

HRO Benchmarks: Scope, Quality, and Pricing

Key Findings from a Survey of Large HRO Buyers

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Executive Summary

The Human Resource Outsourcing (HRO) industry is at a critical point in its short history. Buyers are increasingly looking at HRO as an opportunity to streamline processes, reduce direct and indirect costs, get access to the latest technology and tools, consistently achieve better quality, and align HR with the overall business in the fastest time possible. At the same time, suppliers are seeking the most optimal way to provide improved services to their clients at a cost that still allows for a profit. Reshaping the business model in a way that benefits both buyers and suppliers is critical to the survival of the industry.

Many HRO suppliers started off with a “lift-and-shift” model, wherein they took over a buyer’s existing people, process, and technology and used the acquired infrastructure as a platform to build out their HRO capabilities. In the initial deals, the model worked well for suppliers, with buyers getting the cost savings they anticipated. However, as suppliers moved beyond the first few clients, the importance of scale and standardization became apparent to realize leverage across clients. Suppliers struggled to create some level of solution and platform standardization across buyer organizations that tended to be resistant to any standards but their own.

Everest Research Institute in late 2006 conducted a detailed survey of key large existing buyer organizations in order to better understand the scope and metrics in the HRO market today. The study focused on the definitions and measures for the overall deal and within specific HRO process areas that facilitate optimal realization of the desired outcomes of outsourcing the HR function.

This paper discusses some of the key findings from this survey, as follows:

Trends in scope and adoption:

- A majority of the market adopted a scope of 10 to 12 processes
- Highly transactional HR processes (payroll, benefits, employee data management, HRIT, and contact center) have mature adoption rates
- Hybrid technology adoption is emerging as a dominant model
- “Transform-transfer” model adoption is emerging as a dominant model post 2004, versus “lift-and-shift”
- Benefits, training, recruiting, and performance management have sufficient scale of multi-client implementations
- A majority of recent transactions adopted a configured or off-the-shelf solution for six or more processes
- A few service metrics have adoption across more than 30 percent of buyers
- There is only a small variation in the service levels of most frequently used metrics

Lack of standardization:

- Non-mature processes are still in flux between “bundled process with technology” versus “technology-only”
- A majority of transactions are primarily single-client implementations, and this has not changed over time
- There is significant variance in pricing at the process level
- There are a significant number of metrics that are only used sporadically

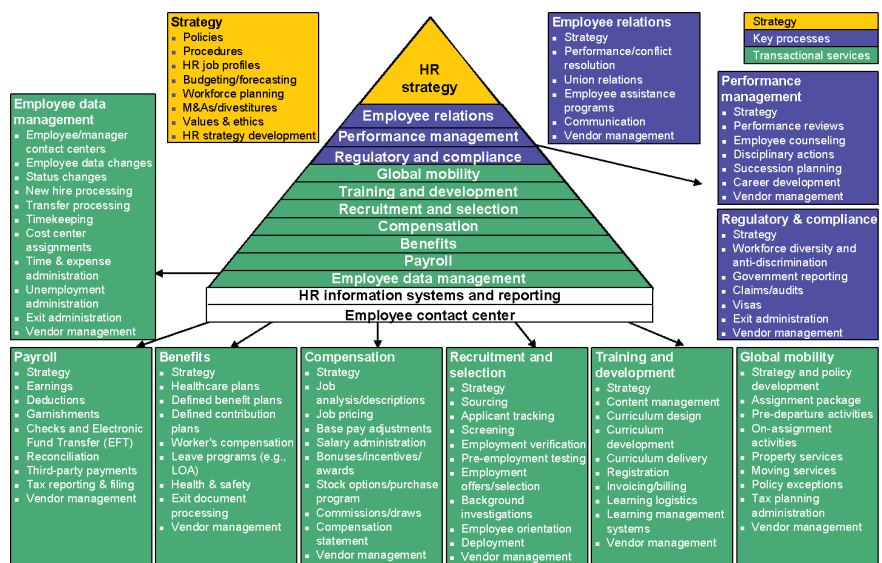
Survey Methodology and Participant Demographics

Methodology. Everest Research Institute conducted the survey with a combination of data collection followed by in-depth interviews with senior governance teams of HRO buyers. The data collection exercise focused on collecting both the deal overview as well as process level details. The survey used interviews to complement the data collection by capturing qualitative content. The Institute structured the survey instrument using the HRO process pyramid as defined by Everest Research Institute, covering 12 HR processes (excluding strategy) (see Exhibit 1).

