

2006 HRO TRENDS

Enterprise providers cover all ends of HRO; we surveyed some familiar names to find out what trends are affecting the entire spectrum of HRO.

By Denise Doig

Enterprise HRO providers do it all. Not only do they provide outsourcing services to a wide variety of clients, they also offer a wide variety of services—from payroll to benefits to screening and training.

Nearly 30 organizations listed as enterprise providers in *HRO Today's* Annual Resource Guide (see p.29), were asked about market trends. With almost half responding on general and specific trends in outsourcing, the results make for an interesting read.

Some of the biggest names in HRO have kindly given their opinions on the market including Accenture HR Services, ACS, ADP,

Aon Consulting, ARINSO International Ceridian, CheckPoint HR, Convergys, ExcellerateHRO, Gevity, HR XCEL, and Mercer HR Services.

Finding the right provider is a time consuming process—if the wrong decision is made, repercussions are boundless. Buyers want to make sure they are getting the most bang for their buck, and name recognition is not good enough.

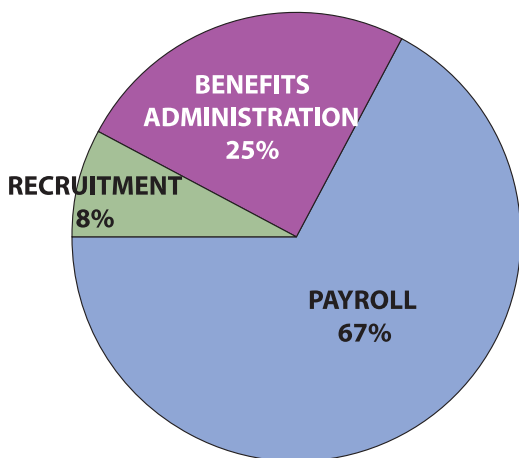
Providers have to have experience to back up their claims. Domain expertise is a major determinant in picking vendors. Enterprise-level outsourcers not only have to have expertise but also possess a large and talented workforce capable of serving globally. In some cases, size

does matter; at least according to providers.

For some buyers the provider's global footprint is becoming increasingly important, according to the responses we received. Although the size and scope of the client comes into play, the majority of deals are still being rolled out on maybe two continents at most.

However, if the client is global, they will want a global provider. According to HR XCEL, "As the economy continues its pace towards a global economy and companies become more internationally based, the need will continue to grow." The ability to service employees all over the world is a key differentiator when choosing a provider.

HR FUNCTIONS BUYERS ARE OUTSOURCING THE MOST



All deals reported by providers

- Optimizing the function and purpose of the retained HR organization.
- Determining scope of HRO engagement, identifying current cost, and defining the optimum delivery model to realize the full potential of HRO.
- Aligning HR goals with the company's larger business objectives is a primary concern; also controlling healthcare costs.
- Operational excellence and standards compliance.
- HR analytics and talent management.
- Attraction and retention of talent using competitive benefits and HR infrastructure.
- Integration of disparate systems; employee and manager self-service.
- Creating the right solution balances cost, capabilities, and cultural fit.

The Biggest Issues HRO Buyers Need Help With:

- Understanding the contractual relationship between the HRO provider and the client.
- Integrated HR tools, which will streamline costs and keep healthcare costs under control.
- Understanding how to navigate the "to be" model for HR in the field.
- Making HR more flexible as business needs change and focusing on value creating activities rather than administration; better workforce performance and improving HR services quality while reducing cost.

"Organizations are outsourcing a broad spectrum of HR functions, including recruiting, workforce performance, learning, benefits administration, compensation management, payroll and employee services. A fast-growing area is talent management, which weaves together recruitment, workforce performance, learning, and compensation to help companies create a high performance workforce."
—Accenture

HEALTH AND WEALTH

The majority of respondents cited consumer-driven healthcare plans as the biggest health benefits trend for 2006. Health savings accounts and flexible spending accounts are also two trends enterprise providers are taking note of. Employer also continue to invest in keeping their workforce healthy with programs such as on-site weight management as well as smoking cessation support and family services, according to Convergys.

What type of health plans are buyers interested in?

- HMO/PPO.
- They are still interested in traditional plans, but ones involving choice and more specific utilization of allocated benefits dollars are popular.
- Anything that controls costs, wellness programs including proactive health assessments, and behavioral modification.
- Flexible plans and supplemental coverage in targeted health areas such as weight management and mental health.
- Multiple options such as platinum and lower-tier PPO plans plus ancillary value add benefits such as FSAs, life insurance options, pet insurance, etc.
- High deductible health plans, and plans that address the most costly chronic conditions and steer employees to participate in wellness programs.
- HSAs and other consumer-directed health plans

Eighty-three percent of respondents believe that benefits expertise is one of the reasons for selecting a provider in larger HRO deals. However, some disagreed. While they see benefits expertise as being important, it is not the deciding factor in large, multi-domain HRO deals. Global footprint and service delivery capabilities are also as important. Benefits expertise may help in the decision-making process when narrowing down a provider, but one respondent listed flexible technology, success in process transformation, and financial stability as the reasons for selection.

