EXCERPT

IDC MarketScape: Worldwide HR BPO 2009 Vendor Analysis (Excerpt from IDC #221082)

Lisa Rowan

IN THIS EXCERPT

The content for this excerpt was taken directly from the IDC Competitive Analysis, IDC MarketScape: Worldwide HR BPO 2009 Vendor Analysis, by Lisa Rowan (Doc #221082). All or part of the following sections are included in this excerpt: IDC Opinion, In This Study, Methodology, Situation Overview, Future Outlook, Essential Guidance, and Synopsis. Also included is Table 3 and Figures 1 & 2.

IDC OPINION

This IDC study represents a vendor assessment of the comprehensive human resource business process outsourcing (HR BPO) market through the IDC MarketScape model. This assessment discusses both quantitative and qualitative characteristics that explain success in this market. This MarketScape covers a variety of vendors participating in the HR BPO market. The evaluation is based on a comprehensive and rigorous framework that assesses vendors relative to the criteria and one another and highlights the factors expected to be the most influential for success in the market in both the short and the long term. Key findings include:

- Universal strengths across the spectrum of providers include the breadth and depth of services portfolios, the ability to offer cost savings to buyers, and customer retention.

- Opportunities for improvement include beefing up subject-matter expertise and consulting for some vendors, improving the scalability of services to increase financial viability, and bringing more innovation to the marketplace.

- Some service providers are exploring what is being dubbed as hybrid services. With hybrid services, the buyer and provider can decide what is on premise, what is hosted or SaaS, what services are retained, and what is fully outsourced.

- With few exceptions, there isn't much planned in terms of new service offerings. While it is true that the majority of portfolios are broad and deep, there is always room for innovation. As examples, workforce analytics and workforce planning are areas that buyers seem to have difficulty forging on their own. A winning strategy might include offering such differentiation.
IN THIS STUDY

This IDC study represents a vendor assessment of the comprehensive human resource business process outsourcing market through the IDC MarketScape model. This assessment discusses both quantitative and qualitative characteristics that explain success in this market.

This MarketScape covers a variety of vendors participating in the HR BPO market. With a focus on the market in the United States, the evaluation is based on a comprehensive and rigorous framework that assesses vendors relative to the criteria and one another and highlights the factors expected to be the most influential for success in the market in both the short and the long term.

This study is composed of two sections: The first part involves a definition of the characteristics that IDC believes lead to success in the HR BPO market. These characteristics are based on buyer and vendor surveys and key analyst observations of best practices. The second part of this study provides a visual presentation of multiple vendors into a single bubble-chart format. This display concisely exhibits the observed and quantified scores of the reviewed vendors.

The document concludes with IDC’s essential guidance to support continued growth and improvement of these vendors’ offerings.

This MarketScape replaces and is in lieu of the competitive landscape for the HR BPO market published in prior years (see Worldwide HR BPO 2008 Vendor Analysis, IDC #215787, December 2008).

Methodology

IDC MarketScape criteria selection, weightings, and vendor scores represent well-researched IDC judgment about the market and specific vendors. IDC analysts tailor the range of standard characteristics by which vendors are measured through structured discussions, surveys, and interviews with market leaders, participants and end users. Market weightings are based on user interviews, buyer surveys and the input of a review board of IDC experts in each market. IDC analysts base individual vendor scores, and ultimately vendor positions on the IDC MarketScape, on detailed surveys and interviews with the vendors, publicly available information and end-user experiences in an effort to provide an accurate and consistent assessment of each vendor’s characteristics, behavior and capability.

Definitions

Distinguishing Between Business Process Outsourcing and Processing Services

Although many BPO service providers use the terms BPO and processing services interchangeably, there is a key distinction: In the case of BPO, the engagement incorporates services that focus on better aligning the operational aspects of the business function with the overall business needs of the client company. These services are delivered during the initial design and implementation of the solution as...
well as on a continuous and ongoing process improvement basis. Services such as business consulting, IT consulting, systems integration (SI), application outsourcing (AO), training and education, and change management are typically involved in BPO engagements to a much greater degree than has been the case with more traditional processing service engagements.

An additional point is that many BPO engagements may contain elements of processing services. In fact, we see a growing trend in which processing services are being incorporated within the scope of BPO engagements and not engaged on a discrete basis.

This study focuses exclusively on multifunctional HR BPO, in which more than one major HR process is being outsourced as part of the BPO engagement as defined previously. Examples of major processes include:

- Payroll administration, compensation planning, and payroll call center
- Benefits administration and planning, both those related to health and welfare and those related to retirement, and benefits call center
- Recruitment management wherein the provider is actually acting in a recruiting capacity for the client, not just managing ATS technology
- Learning management wherein the provider is doing more than managing LMS technology
- Workforce performance management for which the provider is adding value beyond managing technology

Overall HR administration and record keeping are considered to be included in the above list.

