Human Resources Outsourcing (HRO) Annual Report: March 2011 – Preview Deck

Topic: The Revival of Multi-process HRO Market (MPHRO)

ERI-2011-3-PD-0518

Background and scope of the research

Background of the research

After a dip in 2008 the multi-process HRO (MPHRO) market has gained significant momentum in 2010 through new deal signings and renewals. However, the average contract size and contract length of MPHRO deals continues to decrease. Given the cautious optimism prevalent in the market, buyers need to rigorously track the adoption trends, deals characteristics, service provider landscape and assess service provider capability along key dimensions such as scale, scope, technology capability, and global delivery footprint. There is stiff competition among several service providers in terms of market share. Everest updated its classification of 15+ MPHRO service providers on the Everest HRO PEAK Matrix (Performance | Experience | Ability | Knowledge). Everest has also identified five service providers as the "2010 MPHRO Market Star Performers".

In this research, we analyze the MPHRO market across various dimensions:

- Market size and buyer adoption
- Transaction characteristics
- Service provider landscape
- Everest outlook for 2011

The scope of analysis includes:

- All HRO contracts, signed as of November 2010, with a minimum of three HR functions and servicing more than 3,000 employees
- Global focus: North America, Europe, Asia Pacific, and Latin America
- All industries
- 15+ service providers that have signed at least one HRO transaction. Service providers covered include Accenture, ADP, Capita, Capgemini, Ceridian, Genpact , HCL, HP, Aon Hewitt, IBM, Infosys, Logica, Neeyamo, NorthgateArinso, TCS, Wipro, and Xchanging

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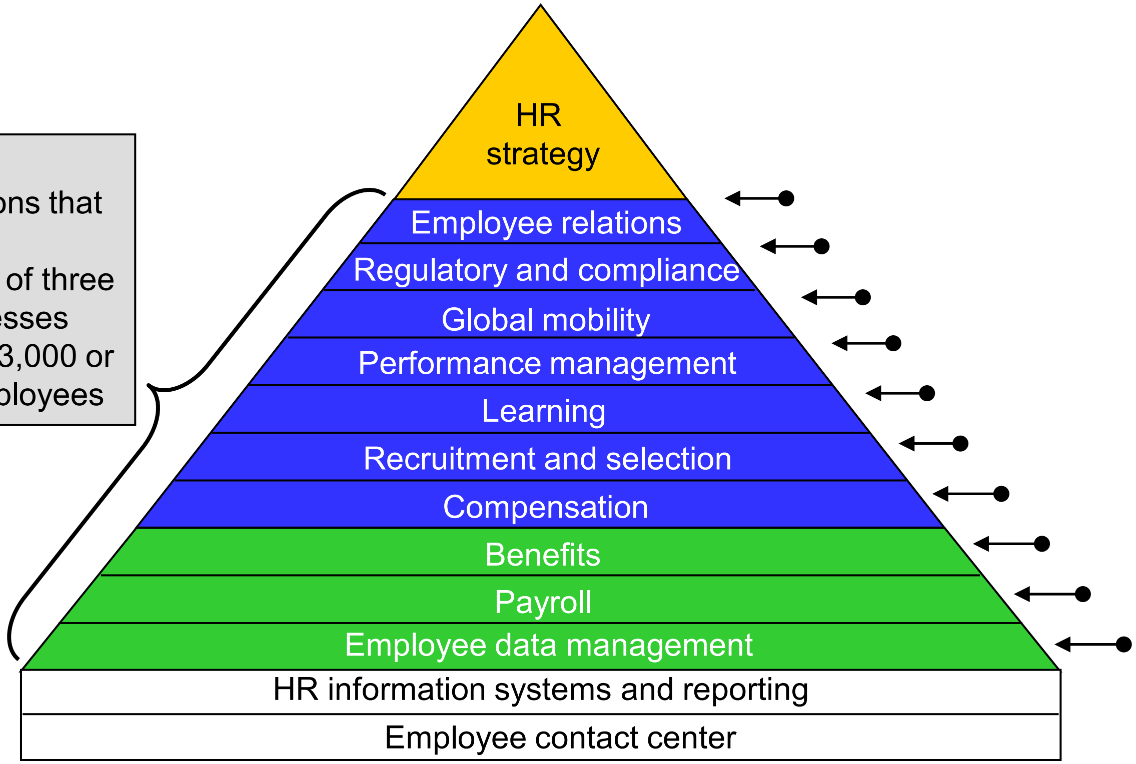
The Everest Research Institute separates multi-process HRO from single-process HRO (SPHRO)[1]

