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Inside Outsourcing™



Inside with: David Karabinos, Founder and COO EquaTerra

Special points of interest:

Larry Janis' interview
with:

David Karabinos
EquaTerra

Outsourcing HR

EquaTerra is uniquely defined by our ability to reduce our clients' G&A cost structure by hundreds of millions of dollars . . . while helping them attain world class operating levels. We show clients how to transfer their capital investments in HR, F&A, Procurement & IT - so that leading BPO providers make these investments instead. Not commodity outsourcing transactions, but value creating relationships. Our depth of BPO, G&A and Relationship Management knowledge is unmatched. Our advisors have led business functions such as HR, F&A, Procurement and IT. They have also worked for leading BPO providers. They have represented a multitude of BPO buyers. Our knowledge transfer to clients is unrivaled and our staff ratio is one EquaTerra advisor to 5-10 client team members. You retain the knowledge.

LJ: What is your view of the future of BPO?

DK: We are seeing a significant and growing number of companies considering some form of business process outsourcing. Our primary focus is on assisting companies in evaluating complex internal services such as human resources, finance and accounting and procurement. Each of these processes is typically supported by some sort of technology, has cross-enterprise impact and has less than optimal cost structure. We find that our clients are looking for the ideal service delivery model for these processes – regardless of whether they eventually outsource.

IT is a business process. As such, it is obviously the most mature and has gained acceptance. As single functions to be considered for outsourcing, HR and F&A are next in line. We are seeing increased assessment and discovery activity for Procurement.

Leading companies in certain industries like Energy and Financial Services are looking more and more to take several functions to market at one time. This approach is unproven and won't work for everyone, but it has some significant merits and benefits for both the buyer and provider.

From the Editor.

Welcome to our current
issue!

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



Inside with: David Karabinos, Founder and COO

EquaTerra

LJ: What do you think the impact of the merger/acquisition of Hewitt and Exult might be on the HR BPO industry?

DK: We have seen Hewitt many times since the merger and continue to receive primarily positive feedback from our clients. The collective strengths of the merged organizations are that Exult provides a strong HRO service offering while Hewitt delivers strategic and consulting expertise, especially in benefits administration. We expect this organization to continue to gain momentum in the marketplace

We anticipate movement of some kind with the providers that have only one to two comprehensive HRO deals. There are several companies in the market that secured their first broad HRO transaction and have not been able to convert that into follow on work. We perceive they will need to monetize these assets in the coming year and will likely look at alternatives. Possibilities include M&A, acquisition or sale of the contracts, divestures, etc.



LJ: Are your clients' expectations on the advantages/expectations of BPO changing?

DK: It appears our clients are more focused on investing limited resources into their core business; the areas of greatest return. We help them draw imaginary lines throughout their support processes and develop strategies at the sub-process (even task) level. While they may have limitations on the investments that can be made in these internal support processes, they certainly expect the providers to make significant investments.

The expectations of the providers seem to increase as the market matures. Our clients expect the provider to use a combination of labor arbitrage and technology to support their business transformation goals and growing need for integration, self-service and outsourcing governance. Our clients want access to web-based tools and technologies, functionality they might not be able to build or buy on their own.

LJ: What are the most common misconceptions regarding BPO?

MS: The educated buyer of BPO services understands that the long term success of working with a partner is the ability to get increased value from that partner over the life of a BPO contract. Often a customer focuses on the immediate savings that can be contracted for and not on the long term benefit.

The ultimate success in an F&A BPO arrangement is creating business value in addition to the value created by labor arbitrage. A company, when it selects the right business partner, can take advantage of economies of scale, economies of place and economies of technology to create value for itself through the right BPO business arrangement.

LJ: How sustainable are the benefits of offshoring once the labor arbitrage starts to shrink?