EXHIBIT 1

The survey instrument was structured using the HRO Everest process pyramid

Source: Everest Research Institute



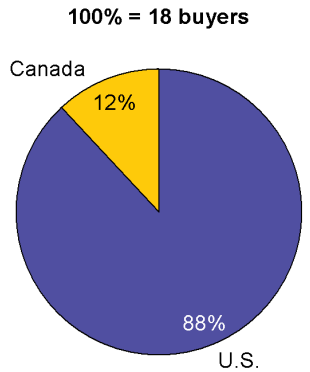
Participant demographics. A total of 18 large buyer organizations participated in the survey, representing 27 percent of the overall market in Total Contract Value (TCV)(see Exhibit 2).

EXHIBIT 2

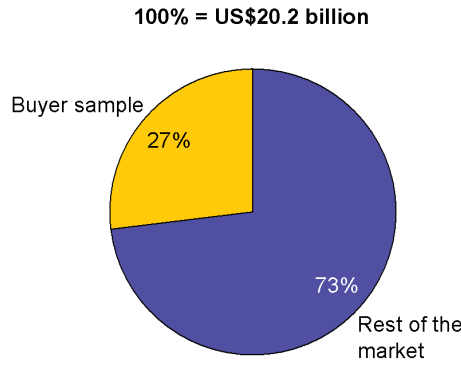
A total of 18 HRO buyers participated in the survey, representing 27 percent of the overall market in terms of TCV

Source: Everest Research Institute

Buyer headquarters location
Percentage of companies



Comparison of buyer sample for this study with overall market
Percentage of total TCV



Key Findings

Transaction-intensive processes achieve maturity

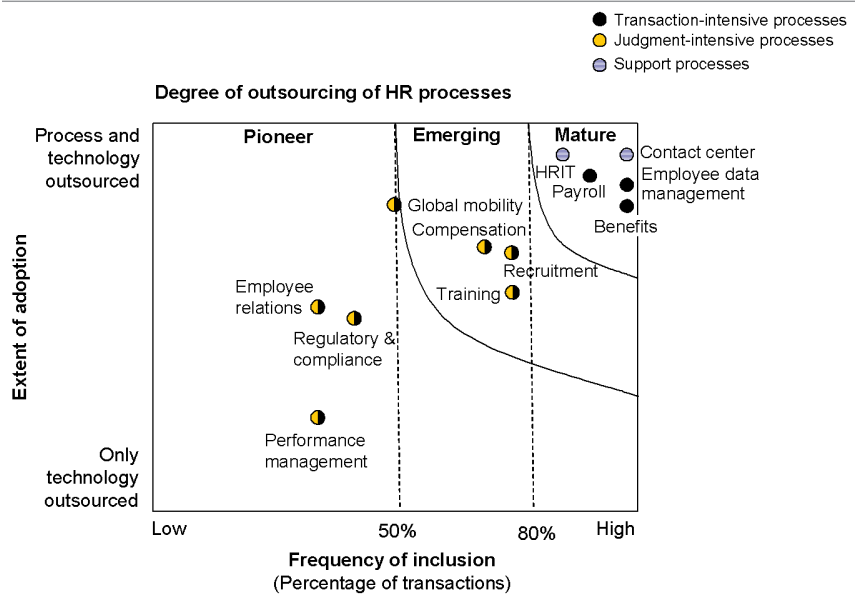
A majority of surveyed deals had a high adoption of scope with 10 to 12 HR processes outsourced (out of a total of 12). However, significant variation exists in the maturity of HR processes (see **Exhibit 3**). Highly transactional processes (i.e., payroll, benefits, and employee data management) and support processes (i.e., HR technology and contact center) are present in a majority of the surveyed deals with process as well as technology support outsourced.