🟨 Strategy
🟦 Judgment-intensive
🟩 Transaction-intensive

MPHRO

- Covers transactions that include a minimum of three HR processes covering 3,000 or more employees



HR strategy
Employee relations
Regulatory and compliance
Global mobility
Performance management
Learning
Recruitment and selection
Compensation
Benefits
Payroll
Employee data management
HR information systems and reporting
Employee contact center

SPHRO

- Includes transactions that involve stand-alone, single-process outsourcing covering 3,000 or more employees
- Major SPHRO markets are:
  - Payroll outsourcing
  - Benefits outsourcing
  - Recruitment Process Outsourcing (RPO)
  - Learning Services Outsourcing (LSO)
  - Global mobility outsourcing

- This Everest study focuses on the MPHRO market
- The analysis includes all MPHRO deals signed as of November 2010

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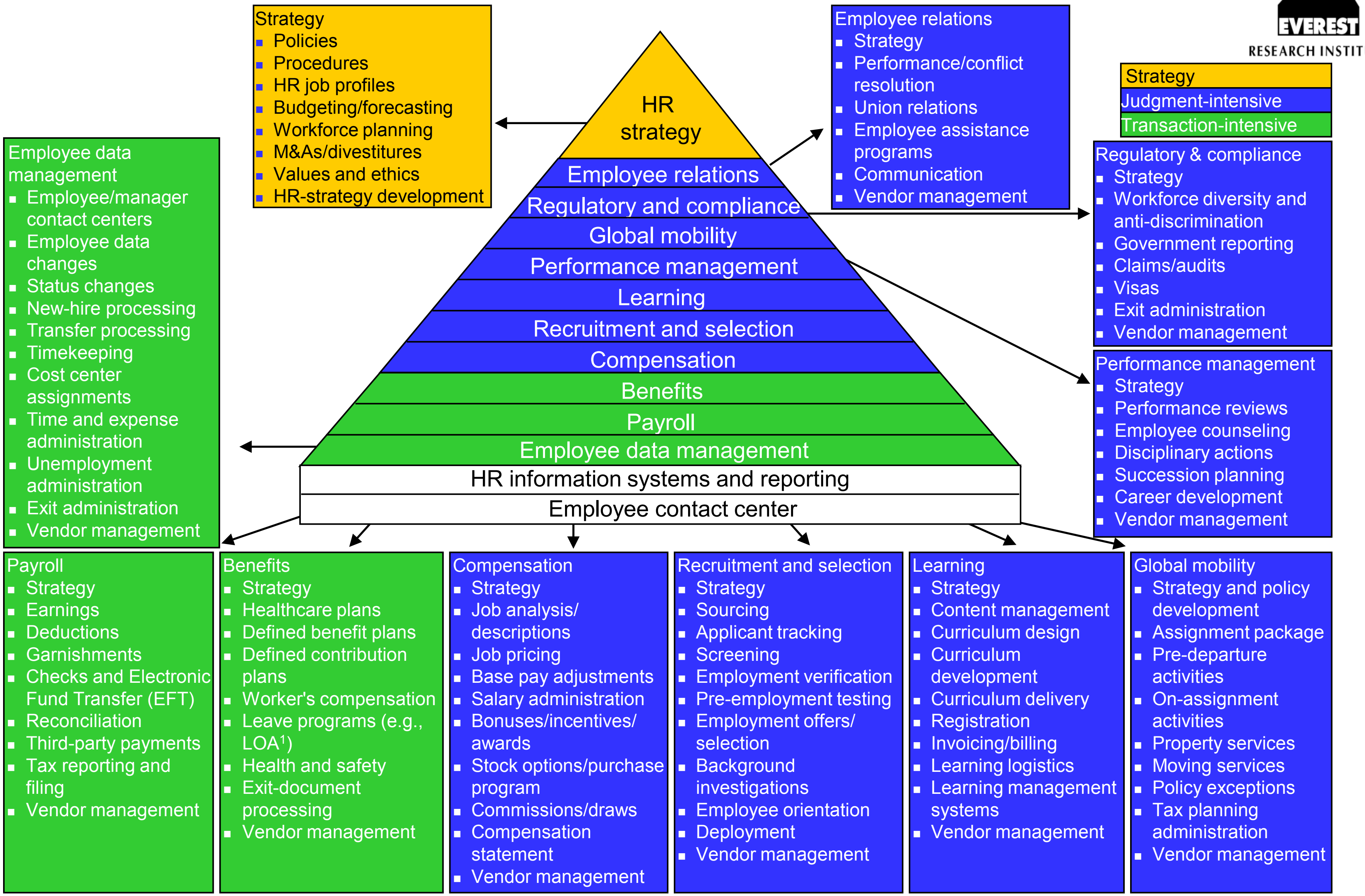
1 Defined in Appendix