DK: I love this term "labor arbitrage" everyone seems to be using these days. By definition arbitrage means taking advantage of the price difference of a commodity between two or more markets. That is certainly the case today with complex services, not just manufacturing, being supplied from a much more globalized economy with many interdependent markets. (continued on next page)



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But the question implies that all markets will find price equilibrium when that is not likely to happen. What will happen is that every market, whether it is the U.S., India, Slovakia, Russia or China, will continue to look for cheaper markets to acquire goods and services to remain competitive.

As the world becomes more global and trade agreements more equitable, wages will rise and the developing world will become more developed. As this process occurs, the once "low cost" countries will have a need to shift their high cost, transactional work into lower cost areas. It's already beginning to happen in India as they are beginning to outsource to China and other parts of Asia where cost is lower and talent is more readily available. Cost reduction, access to talent, productivity improvement and risk mitigation are the strategic drivers behind globalization. Labor arbitrage is an important element.

However, when prices between two markets do shrink, we are beginning to see our clients make choices based on non-price sensitive reasons such as talent, security and physical proximity to where the services are consumed. Take Boeing and its entry into Russia as an example. They have been able to access and hire some of the worlds most experienced and sophisticated engineers for a fraction of the cost in the US. The cost difference is shrinking but even so the access to talent is a critical factor to remain competitive.

How long will these benefits last? As long as the developing world is developing, and to the extent that new players become able to add value to the global economy, benefits will last.

LJ: As an advisory firm, what are your top three goals for a client?

DK: Our primary goals are to support our clients in reaching their long-term financial, operational and service quality objectives. We are agnostic as to whether the company accomplishes these goals through their internal, shared-service organization or an outsourcing provider. After we understand their desired future state, and help them work through the risk factors, the available resources and change management needed for each scenario, we guide our clients down the appropriate path to reach their goals.



LJ: What makes EquaTerra different from the other third party advisory firms?

DK: It's all about future state. Enabling our client's SG&A future state objectives throughout their journey is what makes EquaTerra different. For example, we are not just deal guys focused on doing transactions where contract size, deal tracking or 'declaring victory' at the contract signing is the end-game. We are not strategy consultants who can't or won't operational their recommendations.

Rather, our services are broader than our point solution competitors. They span the journey our clients go through to transform and implement their future state. So that means our people, our content, our methods, and most importantly, our approach to help buyers and providers develop lasting relationships are all different.

I would argue that we win most of our engagements due to our people. They have the SG&A functional and industry depth across our services lines of Knowledge, Strategy, Insource/Outsource and Relationship Management. Sprinkle in our offshore and change management practices and you have quite a team to work with to get to future state.



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Outsource HR, Save Money by Demir Barlas, Line56

The human resources (HR) function, while a central part of the enterprise, is also a cost center whose outsourcing can bring benefits that scale with the size of a company, notes new research from Yankee Group.

The research advances the case for HR business process outsourcing (BPO), which can be broken up into three parts: volume processing services (think payroll, benefits, recruitment, training, etc.), consulting services (including HR transformation, compliance, and expertise management), and BPO services (which incorporates much of the first two functions while adding business process transformation, employee portal management, and other higher value-added services).

Volume processing is the most popular segment of HR BPO, simply because it is the easiest. Engaging in consulting and services requires finding a partner who can both understand and transform your enterprise's HR complexity, which is a harder proposition than finding someone to handle the simpler issues around volume processing.

However, tacking HR BPO at the highest level provides unmistakable rewards, with Yankee Group analyst Phil Fersht noting that an enterprise with 20,000 employees could save \$1 billion. This figure derives from a model in which an HR BPO partner could reduce workforce costs by 15 percent and increase revenue by 5 percent, and it scales by company size.

It's this kind of proposition that is driving a lot of business for HR BPO pure-plays like Hewitt and Aon as well as for larger outsourcing companies like IBM and Accenture.

Of course, the more complex your existing HR processes, the more you stand to save; an enterprise lucky enough to have an extremely efficient and dialed in HR organization would save less, although it could still save something in the realm of volume processing.



“We make a living by what we get, we make a life by what we give.”

Sir Winston Churchill