On the other hand, processes with judgment-intensive elements (e.g., training, recruitment, compensation, and performance management) are not only present in a smaller number of deals, but also have lesser extent of process support outsourced and remain in flux between “bundled process with technology” versus a “technology-only” solution provided by the supplier.

EXHIBIT 3

Transaction-intensive and support HR processes are outsourced more than judgment-intensive processes

Source: Everest Research Institute



Processes that are highly transactional and administrative in nature lend themselves especially well to outsourcing, as suppliers can deliver them at a higher quality and lower cost, and with highly predictable outcomes. So it comes as no surprise that these processes are the foundation of most HRO deals.

In the case of processes with a higher percentage of judgment-intensive components, two key factors are influencing adoption. First, many of these processes are unique to each firm. Hiring, rewards, training, and performance management are all ways to reinforce the culture of the firm while creating competitive advantage in organizational talent. Second, these processes traditionally operated in separate silos. However, technology advances have

led to solutions that closely integrate these processes. Suppliers built this holistic approach upon a framework of skills and competencies attached to specific job roles with certain performance targets, leveraging inherent synergies.

Many of the early “lift-and-shift” deals that included these judgment-intensive processes in scope transferred full scope to the supplier. However, these processes are emerging as the primary role and responsibility of the retained HR team within firms that elected to adopt HRO.

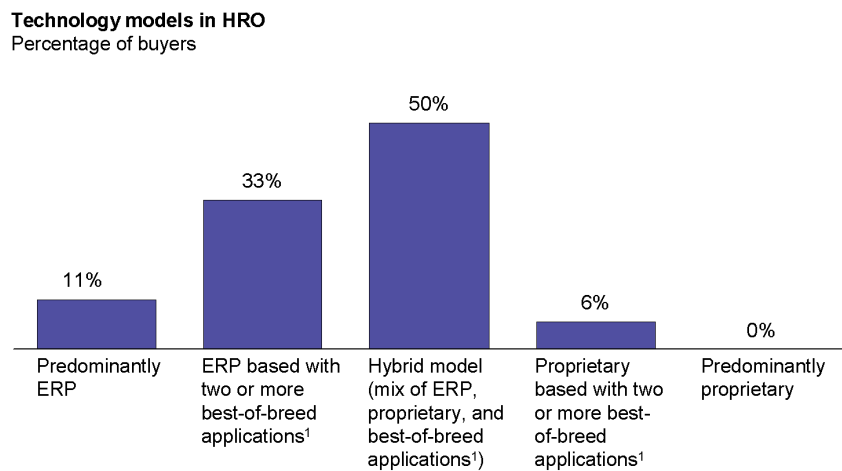
Hybrid technology models in play

Technology remains a key driver for outsourcing HR, be it for capital avoidance or access to newer technology solutions. A majority of the deals have underlying technology platforms bundled within the HRO deal. Suppliers leverage multiple technology platforms: large commercial ERP platforms (e.g., SAP, PeopleSoft, Oracle), best-of-breed point solutions (e.g., SuccessFactors, Vurv, Taleo), and proprietary platforms developed by HRO suppliers (e.g., ADP, Hewitt). Today, suppliers most frequently use a hybrid model with components of all these three technology types (see **Exhibit 4**).

