

## HRO and the Economy

# In Times of Crises, Assurances Voiced by Industry Leaders

HOW CAN OUTSOURCING HELP COMPANIES COPE WITH THE CURRENT ECONOMIC DILEMMA? THESE LEADING VOICES EXPLAIN HOW HRO CAN ELEVATE HR'S ROLE WITH THE BUSINESS.



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*I*t dominates our thoughts as a nation. We stay up nights fretting about it. Fears over its decline has many organizations paralyzed in their planning. If the economy continues to spiral downward, there's no telling what will happen through the end of the year.

While some things in this economic climate are out of our control, others are not. For instance, raising productivity while slashing costs within the HR organization is a very achievable goal, even when resources are limited. Just ask any HR executive who has implemented outsourcing—whether multi-process or point solution—in his or her organization. In fact, many industry observers point out that distressed organizations are taking a closer look at HRO these days as a way to reduce capital expenditures, change fixed costs to variable ones, and still deliver excellent service to employees. In fact, the value proposition of HRO in this climate seems more appealing than it has ever been.

But don't take our word for it. We've invited seven industry veterans—a buyer, three providers, two private equity partners, and an analyst—to explain why HRO in all of its forms is a good initiative to consider these days. Each of them has been involved with the industry since its early days, and they've explained in their own words how outsourcing remains a worthy effort that can bring practitioners significant returns. Our pundits include Phil Fersht of AMR Research; Peter Hart of Rideau; Scott Lacy of International Paper; Kay Mason of NorthgateArinso; Jeff Miller of Mercer; and Nick Nash and Jimmy Franzone of General Atlantic.

Winning buy-in for an HRO initiative is never easy because it affects all stakeholders, from the rank and file to the C-suite folks. Ensuring change management adequately addresses the transition is no small task, and governance requires input from various quarters. Still, HR leaders, if they were ever to get a seat at the table, need to take bold steps to demonstrate their value to the organization, and according to our roundtable of HRO experts, outsourcing is the low-risk way to achieve such a goal. Read on to find out how.

—HRO Today Editors

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# Crisis-created Opportunities Abound for the HRO Industry



**Jimmy Franzone** is vice president with General Atlantic, one of the leading private equity funds specializing in the BPO sector.



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Against the backdrop of the highest unemployment rates in a generation and the worst one-year decline in the Dow Jones since the Great Depression, it's only natural to be cautious about the outlook for the HRO market. But, looking forward, we see more opportunities than challenges, especially for innovative clients and creative vendors who work hand-in-hand to realize the value of HRO. Quite simply, there's a very real possibility that the next 10 years will be HRO's golden decade.

Why? Let's focus on the bigger picture: Yes, the economy is tough, but like all cycles, this recession will eventually end, and long-term growth will return. What won't end as quickly, though, is an unavoidable decline in the size of America's mid-career workforce, the experienced individuals between the ages of 35 and 54.

On average, since 1950, we've added about nine million new individuals to this age group every 10 years. It's not too much of a stretch to say that our economy is based on the assumption that this number will keep growing, which makes the decade ahead of us all the more startling. For the first time in our history, this number will decline over a sustained period of time: a fall of almost two million from 2008 to 2018 before it starts to rise again.

This combination of economic growth and demographic stagnation means one thing: a war for talent, with HR as its generals. It's inevitable that there will be winners and losers, and the winners will be companies that focus on what's core—creating an optimal environment to attract and retain talented people. We've long talked

about HR as being strategic; now, more than ever, strategy will matter. Just about everything else—whether running payroll, workforce administration, or HRIT—will be increasingly viewed as non-core, ideally provided by specialists with economic scale and high-throughput technology.

That's the big picture. But what about the next 12 months? Does HRO matter in a downturn? We think it does. Three points bear mentioning.

First, despite the well documented growing pains of multi-process HRO's first decade, at the end of the day most customers are getting a decent level of service relative to what they had before. As reported in the June 2008 issue of *HRO Today*, 87 percent of buyers thought their outsourcing partners either maintained or improved service levels. Almost three-quarters of customers were "very satisfied" with their provider. And, importantly, few customers are voting with their feet, as evidenced by AMR's findings last year that only three percent of large HRO deals had reverted to in-sourcing. It's not perfect yet, but enterprise HRO is working.

Second, the fundamental economics of outsourcing—turning fixed costs into variable and turning capital expenditure into operating expenditure—take on heightened importance in a recession. Too important ever to be a hackneyed phrase, cash is king. Why invest millions in a new HRIT system and raise corporate overhead allocations to stay competitive when a third-party provider can share costs across multiple clients? The promises of 40-percent savings in HRO's early days proved illusory (and unprofitable), but on the margin, outsourcing helps lower costs and frees up capital.

Third, while many over-levered *Fortune* 500 firms are stumbling, many nimble mid-sized firms are taking advantage of the opportunity to take share from their larger rivals. It's in the mid-market—not just companies with fewer than 15,000 employees but even those with fewer than 2,000 employees—where the value proposition of HRO really shines. In many ways, the end-to-end offering of a TriNet or Administaff is a glimpse of what bulge-bracket HRO will eventually become: a highly software-enabled, more standardized offering that maximizes self-service interactions and economies of scale. Keep an eye on these firms; with strong cash flows and management teams, they'll be increasingly important competitors going forward.

It's prudent to be cautious in a tough environment, but it's also times like these that bring out the best in entrepreneurs and encourage buyers to address their needs in creative ways. GE, HP, FedEx, and Microsoft were all started during or close to a recession, and all found a way to thrive. We're looking forward to meeting the next generation of HRO firms that will help us manage through this one. ■

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