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Inside Outsourcing™



Inside with: Kevin Campbell, Market Strategy and Development Leader Hewitt's HR outsourcing business

Special points of interest:

Larry Janis' interview
with:

Kevin Campbell
Hewitt



PWC and Outsourcing
Offshore grows

From the Editor.

Welcome to our current
issue!

Inside Outsourcing's goal
is to provide you with arti-
cles of interest and with a
forum for the exchange of
information in this rapidly
evolving industry.

Hewitt Associates, Inc. is a global provider of human resources outsourcing and consulting services. The Company's outsourcing business is comprised of three core benefits administration services, new payroll administration service and workforce management solution. In this segment, Hewitt applies its human resources expertise and employ its integrated technology systems to administer its clients' human resources programs: benefits, payroll and workforce management. Through its consulting business, Hewitt provides an array of consulting and actuarial services covering the design, implementation, communication and operation of health and welfare, compensation and retirement plans and broader human resources programs and processes. In addition, the Company uses the information and data it collects and analyzes through its outsourcing services to develop consulting approaches that are effective and provide value to its clients.

LJ: What are the most common misconceptions regarding BPO?

KC: There are a number of misconceptions that can make a difference in how successful you are in outsourcing.

Misconception: You have to make sure your processes are clean before you outsource.

Truth: A strong outsourcing partner takes an end-to-end view of processes starting with the client, and can be a catalyst to streamline and improve your processes. Rely on their expertise to simplify your life.

Misconception: It's all about technology.

Truth: It's never all about technology when you deal with processes that touch people. It is important to consider operating scale, innovation and tool kits that are intuitive for your employees to use.

Misconception: Outsourcing reduces flexibility.

Truth: Outsourcing actually increases flexibility when it comes to the key areas of your business where HR can make a difference -- acquisitions, divestitures, and implementing new programs.

Misconception: Six sigma quality improvement programs only applies to manufacturing.

Truth: Six Sigma is a great tool to use in delivering BPO services because it gives you the metrics you need to make decisions based on facts.

Misconception: Combining IT, F&A, HR and Procurement provides greater savings.

Truth: There are no current examples where this has proven to be true. Perhaps as the market matures it will happen, but today the trade-offs in terms of effectiveness and efficiency drive clients to best of breed across these areas.



Inside with: Kevin Campbell, Market Strategy and Development Leader Hewitt's HR outsourcing business

LJ: What is your view of the competitive landscape in the HR BPO Outsourcing space?

KC: I remember when the pundits all said HR BPO was a fad and it would never last, so I get a chuckle out of all the providers in this space and the number of analysts that now predict HR to be the largest BPO market.

I think we see three types of providers:

- The IT outsourcers who are moving quickly into HR BPO to help protect and improve their margins.
- The single service providers who are moving up market and attempting to broaden their services

The pure play organizations that specialize in HR

This is the most competitive market I've seen in the last five years, but I think we will see a wave of consolidation of providers and providers who will drop out of the market because it is too hard or they can't remain competitive.



LJ: What are the changes taking place in HR BPO strategy and how do you see this evolving in the future?

KC: Clients are really understanding the advantages of HR transaction outsourcing. The focus is now turning to how to use this new capability to more effectively respond to business priorities. Clients are also looking for help in addressing not only HR cost, but the total employee cost including benefits, the effect of different sourcing alternatives for labor, broader talent acquisition and retention.

LJ: How does the Hewitt/Exult merger reflect the changes in the market space?

KC: First, it clearly establishes the new Hewitt as the provider with the largest market share, with almost three times the market share of the next provider. Everest points out that the new Hewitt will have 35 percent market share in the industry and Gildner puts us at around 34 percent.

Hewitt

Second, the combined capability makes the new Hewitt the team to beat in this market. I understand that many of our competitors are re-evaluating their strategy in response to our announced merger.

LJ: What are the advantages of the merger to current and perspective clients?

KC: For the first time, you have the clear leader in HRO and the clear leader in benefits for the Fortune 500 joining to deliver an unprecedented end-to-end capability. Regardless of their HR issue, we have the expertise to help. It also means you have a projected \$3 billion firm that focuses almost exclusively in HR, and this single-minded focus means better solutions, today, tomorrow and for years to come.

LJ: Besides labor arbitrage, what are some of the advantages of have a presence in India?

KC: We have experienced a number of advantages, including improved quality; improved ability to scale due to the availability of smart, well educated people; and improved innovation. We are very pleased with the results of expanding our global footprint into this part of the world.