Source: Everest Research Institute (2011)

MPHRO includes outsourcing of multiple HR functions



🟨 Strategy
🟦 Judgment-intensive
🟩 Transaction-intensive

HR strategy
Employee relations
Regulatory and compliance
Global mobility
Performance management
Learning
Recruitment and selection
Compensation
Benefits
Payroll
Employee data management
HR information systems and reporting
Employee contact center

Strategy
- Policies
- Procedures
- HR job profiles
- Budgeting/forecasting
- Workforce planning
- M&As/divestitures
- Values and ethics
- HR-strategy development

Employee relations
- Strategy
- Performance/conflict resolution
- Union relations
- Employee assistance programs
- Communication
- Vendor management

Regulatory & compliance
- Strategy
- Workforce diversity and anti-discrimination
- Government reporting
- Claims/audits
- Visas
- Exit administration
- Vendor management

Performance management
- Strategy
- Performance reviews
- Employee counseling
- Disciplinary actions
- Succession planning
- Career development
- Vendor management

Employee data management
- Employee/manager contact centers
- Employee data changes
- Status changes
- New-hire processing
- Transfer processing
- Timekeeping
- Cost center assignments
- Time and expense administration
- Unemployment administration
- Exit administration
- Vendor management

Payroll
- Strategy
- Earnings
- Deductions
- Garnishments
- Checks and Electronic Fund Transfer (EFT)
- Reconciliation
- Third-party payments
- Tax reporting and filing
- Vendor management

Benefits
- Strategy
- Healthcare plans
- Defined benefit plans
- Defined contribution plans
- Worker's compensation
- Leave programs (e.g., LOA[1])
- Health and safety
- Exit-document processing
- Vendor management

Compensation
- Strategy
- Job analysis/ descriptions
- Job pricing
- Base pay adjustments
- Salary administration
- Bonuses/incentives/ awards
- Stock options/purchase program
- Commissions/draws
- Compensation statement
- Vendor management

Recruitment and selection
- Strategy
- Sourcing
- Applicant tracking
- Screening
- Employment verification
- Pre-employment testing
- Employment offers/ selection
- Background investigations
- Employee orientation
- Deployment
- Vendor management

Learning
- Strategy
- Content management
- Curriculum design
- Curriculum development
- Curriculum delivery
- Registration
- Invoicing/billing
- Learning logistics
- Learning management systems
- Vendor management

Global mobility
- Strategy and policy development
- Assignment package
- Pre-departure activities
- On-assignment activities
- Property services
- Moving services
- Policy exceptions
- Tax planning administration
- Vendor management

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[1] Defined in Appendix

Source: Everest Research Institute (2011)

Overview and abbreviated summary of key messages
(page 1 of 2)

This report examines the changing dynamics of the global MPHRO market and the service provider landscape. It gives an overview of the market size, buyer adoption trends, transaction characteristics and the service providers, highlighting the key developments in 2010 and changing service provider dynamics. It also predicts the Everest outlook for the MPHRO market in 2011.

