

HUMAN CAPITAL MANAGEMENT:

What the C-Suite Needs to Know About Human Resources Outsourcing

HRO Market Grows, Matures

By David Creelman



Section Sponsors



HUMAN CAPITAL MANAGEMENT:

What the C-Suite Needs to Know About Human Resources Outsourcing

HRO Market Grows, Matures

By David Creelman



Human resources outsourcing (HRO) is no longer a new idea. The first big deal, between BP and Accenture, is now eight years old. HRO is not without its critics, and the number of high-dollar deals slowed last year. One of the biggest deals in 2007, a \$1-billion, ten-year arrangement between Johnson & Johnson and HRO provider Convergys, took more than two years to finalize.

If companies are cautious, experts say that does not suggest a repudiation of HRO. Instead, such caution stems from the realization that it is not an easy process. The HRO industry is optimistic and relentlessly increasing its capability and scope.

About 10% of the largest U.S.-based companies already have outsourced HR. In world-class companies, total HR costs per employee have risen from \$1,460 in 2002 to \$1,820 in 2007, meaning the pressure to control costs isn't going away, according to Michel Janssen, director of research for Atlanta-based The Hackett Group, a strategic business advisory firm.

TIME TO CALL MERCER

As a leading global provider of human resource consulting, outsourcing and investment services, Mercer serves more than 25,000 clients, including most of the world's leading companies and governments, and many rapidly growing organizations in some of the world's fastest-growing economies. We are truly a worldwide organization with 60% of our clients located in Europe, Asia Pacific and Latin America.

Mercer also has a strong market presence among midsize companies. These clients benefit from our expertise in working with large multinationals and from our experience with smaller but rapidly growing companies that seek best practices in order to gain a competitive advantage.

Mercer's unmatched global network ensures integrated worldwide solutions for clients who wish to establish global policies and procedures while respecting local cultural, legal and regulatory requirements. Our locally based professionals are also available to address country-specific issues and opportunities.

www.timetocallmercer.com

MERCER

MMC MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

"In world-class companies, total HR costs per employee have risen from \$1,460 in 2002 to \$1,820 in 2007, meaning the pressure to control costs isn't going away."

— Michel Janssen, Director of Research, The Hackett Group

Vendors Feel Positive

Despite talk of a slowdown, HRO vendors remain positive. Heading into 2008, Fidelity is doing more installations than ever, according to its president of human resource services, Patrick Goepel. While some of this work involves new business, a lot comes when existing clients grow by acquisition. For Fidelity, improved quality of service is a big trend in HRO. Improved ways of guiding employees in health and retirement benefit choices are a big step forward for the outsourcer.

Outsourcing specialist ACS is also upbeat, having won a big deal with GlaxoSmithKline to provide the drug maker with an end-to-end HRO solution.

ExcellerateHRO, a joint venture between EDS Corp. and Towers Perrin, spent the past year increasing its capabilities. President Kathryn Kelly says the company is on track by working with flagship clients to install new software as part of a multiyear project.

IBM is seeing continued double-digit growth in HRO and more maturity in the market.

"The requests for proposals we get are more sophisticated than those of a year or two ago," says Mary Sue Rogers, general manager of IBM's Global HR & Learning Business Transformation Services. "People know what they are

looking for; they are more pragmatic in making tradeoffs between costs and doing new things; and they have thought through what the company is trying to accomplish."

IBM is also seeing an encouraging trend as HRO spreads beyond the U.S. Many more requests for proposals are coming from global organizations headquartered in Europe and Asia.

Rogers argues that the most significant advance in HRO is a focus not just on the outsourced HR work, but on the retained HR organization. "HRO only truly makes sense in the context of transformed HR," she says.

Lessons Learned

Not only are vendors feeling comfortable with the growth of the market, but companies also can now look upon some notably successful implementations. According to Hugh MacDonald of the HR Outsourcing Buyers Group in Toronto, one deal worth studying is the 2001 agreement between the Canadian Imperial Bank of Commerce (CIBC) and EDS (now ExcellerateHRO). For once, there are no stories of woe or lessons learned the hard way. Nothing went seriously awry.

It was a big project. The CIBC had 30 legacy systems that had to be transitioned



Paul Arnold
Chairman and CEO, CORT

Relocating to a new job in a new location brings stress along with excitement — both for the relocating employee and the human resource person in charge.

Today, renters make up more than half of employees permanently relocating and more than 90% of those who are temporarily assigned to new locations.

As a result, companies must take a comprehensive view of their relocation programs, striking a balance between policies that attract and retain the best employees and cost-containment approaches that keep programs within budget.

CORT can help you achieve that balance. From online apartment location and touring services to hotel and car reservations and utility connections, we can help make transitions seamlessly efficient — for the employee, the HR professional and management.

