's just the opposite. We're asking, okay, if we're going to keep this in house, what do we need to focus on to achieve our KPIs, especially as we add new systems and eliminate the manual work that is taking place today?"

THE GOALS DRIVING STARBUCKS' PARTICIPATION

Goal #1: Streamlining payroll processes

While Starbucks enjoys an enviable public image, it is interested in further enhancing its brand within the business community. One key objective in this regard is to achieve top performance in HR, including payroll, through streamlined, end-to-end processes.

Gow foresees the benefits of having one system for hiring and recruiting. New hires will complete their W-4 and direct-deposit activity on that system and applicable information will be fed back to the time and attendance system. Gow is looking at eventually adding key partner data from various international operations onto the US-based SAP system. By utilizing SAP, the company can start building a global system for reporting and analytics. Gow envisions an end-state in which the US-based payroll system will be the global source of information, which can be fed back to other countries regardless of the system those locations use.

This integrated system will contain important management information such as retention rates and cycle time for hiring. The system being planned will have the capability to generate scorecards at the individual store level. Previously, there were constraints on sharing this information with individual stores because of the lack of system integration. Today, store managers have full access to the data.

Goal #2: Increasing the use of employee self-service for personal data modifications and set-up

Another reason Starbucks participates in the performance study is to understand and improve participation in employee self-service. "Originally we deployed self-service just for providing information. When we realized how much more we could be doing using this technology, we enhanced our systems so all individuals now have access to the key steps electronically and they can complete just about every transaction via self-service," explains Gow.

Based on Starbucks' performance study results, Hackett analysts recommended that the company increase the functionality and flexibility of its self-service system, make it available on the Web, and encourage employees to use it. As a result, Starbucks modified its self-service portal to support its business continuity plan, i.e., to give employees a means for updating emergency contact information in the event of an interruption of service such as a natural disaster. Previously, Starbucks fed emergency contact information for employees through its hiring system, which in turn fed into its ERP, but there was no way for employees to go into the system when that information changed. "Now we have a way to get in touch with all partners individually," says Gow. "For example, if there is a hurricane, a message will immediately go out to all of our partners in the impacted area, based on the emergency phone number in our database. Every fifteen minutes it will dial that number until we get confirmation that the employee is safe."

Goal #3: Consolidating transaction processing within a single application

Another Hackett recommendation arising from the study was that Starbucks consolidate and automate system functionality where possible. “Therefore,” says Gow, “we looked at where we could consolidate our transactions under one application, preferably on SAP. We analyzed whether our ERP could handle these transactions or if we needed to have an additional system. This is an iterative process. In some ways SAP might not be best of breed for what we want for a retail operation, so we may end up going with another solution.”

Goal #4: Achieving paperless payroll

A recommendation from the performance study was that Starbucks increase direct-deposit participation as well as encourage employees who are on direct deposit to receive pay statements electronically. Hackett analysts also urged the company to mandate direct deposit wherever possible. That is because achieving the goal of going paperless ultimately will require partners to be on direct deposit to enable electronic pay through self-service. At present, employee self-service technology is available on stores’ company-issued computers, but concerns among partners about privacy and security are damping employees’ enthusiasm for electronic distribution of pay statements. Once Starbucks partners are able to access the company’s SAP system from home, Gow believes the company will be able to achieve a largely paperless payroll environment.

Goal #5: Reducing payroll process costs

Hackett compared Starbucks’ process costs to those of top performers and a global peer group. “We needed to understand what our true costs were. We couldn’t do that without going through the performance study,” says Gow. With the information in hand, Gow’s team has a basis for identifying ways to reduce both costs per employee and per payment.

SOCIALIZING THE PERFORMANCE STUDY THROUGHOUT THE ENTERPRISE

Based on results from the 2009 study, Gow’s team prepared a proposal to senior HR management on ways to achieve best practices in payroll. The proposal made extensive use of the study’s findings – both metrics for top-performing companies as well as characteristics of top-performing payroll operations.

Gow notes that the performance study output provided empirical data in a format that made it easy to present to senior management. “We were able to clearly quantify for them how the process improvements as presented would impact the organization,” he says. “This convinced them to accept the proposal virtually immediately.”

The proposal laid out a plan for achieving top performance that included:

- Enhancing the rate of paperless payroll.
- Reducing the number of off-cycle checks.
- Leveraging best practices and sustaining performance improvements over time.
- Modifying policies and procedures to encourage specific behaviors.
- Leveraging technology and partnering with other functions to simplify the employee inquiry experience.