Some of the findings in this report, among others, are:

Market size and buyer adoption

- After dipping sharply in 2008, new deal activity is back in the MPHRO market. Overall, the MPHRO market reached US$3.07 billion in terms of ACV
- Cost reduction remains the top driver for MPHRO adoption. However others such as managing compliance, greater alignment between HR and business, and access to technology are increasingly becoming important
- The substantial drop in terminations coupled with a significant number of extensions point to the stabilization of the market and improved buyer satisfaction

Transaction characteristics

- With the increasing adoption of a componentized model, the average process scope in deals continued to reduce in 2010
- In spite of the decrease in process scope, the geographic scope of MPHRO deals is increasing
- While technology continues to play a significant role within MPHRO deals; inclusion of IT component (s) decreased in 2010
- The adoption of platform-based solution is on the rise
- The mid-market continues to be dominated by proprietary solutions. The large market, based on TCV, is led by PeopleSoft in 2009-10
- There is an increase in the usage of global sourcing in MPHRO deals. India continues to remain the most popular offshoring location

Overview and abbreviated summary of key messages
(page 2 of 2)

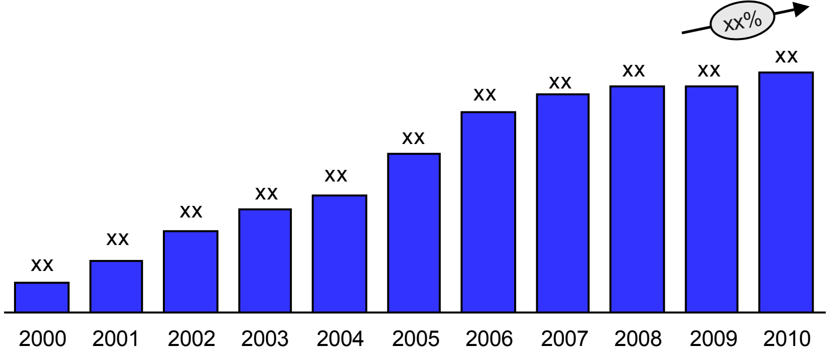
Service provider landscape

- MPHRO service providers can be divided into three categories; each with a different approach and value proposition
- The service provider landscape continues to evolve as a result of mergers and acquisitions
- There is stiff competition among several service providers in terms of market share
- Everest updated its classification of 15+ MPHRO service providers on the Everest HRO PEAK Matrix (Performance | Experience | Ability | Knowledge)
- Everest PEAK Matrix categorizes MPHRO service providers into leaders, major contenders, and emerging players based on their market success and overall RPO delivery capability
- Everest identified five service providers as the “2010 MPHRO Market Star Performers”. These five service providers were chosen based on the relative movement on the Everest PEAK Matrix from 2009 to 2010 out of 15+ MPHRO service providers
- Our assessment shows clear differences among service providers along the different dimensions of delivery capability assessment

This study offers three distinct chapters providing a deep dive into key aspects of the HRO service provider landscape; below are four charts to illustrate the depth of the report