EXHIBIT 4

Hybrid technology models using a mix of ERP, proprietary, and best-of-breed applications are the most frequently used in the sample surveyed

Source: Everest Research Institute



¹ In a few transactions, the buyer's legacy applications are also being used

Buyers typically insist on utilizing their ERP solutions for core HRMS and payroll platforms while other processes run on ERP modules, suppliers’ proprietary solutions, or best-of-breed applications; the decision depends on the buyer’s comfort, the supplier’s operating model, and functional requirements. However, such hybrid models limit the extent of the leverage possible across clients. Highly standardized implementations on the same platform help create economies of scale for suppliers. This is driving some suppliers to make significant investments to create their own proprietary technology solutions. A highly standardized implementation on a commercial ERP platform can also lead to significant leverage. Suppliers such as Accenture, ADP, ARINSO, and Convergys (to name a few) are adopting this model.

The market is moving away from the “lift-and-shift” model

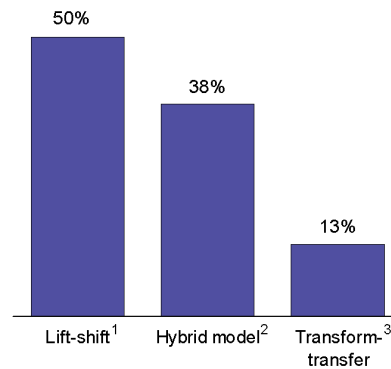
As the HRO industry evolves, there is a clear shift in the way suppliers transition and deliver services. While in pre-2004 deals, half of the surveyed buyers adopted a “lift-and-shift” delivery model, the post-2004 inclination was clearly more towards the “transform-transfer” model (see **Exhibit 5**).

EXHIBIT 5

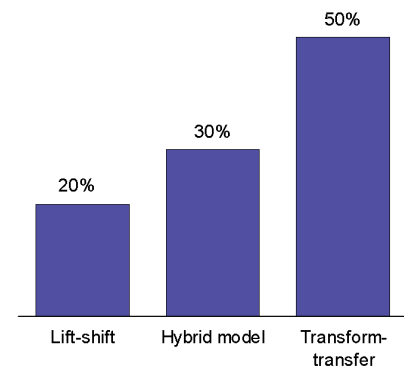
Deals are evolving from a “lift-and-shift” delivery model to a “transform-transfer” model

Source: Everest Research Institute

HRO delivery model – Pre-2004
Percentage of buyers



HRO delivery model – Post-2004
Percentage of buyers



¹ Transactions in which buyer's people, process, as well as technology are taken over by the supplier as-is

² Includes deals which have characteristics of both “lift-and-shift” and “transform-transfer”

³ Transactions in which there is a transformation in process and/or technology before a service is transferred to the supplier

While “lift-and-shift” worked well for initial deals as suppliers made investments to create infrastructure, recent deals increasingly adopt a “transform-transfer” model. This is a step in the right direction to create a win-win situation for buyers and suppliers.

Buyers are increasingly looking at HRO to drive standardization within the organization (across business units, geographies, and systems) and realign their people management approach to achieve business benefits beyond direct-cost savings (e.g., improving employee engagement and productivity). The transformation phase focuses on implementing tools, technologies, and processes that enable this change.

Suppliers, on the other hand, are utilizing this approach to implement process changes and standardized solutions that can enable them to leverage resources (people and technology) across clients. This also is leading suppliers to develop people and process capabilities that can help drive such change.

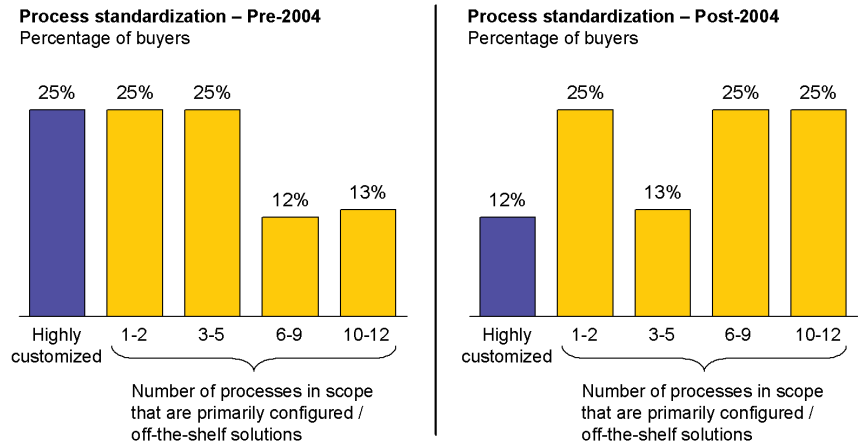
Shift towards configurable / off-the-shelf solutions