BENEFITS ACHIEVED SO FAR

One of the areas where Starbucks' performance was not up to par was in electronic funds transfer, especially in child support. Using the study findings, the company has been able to increase its ability to release electronic child support payments, going from 5 to 25 states. It envisions being able to reach virtually every state in the US by the end of 2010.

Self-service tools have now been provided for electronic distribution of pay statements in the US and Canada. Starbucks is still working on this in Quebec, however, because pay statements in the province are required to be in French.

Electronic pay statements are now available before paper pay statements are received. This is done deliberately in order to encourage employees to opt for electronic pay statements. Another advantage of providing the pay statement in advance of the actual pay date is that if there is a payroll error, the employee still has time to contact payroll via the call center and arrange for the amount to be corrected. If necessary, a check can be cut and overnighted so it gets to the employee on time. As pay cards are eventually established as a payment method, employees experiencing payroll errors would be paid the correct amount on the following day, i.e., pay day, on their pay card.

Starbucks has achieved 99% electronic distribution of tax filing and payments where available. "We will soon be at 100% filing of tax payments and tax returns wherever it's permitted," Gow says. However, the company files over 500 local tax returns, and not many of them allow Starbucks to file electronically at present.

The company now mandates direct deposit as a condition of employment for management. There are only eight legacy employees in the company who have yet to enroll in direct deposit. Their paychecks are mailed to them on pay day. They are not permitted to pick the check up, so generally they risk not getting paid on time, but Gow comments, "That's their choice."

The percent of employees using direct-deposit increased by 12% in 2009. In just the first few months of 2010, an additional 5% have signed on, which bodes well for continuing increases.

Finally, based on a recommendation from the performance study and other studies, Starbucks' HR organization has concluded that it needs a better case management tool for call tracking and root cause analysis. Gow and others are currently working on the business case for this investment.

LESSONS STARBUCKS LEARNED FROM THE STUDY

- Top performers should never stop working to improve their performance.
- Achieving paperless processing requires enhanced employee self-service.
- Establish goals for implementing best practices and monitor their use and impact monthly through a scorecard. Share the updates with senior management to achieve continuous buy-in and support.
- Highlight achievements throughout the year.
- Announce achievements and thank management and operations whenever they have helped meet or exceed goals.
- Establish higher standards each year to maintain top performance.

RELATED HACKETT RESEARCH

[“Handling Employee Payroll Inquiries in a Shared Services Call Center Reduces Cost, Aids Continuous Improvement,” July 2009](#)

[“Payroll Metric of the Quarter: Paperless Payment Distribution Rate,” January 2009](#)

[“Five Characteristics of Top-Performing Payroll Organizations,” March 2008](#)

ABOUT THE HACKETT GROUP

The Hackett Group, a global strategic advisory firm, is a leader in best practice implementation, advisory, benchmarking, and transformation consulting services, including shared services, offshoring and outsourcing advice. Utilizing best practices and implementation insights from more than 4,000 benchmarking engagements, executives use Hackett's empirically based approach to quickly define and prioritize initiatives to enable world-class performance. Through its REL brand, Hackett offers working capital solutions focused on delivering significant cash flow improvements. Through its Hackett Technology Solutions group, Hackett offers business application consulting services that help maximize returns on IT investments. Hackett has worked with 2,700 major corporations and government agencies, including 97% of the Dow Jones Industrials, 73% of the Fortune 100, 73% of the DAX 30 and 45% of the FTSE 100.

Founded in 1991, The Hackett Group was acquired by Answerthink, which was renamed The Hackett Group in 2008. The Hackett Group has global offices in the United States, Europe, Australia and India and is publicly traded on the NASDAQ as HCKT.

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In her current role, Ms. Cheek has primary responsibility for advisory services as well as setting the agenda for research on the global time-to-pay process. She works closely with finance and HR professionals who own the payroll process in their companies, providing strategic insight, metrics and guidance about best practices. Prior to joining The Hackett Group, Ms. Cheek worked for ACS, where she was responsible for transition activities on a large HRO project; Turner Broadcasting System, where she was internal consultant for HCM implementations; and ADP, as an account manager. Her payroll experience is broad and includes the areas of outsourcing, transformation, consulting and project management. She is a recipient of the 2009 APA Meritorious Award and a 2009 Payroll Hall of Fame Inductee.

Brian Koniuk

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Mr. Koniuk has over 20 years of experience in designing and implementing world-class performance in payroll and HR processes. Throughout his career, he has conducted benchmarks, best practice assessments and operational reviews; redesigned support operations; evaluated software products; and managed large-scale implementation projects in HR, payroll and time and attendance. Mr. Koniuk is a frequent guest lecturer and is a recognized industry expert in payroll and time and attendance.