



Now You See Them, Now You Don't: Movements in the HRO Provider Landscape

By Synco Jonkeren, EquaTerra

The provider landscape is littered with the wreckage of battles fought over the past seven years or so, as the human resources outsourcing (HRO) industry went through its infancy. There are many success stories, however there are also failures and retreats resulting in the current provider landscape. How can HR executives and professionals navigate this rugged landscape? In this article we'll take a look at who are the new entrants, who is retreating, who has demonstrated excellence and who has come of "fighting" age? The HRO market is now mature and big enough to make some bold statements based on what can be seen in the market.

Let's first make clear what we're talking about. Human resources outsourcing means many things to many people. For the purpose of this article, I will mainly be talking about "comprehensive" HRO (CHRO), which typically involves at least three to five HR processes, of which at least a number revolve around "money processes," such as HRIT, Payroll, Benefits, Compensation. Worldwide today, there are more than 100 of these CHRO projects in place. More than 85 of these have at least four HR processes in scope, with over two

million employees served. The total contract value involved exceeds US\$20 billion. Adjacent to these are other projects with a smaller scope, either from a geographical perspective or from a functional perspective. While, strictly speaking, not covered by the CHRO definition, these are nevertheless impressive. Lately we've been seeing an increased number of larger "learning" and "recruitment" outsourcing projects covering big geographies and a large number of employees. Also, Payroll and HRIT outsourcing is a common practice, particularly for smaller companies. Taking these into account, the total number of employees touched by HR outsourced services comes to more than six million.

Human resources outsourcing acceptance is a global phenomenon. In my home country, Holland, where since the Middle Ages water management has been outsourced to the farmers working the land below sea level, outsourcing payroll has never been an alien concept. And, nobody in their right mind would want to own medical claims administration or 401K record keeping in the U.S. So, while the concept has been widely accepted for a long time, it has now come to assist in the much needed effort of helping HR become a more value-adding function to the business (I promised myself that I would never use the words "HR" and "more strategic" in one sentence ever again!). As some respondents to recent EquaTerra research mentioned: "Human resources may be strategic; their HR organization is not, in all cases."¹ This helps to explain the growth of the CHRO market in the past decade. While CHRO is global, North America dominates the market with three times the total contract value compared to Europe. Headline deals like DuPont, Bristol-Meyers Squibb and P&G illustrate CHRO acceptance in North America. Growth has been slow but steady in Europe due to more influential unions and workers councils, as well as country-specific regulatory complexity, combined with more limited-scale effects. Steady growth has also been seen in Asia, with the exception of Japan and China so far.

In spite of CHRO being a relatively stable concept that has been around longer, the service provider community has not been that stable. We're seeing four major trends affecting the provider picture:

- New entrants in the marketplace,
- Private equity backing providers,
- Consolidation of traditional providers, and
- Early providers seeing success or failure.

New Entrants in the Marketplace

The most eye-catching new entrants in the HRO marketplace are a number of the Indian providers. Traditionally back-office powerhouses, these providers now have successfully branched out into business process outsourcing (BPO), thereby leveraging their existing IT relationships with clients worldwide. Indian providers have long support-

ed HR and HRIT functions from within India and are, in a number of cases, no longer limited by contractual clauses prohibiting them from performing the services directly. In particular, transactional processing (payroll, time keeping, gross to net, employee data management and similar processes) have been their comfort zone for some time now. They will not stop there.

Hexaware Technologies, through its Caliber Point brand, is providing services in Europe and will soon be in the U.S. as well. Through their existing relationships, they have a favorable position when some of their clients, whether through acquisition or not, decide to consider outsourcing. Hexaware Technologies are not just following the pack, but are actively thinking about different delivery models such as software-on-demand. Last year, Tata Consultancy Services (TCS), by virtue of their successful IT service relationship with AC Nielsen, secured a BPO deal with Hexaware valued at over US\$1 billion, including F&A and HR, and in a deal that wasn't even tendered in the market! Tata Consultancy Services has invested in a standardized software and delivery model, based on SAP, that will allow them to price their services quite effectively, positioning them to expand further and leverage their offshore capabilities while making waves onshore. These companies are well capitalized and have a significant installed base, and companies like Infosys, WNS Global Services, and Wipro Technologies, who are ready to take similar paths, have good prospects going forward.