HRIS Trends

- Pay-for-service trend vs. an acquisition model.
- Web-based integrated HRMS/HRIS system.
- Oracle, PeopleSoft, and SAP continue to be the dominant HRIS players.
- In larger markets ERP platforms are prevalent, while in mid- and small markets, proprietary platforms are often delivered in an ASP form.
- Paycards—alternative methods of delivering pay.
- Succession planning, talent management, and HR analytics.
- Workforce management via the Web, so offsite HR managers/executives can hire, terminate, provide bonuses, etc.
- Self service—both employee and manager—continues to be a focus.
- Better integration with other HR technologies.

PAYROLL SOLUTIONS

Payroll debit cards

Extremely Interested 17%
Interested 50%
Somewhat Interested 33%

Employee self-service

Extremely Interested 92%
Somewhat Interested 8%

Offshore processing

Extremely Interested 8%
Interested 42%
Somewhat Interested 33%
Not interested 17%

Automated time and attendance

Extremely Interested 75%
Interested 17%
Somewhat Interested 8%

Compensation administration

Extremely Interested 33%
Interested 50%
Somewhat Interested 17%

Source: HRO Today

RECRUITING & STAFFING,

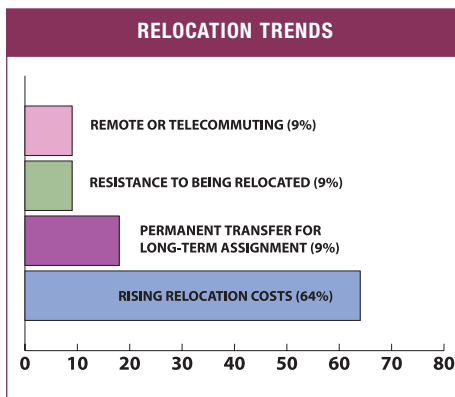
When asked if RPO is expected to maintain its momentum in HRO, many respondents gave positive answers. Because RPO is a critical part of talent management, it is expected to

grow as the HRO market grows. Aon HR Consulting noted that “RPO is a key function as relates to HR in general, but is frequently serviced and contracted separately from other HRO activities.”



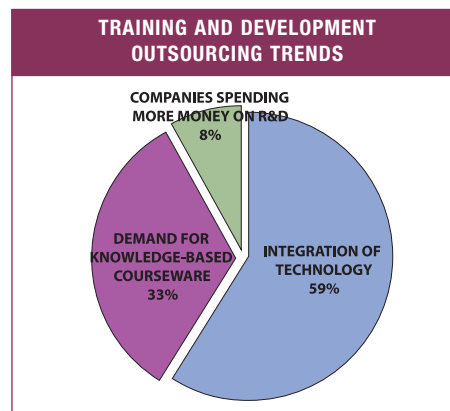
Is the RPO market becoming more confusing or less complicated??

- Less from consolidation, and the model is maturing.
- Neither—buyers are getting more sophisticated and applying concepts from supply chain and CRM to determine staffing levels, establish pools of candidates, and tie performance to sourcing.
- It is becoming more specific based on providers offering functions very specific to talent requirements and is, therefore, more complicated to contract for clients.
- Less complicated as users become more fluent and greater use of web portals.
- Less complicated, since buyers get to know the possibilities better.
- More confusing because the market still does not have a vendor who can truly service on a global basis.
- The main players, such as Accolo, are always improving their interface and achieving both market and mind share.
- The provider community needs to clarify for employers what talent management is and every service that it encompasses in an outsourcing environment. Continued legislative change will always be a challenge for employers and a key reason for outsourcing to vendors with compliance expertise.
- More confusing as more outsourcing firms are trying to move into this space



Most respondents felt that companies were willing to spend the money on implementing background screening precautions. However, this willingness is industry-based. For example, the financial industry takes great measures to ensure that potential employees meet all screening requirements; the same would be true for law enforcement or education., whereas, many service industries are not as adamant about screening. Although screening is an important function, usually money is spent in core areas such as payroll, HRIS, and benefits HR administration.

Some enterprise providers offer their clients screening services via partnerships with third-party screening companies who are experts in this field to avoid associated risks. Others offer screening as part of their recruiting solution. The cost of screening is sometimes absorbed by the provider, especially as security becomes more important to buyers. Providers are also offering improved tools such as web-based tools, customized screening solutions for each industry, and timely searches from government sources.



Not to be ignored is the mid-market. As more enterprise providers focus down stream, there is a growing interest in how HRO can better serve the middle market. ExcellerateHRO's vice president of strategy and growth, Michael Murphy, added, “There are great opportunities in the middle market, particularly for Tier 1 providers who bring to market a leveraged service delivery model. There is more room for process standardization and operational leverage as there is typically less complexity and uniqueness associated with smaller organizations. The question may be: can Tier 1 suppliers scale down and do so at a price point that's competitive and profitable.” HRO