

Show Me The Money!

Changes needed to help the provider market stay financially viable for the long-run. Pursuit costs continue to be a significant investment for providers. **By Naomi Bloom**

There's a serious debate underway about the profitability of comprehensive HRM BPO. The debate is whether the providers of end-to-end HRM BPO (as opposed to very payroll- or benefits-centric HRM BPO) can make money on these contracts (without being subsidized by the profits on transformational consulting, captive IT outsourcing, the earnings on float, or other lucrative but ancillary services).

As of this writing, the comprehensive HRM BPO providers to this highest end of the market appear to be spending more to get and execute their largest deals than they are reaping as real profits from those deals. While there's considerable forecasting that these largest deals will become individually profitable in years 1, 2 or 3, (or is that 2, 3, or 4?), we haven't reached an adequate numbers of years to know.

And what happens to profitability when they spend boodles for the next generation of service-oriented architecture (SOA) upgrades to ERP/HRMS software? Even with significant moves to administrative self-service, a heavy emphasis on rationalization of business rules and workflows, more effective management of subcontractors, and considerable labor and facilities arbitrage, truly comprehensive providers are struggling.

Although not related directly to provider profitability, the true costs of the largest deals—beyond payments to the BPO provider—are unknown. These costs include internal sourcing, governance, migration/transition, staff reduction, and the unexpected costs of cleaning up their business rules, processes, data, etc. These expenses, over and above any increased payments to providers, will also rise when the BPO providers must move to the next-generation SOA platforms of their ERP partners. And unless their BPO contract is absolutely bulletproof on this point, there's bound to be an attempt by the providers to share some of those upgrade costs.

So what's the problem here? Is comprehensive HRM BPO an inherently flawed financial model? Is there just no way that economies of scale, process, and expertise (the bedrock of all profitable outsourcing) can be brought to bear in this business?

There's simply no way to achieve true economies when every enterprise, end-to-end deal is accompanied by one-off, mega-buck pursuits, one-off contracts, highly customized and unstable one-to-one ERP/HRMS implementations, customer staff retention, an unwill-

ingness to accept standardization, and expectations that providers will absorb pursuit and migration/transition costs as well as regulatory compliance and technology and process upgrades.

At least three different types of changes are needed quickly. The comprehensive HRM BPO industry needs software platforms that don't just deliver what the customer wants but can also be operated profitably by the provider. What's needed is full multi-tenancy and a laundry list of other labor and error-reducing features to reach profitability.

Second, we need changes in the expectations around pursuits and migrations/transitions. We went through this same learning curve with large-scale software licensing and implementations but don't seem to have learned all our lessons. Cutting down pursuit time and cost requires the following:

- Buyers are better prepared (e.g., have already done their HRM and HRM delivery systems strategy work);
- Extremely detailed one-off RFPs give way to scripted scenario demonstrations of provider capability;
- An industry domain model that defines HRM down to its lowest-level tasks;
- Customer governance already in place to make decisions rapidly during sourcing; and
- That short lists be realistic.

For each very large, global buyer, there really aren't more than two or three viable (at any one time) providers, so let's cut to the chase. Cutting down the migration/implementation time and costs requires that we leverage the past 20 years of experience with this type of work—experience that now resides with project managers and team leaders who have been promoted out of such hands-on work without their knowledge having been captured and promulgated. Fortunately, we now have excellent tools for doing just that.

Finally, we need to change the expectations of the financial community that the BPO business is quick, easy, recurring revenue. There is a lot of money to be made here, and it will be recurring, but it is absolutely not quick or easy to reap, and only a few firms will have the staying power to get themselves up the learning curve and into sustainable, attractive profitability.

There's a reason why there aren't dozens of successful ERP providers at the highest end of the market. And for the same reason there won't be a dozen providers of comprehensive HRM BPO at the same end of the market. **HRO**



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