In the field of science, new entrants bring new ideas and developments. It will be interesting to watch what these new players bring to the HRO market. Judging from what we see now, it will bring a new dimension with more pressure on transactional process outsourcing and more commodity pricing in a number of basic process areas.

Private Equity Backing Providers

Another changed and revitalized brand is NorthgateArinso, previously two separate companies but now joined together under the leadership of Chris Stone. After UK-based Northgate bought Europe-based Arinso, Kohlberg Kravis Roberts & Company (KKR) took a major interest in NorthgateArinso and not just in monetary terms. The new company is revitalized (in spite of some growing pains) and has set out a smart growth strategy based on its existing assets, such as SAP expertise and mid-market service offerings with a view to expanding in the North American market. There is an attractive portfolio of KKR-backed companies as potential prospects for HRO services, even though normal business-competitive terms will apply.

Other equity investment-backed organizations include China Talent Group, providing direct payroll in China, and a new entrant in the talent management and, more specifically, "learning" domain that will be announced shortly.

Consolidation of Traditional Providers

The plates are full for some. Having succeeded in landing large deals some providers choose to absorb these new contracts and focus on successful delivery to these clients

first before pursuing additional business that they wouldn't have the capacity to staff and/or capacity to deliver. Accenture and Convergys are examples in this category. Accenture is quite busy with Unilever, with comprehensive HRO including talent management and learning worldwide. Convergys is, of course, working hard to keep on delivering on the DuPont and Johnson & Johnson projects. Both are large, complex, global projects. Yet, both companies are also ready to gear up again: Accenture has invested in an intelligent transformational learning outsourcing model, while not shying away from the consulting work involved in that. At the same time, Convergys seems to be getting ready to actively engage again on sales pursuits that match its qualities and ambitions. Hewitt has stabilized its market position but seems to be reducing its European focus in HRO. And it has been a question for a while now – what will happen with ExcellerateHRO? ExcellerateHRO has plenty of happy benefits clients, has been mildly successful in getting comprehensive HRO deals – Cardinal Health is the only one that comes to mind – so it will be interesting to watch what ExcellerateHRO will do going forward.

It would be great if the delivery would catch up with the well-positioned methodology. ACS, to complete the list of "old" players in the CHRO industry, has been focusing less on the multi-tower deals, but has successfully built capabilities in the learning space instead, e.g. the Hertz project. It still has CHRO projects ongoing, also in Europe, e.g., Motorola, and is choosing which opportunities to pursue next very carefully. And ADP remains a steady player in the transactional space, servicing both large organizations and smaller ones, plus any combination thereof, with its combined offering of GlobalView and Streamline. Its challenge will be to effectively reconcile what it delivers and how it prices, also taking the aforementioned price pressure of the new entrants into account.

With the benefit of hindsight, we can say that it hasn't been easy for the providers to reap the benefits of standardization. Standardization, or the high replication of solution and delivery, not only requires investments but also customer acceptance of a practice that is perceived to be in contradiction with the "unique" business requirements of their HR function. Often it is not; there is little unique or competitively differentiating about a pay slip or the way HRIT is managed, yet customers more often than not find it hard to accept that. However, this is the way forward for providers – to demonstrate service excellence in basic processes like Payroll, HRIT and Benefits, offered at a competitive global price, while offering more marginable services in areas like recruiting and learning.

Some Early Providers Flounder

There are some examples where service providers have not been rewarded for their courage to enter new ground. AON with AT&T, and EDS with CIBC are examples of projects where the economic benefits to providers lagged the promises and predictions. It illustrates the standardization argument just mentioned. Without additional clients, these providers have not been able to leverage economies of scale

and the benefits of process optimization. So, while these projects in and of themselves may have brought benefits, the inability to spread the costs across multiple clients has been detrimental to these providers.

As a result, providers have been forced to adapt their service delivery models. Instead of just offshoring, we've seen multi-shoring, where native speakers, either in country or near-shore provide first-level support with production centers in remote offshore locations. In this way, they hope to overcome client reservations about remote support and language barriers for their employees.