We pride ourselves on single-point accountability, with hundreds of local delivery and customer-service capabilities across the U.S. and in over 50 countries worldwide.

Call **1-888-360-CORT** today or visit **CORT.com**, and let us go to work for you.

CORT[®]

Wherever you're heading,
we'll be there.

A Berkshire Hathaway Company

to a new PeopleSoft platform. Also, of CIBC's 535 HR employees, 200 moved to EDS as part of the deal.

"What made it work was the investment in governance," says MacDonald, who worked at CIBC at the time of the deal.

That investment amounted to 4% of the cost of the deal and a full-time staff of 10 to 12 people managing the deal. That seems like a lot, but the investment proved to be the difference between the project running smoothly or derailing. In that regard, the investment really is small by comparison.

"The governance model was not a simple one," MacDonald says. CIBC used a variety of governance mechanisms. Some parts were managed through steering committees while other aspects were co-managed by EDS and CIBC. In some instances the key was monitoring important metrics, and in other cases it relied on audits.

On the governance team, one person was specifically responsible for conflict management, another for issues surrounding the contract and a third for technology stewardship. Perhaps the key

insight here is that the role of governance is not just to manage the project, but to also manage the relationship. There are sometimes severe strains in the relationship between client and vendor from time to time, so the governance processes must be very adept at easing these strains.

"We brought senior managers from CIBC and EDS together even when there were no pressing issues. They needed an opportunity to build perspective and relationships. In too many HRO deals, senior management only meets when something has gone off the rails. That's a recipe for disaster," MacDonald says.

The assurance of avoiding disaster is just what will bring new clients to HRO in the future.

Where HRO Is Going

From a client's point of view, HRO is attractive. Success stories like CIBC's provide confidence that HRO can work, and vendors are willing to guarantee cost savings. The problem, however, is that it has been hard for the vendors to make money.

"The solution to vendor profitability is to build a many-to-one infrastructure,

"Buyers are no longer focused solely on cost savings, flexibility and customization. Rather, they are beginning to recognize that the real advantage of outsourcing comes from a feature-rich standardized solution that can support long-term efficiencies and related positive economics,"

— Ted Rudich, Executive Managing Director, ACS



James King, M.D.
**President, American Academy
 of Family Physicians**

Family physicians are the cornerstone of U.S. primary care. And accordingly, few organizations are doing more to positively impact the future of medicine than the American Academy of Family Physicians (AAFP).

Working hand-in-hand with business leaders to improve the quality of health care for every American, AAFP is helping to eliminate unnecessary health care spending and bring about long overdue modernizations to the practice is medicine.

These include important medical innovations such as health information technologies, secure electronic health records and evidence-based medicine, all of which are designed to better connect doctors with their patients and to make health care more effective and efficient.

For family physicians, the strengthened relationships between patients and doctors allow them to better prevent disease and coordinate a higher quality of care for every patient.

It is patient-centered primary care at its finest, where doctors know their patients and can better serve them as a result.

www.aafp.org/value



“The solution to vendor profitability is to build a many-to-one infrastructure, not build deals around an individual client.”

— Ashok Divakaran, Principal, Booz Allen Hamilton

not build deals around an individual client,” says Ashok Divakaran, a principal at consultancy firm Booz Allen Hamilton.

A many-to-one infrastructure with real economies of scale can result only when vendors offer relatively common solutions to multiple clients. This means companies accepting the fact that their HR processes may need to change, which can be a challenge.

“It’s been easy to outsource payroll because there is a standard way to do it, but there are no standards in what benefits you have or how you administer them; it’s all over the map,” Janssen says.

But according to Fidelity’s Patrick Goepel, clients are recognizing that the many-to-one model ultimately means better quality and faster innovation.

Ted Rudich, the executive managing director at ACS, concurs.

“Buyers are no longer focused solely on cost savings, flexibility and customization. Rather, they are beginning to recognize that the real advantage of outsourcing comes from a feature-rich standardized solution that can support long-term efficiencies and related positive economics,” Rudich says.

Moving in the direction of a many-to-one infrastructure opens the appealing prospect of HRO offerings targeted to smaller and midsized firms, experts say.

“I am seeing more mid-market activity in the last few quarters. It gets less press coverage, as most of the deals aren’t announced,” says Lisa Rowan, a program director at research firm IDC in Framingham, Mass.

Fidelity is specifically targeting mid-market companies. It is these companies that have the most to gain from the economies and sophistication a big HRO provider can provide, Goepel says.

HRO is a maturing industry. Vendors are past the rush to win big deals and are focusing on how to create models that provide sustainable profit. They are broadening the market and improving their quality. Likewise, clients are getting smarter about implementation. HRO is a phenomenon whose time has come. ■

Web Directory

*American Academy of
 Family Physicians*

www.aafp.org/value

CORT

www.cort.com

Mercer

www.timetocallmercer.com