**SITUATION OVERVIEW**

The market for comprehensive HR BPO services has both matured and slowed in 2009, with many fewer deals struck than in previous years (see Figure 1). The reasons for the decline are numerous, with weakened economic conditions chief among them. The pace of business over the past 12–18 months has led buyers to be slow to act, but there are signs that the pace is picking up especially with midsize buyers. In addition to economic woes, buyers have been reticent to make major changes, such as outsourcing portions of the HR function, because of the perception that some of the large deals struck have not met the desired expectations. Notable deals in late 2008 and early 2009 include IBM's very large end-to-end deal with Kraft Foods; NorthgateArinso's signing of Invensys, one of its first adopters of the SAP-based euHReka platform; and the renewal of Texas Health and Human Services with Convergys.

We may not again see the volume of headline-making billion dollar deals that were struck in 2005 through 2007, but there will be a few of that caliber with more lower profile deals in the midmarket. IDC has lowered its market growth expectations in the wake of a decline in new deal activity, and the five-year CAGR through 2013 now stands at 5.7% for the United States, which is considerably lower than prior forecasts.
Overview of the Market: Bifurcation in Platform

It seems that for as long as we've been talking about HR BPO, we have been talking about platforms. Early on in the market's history, providers just assumed responsibility for the buyer's HR systems in place along with staff in what was called lift-and-shift. Exceptions to this always existed for those providers with proprietary platforms such as Automatic Data Processing (ADP) and Ceridian, but these solutions seemed best suited to those buyers in the midmarket that may not have sophisticated ERP or HRIS usage in place.

Lift-and-shift was followed by transform-then-transition for the large market, where rather than assuming responsibility immediately for the HR IT solution in place, the provider would work with the buyer to rationalize processes and help center them on best practices. This takes time and is often done on a region-by-region basis — some HR BPO contracts are still going through this. But in the end, the provider still has a unique implementation for every customer no matter how rationalized.

Hybrid Models and Software as a Service

Human resources provisioning exists on a continuum, where at one end of the continuum software is acquired through traditional on-premise licensing and is managed fully in-house as are the many HR administrative functions. At the other end of the continuum, the software management, if not the platform itself, is overseen by a third party and most administrative functions are managed by the outsourcer.

Now few real-life situations are at either extreme end of this continuum. Even those companies that have on-premise software are likely to outsource portions of HR — 80% of U.S. firms outsource COBRA administration, for example. And even in HR
BPO engagements, the client organization normally retains some employee-facing functions such as those related to talent management.

Software that is offered as on demand or through SaaS adds to the complexity of the continuum, as it may be managed by a party not already included in the mix of buyer and outsourcing provider. This is the complexity facing the market with the advent of cloud computing and a fact we are already facing.

Some service providers are now looking into expanding on the continuum notion by offering what is becoming known as hybrid services. With hybrid services, the buyer and provider can decide what is on premise, what is hosted or SaaS, what services are retained, and what is fully outsourced. The potential value of a hybrid approach is the ability to shift responsibilities up one end or the other of the continuum when the buyer needs or market drivers dictate.

**Market Strategies**

This section includes an introduction of market-specific weightings definitions and includes weightings tables.

The comprehensive HR BPO market exhibits the characteristics laid out in Tables 1 (Key Strategy Measures for Success: Worldwide HR BPO Market) and 2 (Key Capability Measures for Success: Worldwide HR BPO Market), which suppliers must take into consideration when crafting a future strategy and in leveraging existing capabilities to best advantage. Factors for future strategy are shown in Table 1; factors for leveraging existing capabilities are shown in Table 2. The factors were weighted because IDC believes that some are more important than others in maximizing market opportunity and realizing market success.

In addition to the criteria for success having varying weights, IDC believes the aggregate criteria (offering, go to market, and business) should also be weighted. Table 3 illustrates the relative weights used in this analysis.

<table>
<thead>
<tr>
<th>TABLE 3</th>
<th>Aggregate Criteria Weighting for the Worldwide HR BPO Market</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategy Criteria</strong></td>
<td><strong>Weighting</strong></td>
</tr>
<tr>
<td>Offering strategy</td>
<td>4.0</td>
</tr>
<tr>
<td>Go-to-market strategy</td>
<td>3.0</td>
</tr>
<tr>
<td>Business strategy</td>
<td>3.0</td>
</tr>
<tr>
<td>Subtotal</td>
<td>10.0</td>
</tr>
</tbody>
</table>

Source: IDC, 2009
As a result, based on the weightings, several types of factors emerge as most influential in predicting success:

- **Services offering.** The set of services themselves need to be robust and superior to what the buyer can achieve on its own. Vendors can offer a superior services experience by gaining insight across their clients and applying best practices otherwise unattainable by the buyer.

