



Topic: The BAO Market: Mature yet Dynamic

Benefits Administration Outsourcing (BAO)
Annual Report: September 2011 – Preview Deck

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Background and scope of the research

Background of the research

Benefits Administration Outsourcing is one of the largest and most mature markets in HRO. However, due to healthcare reform, rising benefits cost, the need to drive greater employee engagement in an uncertain economic environment, and service provider consolidation, this market continues to remain dynamic. Buyers are increasingly turning to outsourcing service providers, to help them navigate the complex legislations and compliance requirements in addition to achieving cost reductions. The rapidly changing service provider landscape, technology advancements, and global sourcing are making both new and existing buyers look at their options afresh. On the other hand, solutions that meet buyers' current and future needs and are differentiated offerings in hyper-competitive environment, are key contributors to the service providers' success

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

- Market overview and key business drivers
- Buyer adoption trends
- Current transaction characteristics
- Service provider landscape
- Implications for buyers and service providers

The scope of analysis includes

- All BAO contracts where at least one of the following core-benefits areas is included – Health and Welfare (H&W), Defined Benefits (DB), and Defined Contribution (DC)
- Deal length is atleast two years
- The buyer employee size is 3,000 or more
- Service providers that offer benefits as a stand-alone outsourcing service

Overview and abbreviated summary of key messages

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Market overview and key business drivers

- We define BAO as transfer of ownership of at least one core-benefits area on an on-going basis. Core-benefits areas of BAO are H&W, DB, and DC
- Third-party BAO is one of the most mature markets among others in HRO and represents a US\$20 to 22 billion opportunity
- In 2011, the global BAO market witnessed a healthy growth of 12.5 percent to reach US\$5.4 billion in annualized revenue
- Internal requirements coupled with broader changes in the market (such as the U.S. healthcare reform, increased compliance requirements, etc.) are driving buyers to seek the help of BAO service providers

Buyer adoption trends

- Notwithstanding the North America dominance, BAO adoption in Europe is on the rise
- Almost all buyers adopted BAO on a single-country basis during 2010-2011
- Manufacturing continues to be at the forefront of BAO adoption. The share of financial services decreased and was outpaced by healthcare/pharma
- Large market witnessed increased BAO adoption during 2010-2011

Overview and abbreviated summary of key messages

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Current transaction characteristics

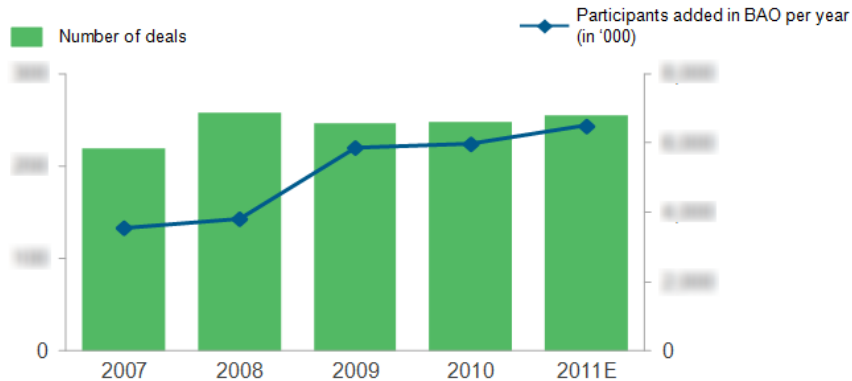
- Buyers' preference towards a phased adoption approach led to the decline in average deal size in 2010-2011
- To date, DC is most commonly outsourced. However, in the wake of recent healthcare reform, H&W is most frequently included in recent deals
- Global sourcing leverage increased in 2010-2011 with more complex work moving to low cost locations
- Technology innovation increased the value proposition of BAO