Pre-2004, only one-quarter of HRO deals used a configurable, off-the-shelf solution for the majority (six or more) of the HR processes. However, the study shows that adoption of such solutions in post-2004 deals increased to 50 percent of the surveyed deals (see Exhibit 6).

EXHIBIT 6

50 percent of post-2004 transactions adopted a configured or off-the-shelf solution for six or more processes

Source: Everest Research Institute



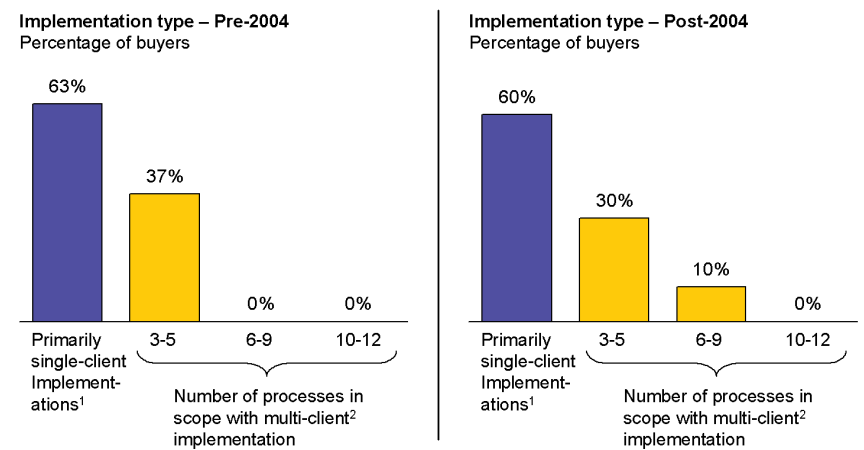
Though a majority of the initial deals had a highly customized solution for the client, the more recent deals are seeing a shift towards utilizing more configured / off-the-shelf solutions. There is a clear trend towards higher standardization.

However, a majority of these deals are primarily single-client implementations, and this has not changed with time (see Exhibit 7).

EXHIBIT 7

There has not been a significant increase in the adoption of multi-client implementations with time

Source: Everest Research Institute



¹ None or 1-2 processes with multi-client implementations
² Implies that the IT platform is multi-tenant

Buyers are still not willing to push the envelope to share a true multi-client solution. In a multi-client implementation, the supplier uses the same instance of the technology solution for more than one client. This enables a supplier to leverage people and technology across its client base, which results in reduced cost and increased efficiency.

A look at process-level adoption reveals that suppliers run even highly transactional processes such as payroll on single-client platforms. Payroll acts as the master employee data store, and buyers retain it on underlying ERP platforms for closer integration with other models such as finance and accounting. Some HR processes (i.e., benefits, training, recruiting, and performance management) have sufficient scale of multi-client implementations.

Significant variation in price points

Average price points of different HR processes vary significantly in the surveyed deals. This variance ranges from 48 percent in a process like employee data management to as high as 96 percent in the case of training (see **Exhibit 8**).