- **Platform sustainability.** Whether proprietary or built on ERP technology, the underlying HR technology needs to support the services well, provide the vendor with economies of scale, and enable easy implementation of new services capabilities.

- **Cost savings.** Buyers frequently enter into BPO with the key goal of cost reduction. Early BPO engagements achieved the goal of lowering client costs largely through arbitrage. 50–70% of an enterprise's expense is tied to the workforce, but only part of that is related to HR administration itself. Lowering costs only in administration is a missed opportunity. Providers need to help clients approach other areas for improvement and those that have the tools and wherewithal to do so are well positioned.

- **Consulting and subject-matter expertise.** Buyers may know their own business well and are the true SMEs for their unique circumstances. However, a majority of buyers look to their service providers for advice on doing things better. A strong consultative approach appeals to buyers that may be resource constrained in the wake of downsizing. Consulting expertise also enables providers to anticipate client needs and not just respond to them.

**FUTURE OUTLOOK**

**IDC MarketScape Comprehensive HR BPO Market Vendor Assessment**

The IDC vendor assessment for the comprehensive HR BPO market represents IDC's opinion on which vendors are well positioned today through current capabilities and which are best positioned to gain market share over the next few years. Positioning in the upper right of the grid indicates that vendors are well positioned to gain market share. For the purposes of discussion, IDC divided potential key strategy measures for success into two primary categories: capabilities and strategy.

Positioning on the y-axis reflects the vendor's current capabilities and menu of services and how well it is aligned to customer needs. The capabilities category focuses on the capabilities of the company and services today. In this category, IDC analysts look at how well a vendor is building and/or delivering capabilities that enable it to execute its chosen strategy in the market.

Positioning on the x-axis or strategy axis indicates how well the vendor's future strategy aligns with what customers will require in three to five years. The strategy category focuses on high-level strategic decisions and underlying assumptions about offerings, customer segments, business, and go-to-market plans for the future, which
in this case is defined as the next three to five years. In this category, analysts look at whether or not a supplier's strategies in various areas are aligned with customer requirements (and spending) over a defined future time period.

Figure 2 shows each vendor's position in the vendor assessment chart. The number of client lives served by two or more major and integrated HR functions in adherence to IDC's definition of comprehensive HR BPO is indicated by the size of the bubble, and a (+), (-), or () icon, respectively, indicates whether the vendor is growing faster than, slower than, or even with overall market growth.

**FIGURE 2**

**IDC MarketScape Worldwide HR BPO Vendor Assessment**

Source: IDC, 2009
Market Analysis

As a whole, the vendors covered in this analysis are established players, all with strengths in service and delivery. Several firms were languishing and dropped from the analysis from prior competitive research including Fidelity and ExcellerateHRO, both of which have exited the market for comprehensive HR BPO and are focusing on single-process services largely in benefits administration. This research is United States–focused and so firms exclusively serving non-U.S. markets are not included.

Market Strengths: Customer Retention, Cost Savings, and Using What They Sell

By and large, the market is relatively stable, with the majority of buyers staying with their existing supplier through contract renewal. The very few contracts that have been cancelled have been so widely publicized that one is left with the impression of a lot of churn, but this is not the case. The providers have mostly done a good job of working through the bumps in the road to retain clients. The prospect of staffing up both HR and IT to support a reversion to in-house is an onerous one and so we're not likely to see this as a trend, especially in difficult economic times.

While it ranges from vendor-to-vendor and certainly by client size and complexity, suppliers have done a good job in helping clients lower costs. Most cite plans for further reducing their own costs so as to offer further savings and efficiencies to clients. It is in the best interest of buyers for their providers to be successful, so they need to be mindful that there needs to be a sustainable margin for providers to continue in the industry.

Most of the suppliers covered in this research are their own clients for HR BPO and many report that their own HR represents their most challenging client. By using what they sell, suppliers get unvarnished feedback from peers that they can use to make improvements for their other clients.

Market Opportunities: Innovation, Target Markets, and Consulting

Perhaps there is not much new under the sun in HR services, but very little in the way of new services and innovation is planned for the next 12–18 months, and this is a missed opportunity. While buyers might be reverting to investment in single processes at a time, if there were a better mousetrap, they might bite. Talent management is a tremendously hot area in HR, with performance management and succession planning topping the list. These are primarily functions that HR wants to retain in terms of process but there is ample room for innovation in terms of delivery of analytics and meaningful metrics.