Technology

Finally, when we look at movements in the HRO provider landscape, we cannot ignore the important role of technology. Technology, and in particular HR technology, is a key enabler in securing both the cost savings and the HR transformation value that organizations look for in outsourcing projects. Service providers typically base their offerings on existing commercially available platforms. If they don't, but base their offering on their own proprietary solution, HR professionals would have to ask themselves whether they feel comfortable with their key work force data on a system they couldn't move in-house or to another provider should they want to.

SAP is consistently executing on its strategy to support service providers with its HRO program in which a majority of the service providers take part. Oracle offers an HRO program with a few providers, based on its Oracle and PeopleSoft brands, but there was a deafening silence from Oracle spokespeople at the recent Oracle OpenWorld Conference about the much-vaunted Fusion. This is disturbing for Oracle and PeopleSoft customers alike. Their future in the application arena, both from an investment perspective, as well as from an upgrade perspective, remains uncertain and is at risk of becoming a liability. At the same time, we see upcoming acceptance of the on-demand or Software-as-a-Service (SaaS) model. Hexaware Technologies, for one, is investing in that, as are both Oracle and SAP. Workday also is making headlines with its HR and Finance applications delivered on-demand. It has an impressive set of customers, though it remains to be seen how well this model will scale, in particular, to international customers. Other vendors, like SuccessFactors and Taleo, offer on-demand solutions in the talent management space, most notably in performance management and recruiting. As stand-alone applications, these solutions are often considered as an alternative to outsourcing. It would not be a surprise if some of these talent management vendors will endeavor to own the core employee data as well.

At present, it is too early to say whether the on-demand model will grow at the expense of more traditional HRO offerings, except in the talent management area. Organizations considering these types of delivery models should be aware that they're not entirely comparable to outsourcing HR business processes. There is no advantage of labor arbitrage, there can be no ownership of the underlying application, and there are no means to modify the application beyond configuration, which in HRO is possible, though at a cost.

In conclusion, the CHRO provider landscape is changing (as it should), because we'd expect the market to adapt to new developments and adopt what's proven valuable. I encourage HR organizations to review and reassess their strategic HR plans as needed, relative to the use of shared services and outsourcing. The HRO market has continued to evolve and mature, as early market service providers have largely retrenched and have become less aggressive in the pursuit of large deals. Instead, their prime focus is on customer satisfaction and on consolidation, standardization and optimization of their delivery capabilities. And, all that is good news for HR organizations.

For buyers that considered HRO in the past and chose not to move forward, the reality of the market today may lead to a reversal of that decision. For existing HRO users, the changes in the market could mean that a review of existing relationships, contractual terms and service levels is advisable at the next check or renewal point. For novice HRO users, there is an interesting market that offers various means to allow them to shift more focus, resources, and emphasis towards performing the activities that will make HR a true asset to the organization.

So, if in your future there is increased pressure to reduce costs and/or to transform your HR function and you would be considering outsourcing as one of your delivery options, it would be wise to take in to account the changing landscape of service providers. What was right yesterday may not be right tomorrow. Because when you make a choice for a provider that you see today, you want to be sure you will also see them tomorrow.

Endnotes

- 1 EquaTerra HR Market Update, market study, 2008.

About the Author



Synco Jonkeren joined EquaTerra in March 2008 to specifically focus on the role of HR technology in HR transformation projects. Previously, as director of BPO/HCM, he helped create and build out SAP's BPO program, looking after the global HRO segment. He has a strong background in HR and technology having worked 10 years for PeopleSoft where he was responsible for global product strategy for PeopleSoft's HCM products. Jonkeren regularly speaks and writes on HCM, technology and HR outsourcing across the globe, is the international editor for the *IHRIM Journal* and sits on the board of the IHRIM Global Special Interest Group and the HRO Association Europe. He is a strong believer in the value of technology as an enabler to help HR organizations reach their goals and make a strategic contribution to their organizations' objectives. He was named one of Europe's "HRO Superstars" previously and is a regular contributor to *HRO Today* and *HRO Europe* magazines and various other HR publications. He can be reached at synco.jonkeren@equaterra.com.