EXHIBIT 8

There is a significant variation in the price points of HR processes

Source: Everest Research Institute

Variance in average price-point by HR process
US\$/employee/year

	Coefficient of variance
Employee data management	48%
Payroll	53%
Benefits	62%
Compensation	94%
Recruitment	75%
Training	96%
Global mobility	Not available
Employee relations	90%
Performance management	50%
Regulatory & compliance	Not available
Contact center	55%
HRIT	67%

Price points of HRO deals depend on multiple factors including process scope, geographic scope, technology platform, and implementation model (one-to-one versus one-to-many). Also, suppliers tend to have sweet spots and use those to cross-subsidize in order to justify the business case in other HR processes. In some instances, they build in highly transformational components for specific HR processes, and process level price points include this transformation cost. Owing to such differences in scope as well as delivery platforms, even mature processes such as payroll have a high variation in price points. This is a reflection of an evolving market that still has a long way to go before arriving at a more uniform unit pricing models.

Service level usage

Identifying appropriate service metrics and defining the associated service levels for the outsourced HR processes is a crucial foundation for a successful outsourcing relationship. The survey findings show deals are using around 100 service metrics across different HR processes. However, the surveyed deals lack consistency in usage of these metrics. Fewer than 30 percent of the surveyed deals are using more than a limited number of service metrics for each process (see **Exhibit 9**).

EXHIBIT 9

There is a lack of consistency in usage of service metrics across surveyed deals

Source: Everest Research Institute

Presence of service metrics in HR process
Percentage

Presence in deals	Employee data management	Payroll
> 30%	<ul style="list-style-type: none"> Timeliness of employee data updates Data accuracy 	<ul style="list-style-type: none"> Payroll timeliness Payroll accuracy
<= 30%	<ul style="list-style-type: none"> Time to answer e-mail Timekeeping system availability Contact center availability Timeliness of termination kit delivery Resolution timeliness Time to answer call New hire processing timeliness Customer satisfaction and quality 	<ul style="list-style-type: none"> Pay statement availability Garnishments accuracy Reconciliation accuracy Tax payment timeliness Vendor payment timeliness Reconciliation timeliness

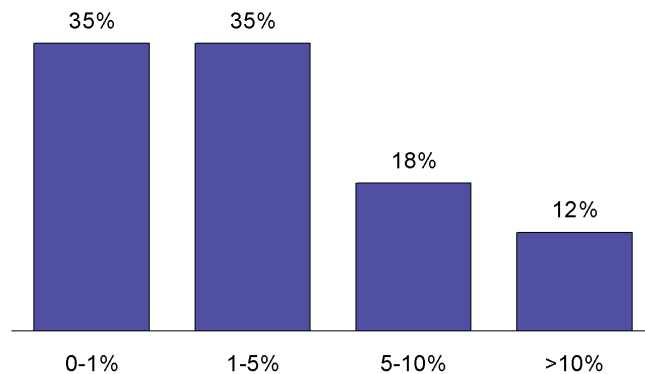
However, the service levels for the most frequently used metrics show only a small variation across deals, indicating the adoption of common standards in defining the service levels for these metrics (see **Exhibit 10**)

EXHIBIT 10

There is a small variation in the service levels of most frequently used metrics

Source: Everest Research Institute

Coefficient of variance of commonly used metrics
Percentage



Service metrics for a process evaluate, control, and predict the outcome of the services provided by a supplier. The survey shows an intrinsic link between the commonality of these service metrics across deals with the level of standardization the supplier achieves. Currently, suppliers have limited success in pushing for standardized metrics across their client base, as reflected by the surveyed deals using a limited number of common metrics. As a result suppliers must spend significant resources to track multiple metrics across clients for similar sets of processes. However, the good news is that, for the common metrics the surveyed deals use, suppliers achieved a high degree of standardization for the measures / service levels.

Conclusion

Demand for HRO remains strong as the initial buyers increasingly recognize benefits from outsourcing, even during the current level of trouble in the industry while suppliers create standardization and scale across clients. Further, buyers and suppliers increasingly agree that standardization is necessary for HRO to fulfill its value proposition, leading to growing acceptance of a “standard” solution with some degree of configurability. As implementations become more standardized and streamlined as well (meaning that both buyers and suppliers achieve the desired outcomes), the overall health of the industry will continue to grow and thrive.

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