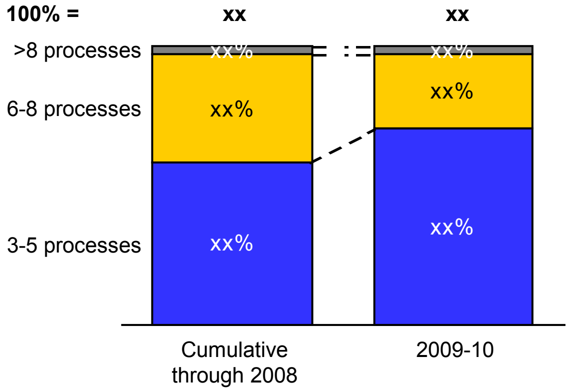
ACV growth

Annual Contract Value (ACV)
2000-2010; US$ billion



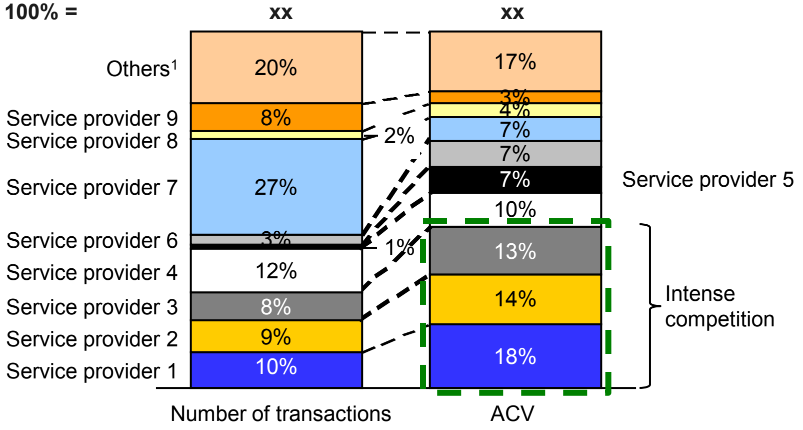
Average number of processes outsourced

Average number of processes outsourced in deals
Number of deals



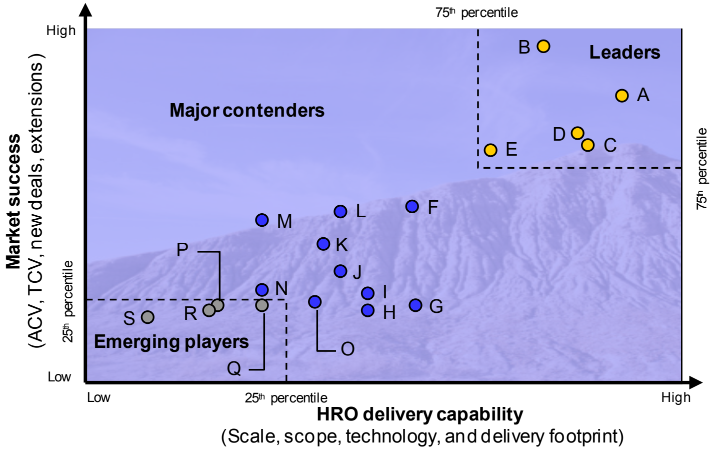
Service provider market share

Service provider share distribution
Number of transactions, ACV in US$ billion



Everest PEAK matrix

Everest Performance | Experience | Ability | Knowledge (PEAK) Matrix for MPHRO



Source: Everest Research Institute (2010)

Additional HRO research recommendations

The recommended documents either provide additional details on the topic or complementary content which may be of interest

1. **Global MPHRO Supplier Landscape;** (ERI-2010-3-R-0409); 2010. This research analyzes global 2009 MPHRO supplier landscape, investigates the emerging supplier trends, showcases the supplier shares in various market segments, assesses supplier delivery capability along key dimensions, and categorizes suppliers as leaders, major contenders, and emerging players
2. **Global HRO Supplier Landscape – Supplier Profile Compendium** (ERI-2009-3-R-0316); 2010. The compendium provides an accurate, comprehensive, fact-based snapshots of 15+ suppliers in the MPHRO market. Further, it also provides insights into the HRO supplier landscape and identifies key implications for buyers and suppliers
3. **Recruitment Process Outsourcing (RPO) Annual Report 2010 – "A Year of Rapid Growth and Intense Competition"** (ERI-2010-3-R-0487); 2010. This research report provides a comprehensive coverage of the 2010 RPO market and analyzes it across various dimensions such as market overview and key business drivers, buyer adoption trends, transaction characteristics, and supplier landscape. It also includes predictions for the 2011 RPO market.
4. **End-of-Term Market in HRO.** (ERI-2009-3-R-0366); 2009. This report examines the end-of-term market in HRO and provides insights, analyses and implications for stakeholders along four key dimensions: market overview, what has happened to date, upcoming end-of-term deal characteristics, and changing market dynamics and future outlook

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