Service provider landscape

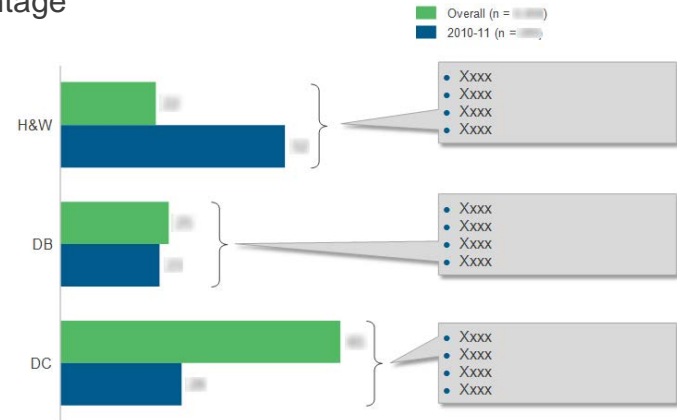
- The BAO service provider landscape continues to consolidate as a result of significant mergers and acquisitions
- Overall, Aon Hewitt and Fidelity lead the market in terms of market share. However, the service provider landscape is intensely competitive with several providers building capabilities through organic and inorganic means
- Services providers in the BAO space have created their area of specialization by either focusing on geography or process scope

This study offers a deep dive into key aspects of the BAO market

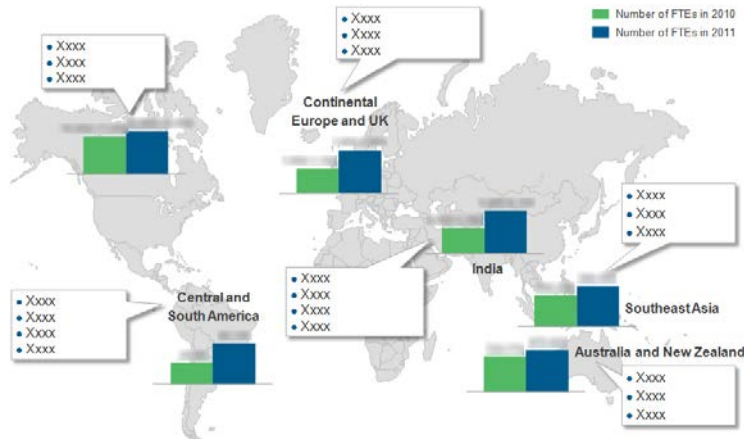
BAO market snapshot over time



Frequency of inclusion of core BAO areas Percentage

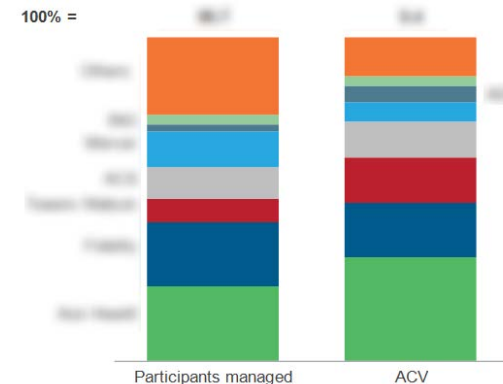


Delivery locations landscape for BAO market



Share of service providers in BAO market¹

Number of participants managed (million), ACV (US\$ billion)



Source: Everest Group (2011)

Additional HRO research recommendations

The following documents are recommended for additional insight into the topic covered in this research report. The recommended documents either provide additional details on the topic or complementary content that may be of interest

1. **HRO Annual Report 2011 – The Revival of Multi-process HRO Market** ([ERI-2011-3-R-0518](#)); 2011. This research study analyses the MPHRO market across various dimensions: market size and buyer adoption, current transaction characteristics, service provider landscape, and also presents Everest Group's outlook for 2011
2. **Global Sourcing In BAO – Looking Beyond the Obvious** ([ERI-2011-3-V-0536](#)); 2011. This document highlights global sourcing concentration risks and suggests ways to mitigate them
3. **Benefits Administration Outsourcing (BAO) – Resilient Demand, Dynamic Service Provider Landscape** ([ERI-2010-3-R-0446](#)); 2010. This research report provides a comprehensive coverage of the BAO market and analyzes it across various dimensions such as market overview and key business drivers, buyer adoption trends, transaction characteristics, and service provider landscape. It also identifies key implications of the research findings for buyers as well as service providers
4. **Benefits Administration Outsourcing (BAO) Service Provider Profile Compendium** ([ERI-2010-3-R-0453](#)); 2010. The report provides accurate, comprehensive, and fact-based snapshot of 10 leading BAO service providers. Each profile highlights service provider's delivery capability, market strategy, key organizational developments, and delivery footprint

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