PwC: Firms see mixed results in outsourcing

By Dinesh C. Sharma

http://news.com.com/PwC+Firms+see+mixed+results+in+outsourcing/2100-1014_3-5430548.html

Story last modified October 28, 2004, 8:55 AM PDT

A survey of U.S. and European companies has found that less than half consider outsourcing financial functions to be cost-effective.

About 44 percent of companies that have outsourced financial functions say they have saved a moderate amount, according to a new study from PricewaterhouseCoopers. Another 3 percent say they have saved a great deal.

However, 31 percent of the companies see limited or very little financial benefit to outsourcing; 9 percent believe they are breaking even; and 4 percent say they are losing money.

About 77 percent of U.S. companies say they have outsourced financial functions in the past two years, the survey said, while 72 percent of their European counterparts have done so.

While companies are finding mixed financial benefits to the practice, they're still interested in outsourcing, the study found.

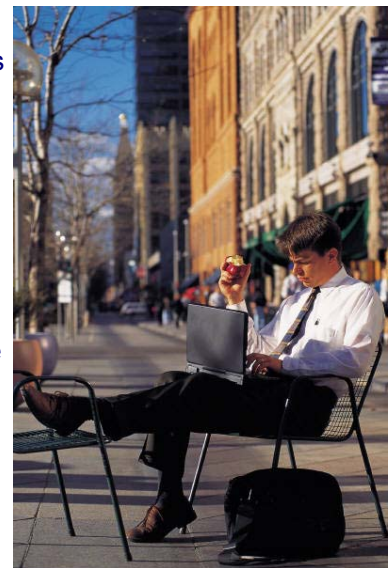
Nearly 75 percent of American and European corporations that use outsourcing to support their financial functions will continue to do so over the next two years, according to the survey. About 29 percent of these companies expect to increase their use of outsourcing of financial functions, with spending likely to be 16 percent higher than present levels, the survey found.

A PwC representative said the disconnect between the outsourcing push and the financial results is mostly due to lack of planning on the companies' part.

"Many multinational companies that outsource financial functions do not find it to be cost-effective," Dan DiFilippo, performance improvement analyst at PwC, said in a statement. "Companies that turn to outsourcing for cost savings should conduct comprehensive feasibility studies to better understand their potential return on investment. Many companies enter outsourcing arrangements without conducting a proper cost-benefit analysis."

The study, done in the third quarter, is based on interviews with 127 chief financial officers and managing directors of European companies and 151 of such executives at U.S. companies.

The study also reported that companies face difficulties in calculating return on investment. A majority of those with difficulty estimating their return said they would have benefited from monitoring process improvement or conducting an initial feasibility study with a cost-benefit analysis.





Integrated Search Solutions Group

We are a retainer-based executive search firm that has a global presence with specific expertise in outsourcing. We have been involved in outsourcing as a discipline for over seven years. Our experience includes Information Technology, Business Process (Human Resources, Finance & Accounting, and Marketing), and Telecommunications.

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Offshore Outsourcing Poised For Double-Digit Growth

Offshore outsourcing will continue to grow nearly 20 percent annually through 2008, despite the less-than-favorable light in which it is held in some political quarters, Meta Group predicts. "We haven't found any slow-down in firms looking to move work offshore," says Meta's Stan LePeak.

The offshore outsourcing market will continue to grow nearly 20 percent annually through 2008, despite the less-than-favorable light in which it is held in some political quarters, Meta group predicts.

By 2005 to 2006, most I.T. organizations will have an "offshore" strategy, according to Meta's latest report on the offshore-outsourcing market. And by 2009, the average enterprise will outsource 60 percent of application work offshore, the firm predicts.

The prime reason for offshoring is cost reduction -- a motive often highlighted by opponents of the practice, who fear an erosion of U.S. wages and jobs. Meta found that application development and maintenance constitutes approximately 30 percent of spending for the average I.T. organization. Sending work offshore reduces that expense by 30 percent. Firms need to look beyond cost factors, though, when contemplating an offshoring decision. In fact, the risk/reward ratio of offshoring can be more complex than many realize, LePeak says.

"It is never a case of "adding one India job equals losing one U.S. job,"" he says. "For example, companies need to hire more people locally to manage the offshore work."

The same is true for the ROI case: Offshoring certain activities may well reduce expenses, but it also introduces additional risks and rewards.

Several offshore-outsourcing vendors now exceed US\$1 billion in annual revenue, Meta reports, and the total market is greater than \$10 billion. Application development and maintenance is the market's immediate growth area. The market for packaged-application services to augment vendor skills is growing 30-40 percent on a smaller base. In addition to restructuring around vertical-market offerings, vendors are developing consulting and strategy services and infrastructure and application services.



"One who gains strength by overcoming obstacles possesses the only strength which can overcome adversity"

Albert Schweitzer