Essentially the large market suppliers are staying focused on the large market, and by large we mean very large multinational firms. With interest waning for HR BPO in the large market, IDC believes suppliers should consider adopting a platform play and start building out service provisioning for firms that are not quite as large and complex. There are only around 900 firms in the United States that have more than 10,000 employees and many fewer with 100,000 or more employees, so the large market is constrained.
Subject-matter expertise and consulting capabilities are of importance to buyers. Though the vendor list includes firms with great strength in consulting, others do not possess as strong a set of capabilities, especially in transformation and change management. Those that don’t possess those skills will do well to acquire or partner for them.

**Vendor Summary Analysis**

This section briefly explains the key observations that resulted in a vendor’s position in the vendor assessment graph. While each vendor was evaluated against each of the characteristics set forth (refer back to Tables 1 and 2), the description here provides a brief excerpt of the findings that represent the vendor’s score.

The vendors covered come from a variety of backgrounds to HR BPO. Each background lends a slightly different perspective and advantage to the vendor offering. Legacies include traditional process outsourcing, IT outsourcing, and consulting. The lines, however, are becoming blurred as the market matures. Several of the players can be categorized in multiple ways as a result of acquisitions or concerted efforts to broaden expertise.

**IBM**

With global hardware, software, and services dominance, IBM is the largest vendor in this analysis. IBM offers core and end-to-end HR services as well as standalone services in learning and in recruitment process outsourcing. IBM forged a partnership with Kelly Outsourcing and Consulting in 2008 to strengthen and broaden services in recruiting. IBM’s approach is to transform-then-transition clients, and it supports a variety of HR technologies with key partnerships in some functional areas. IBM targets very large and complex multinational clients with 15,000 or more employees and currently services around 2 million client lives.

IBM is the leader in this market analysis. IBM’s strengths include the completeness of its HR services portfolio, vendor reputation, strength in consulting, and the continuity of strong management leadership at the top in its HR BPO business unit. IBM is not the least expensive option. IBM already has alternative entry points with learning and recruiting, but it may wish to consider looking at other markets such as the tier below the very large market. IBM is focusing on offering HR analytics, and IDC sees this as a key way in which providers can add differentiated value to clients.

**ESSENTIAL GUIDANCE**

The key finding of this research is the overall strength of the capabilities of the majority of the vendors, yet the opportunities at the upper end of the market are becoming fewer. Despite the many happy HR BPO clients, there has been far too much negative press about some facets of the industry. Client expectations have been high and in some cases have not been met and those that are satisfied have been quiet. We need to hear more from happy services buyers, and vendors are advised to do all they can to publicize their success stories.

With some variation, the key strengths of the field include:
Services offering. The breadth and depth of services offered is strong for the majority of suppliers in this analysis.

Using what one sells. Many of the suppliers wisely are their own clients, which enables them to get a sense of the client perspective and allows them to try new things on a potentially friendlier audience.

Cost savings. The majority of the vendors have good track records and plans for client cost savings. What is difficult is to sustain enthusiasm once initial cost savings are achieved. Administration of HR is not the big cost story but rather the total cost of the workforce, which can range from 50% to 75% of revenue. Helping clients lower those costs would spark real buyer interest.

Weaknesses include:

Financial viability of the business. In some cases, the BPO business itself is not achieving the financial objectives of the suppliers. It has been said many times but suppliers need to find a scale by which services set up for one client can service others. This can be achieved technically or through a process but services need to scale.

Consulting. Some of the suppliers are very strong in this area but others have work to do to become more consultative either organically or through partnership. Buyers are looking for expertise.

Innovation. It seems that with few exceptions there isn't much planned in terms of new service offerings. While it is true that the majority of portfolios are broad and deep, there is always room for innovation. As examples, workforce analytics and workforce planning are areas that buyers seem to have difficulty forging on their own. A winning strategy might include offering such differentiation.

Synopsis

This IDC study represents a vendor assessment of the comprehensive human resource business process outsourcing (HR BPO) market through the IDC MarketScape model. This assessment discusses both quantitative and qualitative characteristics that explain success in this market. This MarketScape covers a variety of vendors participating in the HR BPO market. The evaluation is based on a comprehensive and rigorous framework that assesses vendors relative to the criteria and one another and highlights the factors expected to be the most influential for success in the market in both the short and the long term.

"Universal strengths across the spectrum of providers include the breadth and depth of services portfolios, the ability to offer cost savings to buyers, and customer retention," says Lisa Rowan, program director, HR, Talent, and Learning Strategies for IDC. "Opportunities for improvement include beefing up subject-matter expertise and consulting for some, improving the scalability of services to increase financial viability, and bringing more innovation to the marketplace."