

Re-emphasizing the One-to-many Model when Pondering Technology

SOFTWARE IS KEY TO COST SAVINGS FOR CLIENTS AND PROVIDERS. OTHER CHANGES ARE ALSO NEEDED FOR HRO TO BE FINANCIALLY VIABLE. BY NAOMI BLOOM

Organizations undertake HRO for many good reasons, but HRO is only a good idea if your selected provider can deliver the expected/promised services profitably (or they won't be around for long, and that means big disruptions for you) and at an acceptable price and service level (or you won't sign up in the first place, let alone renew).

These services must also be delivered with good data security and privacy, with flexibility to address competitive and future needs while meeting regulatory compliance. At the same time, constant improvement of their offering—with year-over-year cost reductions ideally shared with you—is a must. Yes, providers must deliver or you'd wished you had never outsourced.

IT'S ABOUT THE SOFTWARE

Because HRO is a technology-enabled business—in which the “manufacturing” plant contains a lot of applications software—what

that applications software can and cannot do will determine the breadth, quality, and cost-effectiveness of HRO services now and in the future. By extension, it will also determine the fortunes of the BPO provider and of your HRO deal. Service levels and customer satisfaction, at least in the short run, can sometimes be achieved by heroic feats performed by committed and very capable provider staff, even when the underlying software is poorly suited to the task at hand and/or very expensive to obtain and support. But this is done at too high a cost (in labor—regardless of labor arbitrage—and in errors, inconsistency, etc.), and that translates into low or no profitability for the provider. Furthermore, any labor-intensive approach isn't robust, scalable, or sustainable.

Whether you in-source or outsource specific processes, the devil is in the details of the applications software used. What it can do easily and well, you or your provider can do at a manageable cost and with predictably high service levels. What it can't do easily or well holds you and your provider hostage. The

more robust and appropriate the software, the more likely the provider will be successful. And appropriate is important here because applications software must not only be designed to “manufacture” specific capabilities but must also be appropriate to a target market, an economic/business model, a technology and production environment, a specific service delivery model, etc. The devil is indeed in the details.

Before you reach for your Bells, Bock or Bordeaux, help is on the way courtesy of HRO Europe. With this article and continuing in my new column in *HRO Europe*, I'll be discussing the most important characteristics of your BPO provider's applications software, how to recognize these characteristics as easily as possible, and many of the other technology-related considerations for the success of your BPO deals and of your providers.

But why can't we just let the providers worry about the quality and capabilities of their software? Isn't that one of the reasons we're outsourcing in the first place? Yes and yes. But unless you're outsourcing very discrete HR functions such as payroll gross-to-net or background checking to firms which have long demonstrated their ability to do it well and profitably for organizations just like yours, caveat emptor.

MULTI-TENANCY MATTERS

The obvious place to start this conversation is with the importance to BPO profitability of true multi-tenancy in the underlying applications. The simple answer is that multi-tenancy in the applications software allows the BPO provider—unless they choose to do otherwise—to service a group of clients within a single instance of the software. Large organizations developing their own internal shared services capabilities tend to reduce the number of data centers, servers, business applications software, and databases to simplify and reduce costs. The efficient HRO provider



similarly attempts to reduce the sheer number of things to be managed. And even when labor and facilities arbitrage is used heavily, having fewer things to manage, maintain, and upgrade reduces those costs even further.

It's no surprise that one of the oldest, largest, and longest profit-sustaining HRO firms, ADP, continues to run its "classic" one-to-VERY-many U.S. payroll gross-to-net engine. When you realize just how many different organizations ADP can pump through a single instance of that engine, you can almost hear the cash register.

Multi-tenancy in application software means that the architecture and object model have been designed to enable multiple organizations—without having to compromise their individuality or separateness—to be serviced with one instance of the application software. Just like Salesforce.com or the Employease model, multi-tenant software is capable of the following:

- Keeping each organization's data fully secured from the others (especially important in a self-service world);
- Including metering functions for process-activity levels and, more importantly, for process results by customer organization—and for billing each customer;
- Supporting each organization's business rules, workflows, and other configurations through upgrades while having only a single instance of those business rules, such as regulated tax rules or ethnicity codes, which transcend customer organizations;
- Creating unique object IDs (e.g., person, competencies, or job) both within and across organizations;
- Meeting each organization's operational needs on their schedule, rather than on the provider's schedule (except where the provider, by business model design, only permits customer organizations to operate on the provider's schedule, an approach which is increasingly unattractive to customers);
- Where appropriate, including batch processes, which are capable of addressing multiple organizations in a single job stream, e.g., for payroll gross-to-net or government reporting;
- Supporting, in that single instance, when global services are promised, organizations which span several geographies as well as a single geography that spans multiple organizations; and
- Providing security procedures that permit authorized outsourcing staff, who are not known inside the HRM software for the

customer organizations, to have access to data, business rules, workflows, and all other system capabilities, both within and across customer organizations.

This is a VERY tall order, but these capabilities reduce operating costs so substantially for your HRO providers that it's worth including some of these features in your scenarios for provider assessment, particularly if you're not going to be an HRO mega client. And please note that the underlying concept of multi-tenancy—such as the servicing of multiple clients using the same set of assets—can be extended to encompass service centers, staff, service delivery procedures, client migration

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procedures, and every other asset and process of the BPO provider. The more reuse and shared resources the BPO provider can achieve—while providing each client with a precisely focused set of services—the more successful the provider and your HRO deal.

BEYOND MULTI-TENANCY

There's a serious debate underway about the profitability of comprehensive HRO. The debate is whether the providers of comprehensive HRO (as opposed to narrow process HRO like background checking or pension payrolls) to the largest/global/most complex organizations can make money on these contracts without being subsidized by the profits on transformational consulting, captive IT outsourcing, earnings on float, or other lucrative but ancillary services. 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, the truly comprehensive HRO providers to the highest end of the market are struggling for profitability. And their struggles should be a cautionary tale for comprehensive HRO providers to every market segment.

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? I don't for a minute think that's the case, but I do think that many current provider experiments and customer contracts are flawed, perhaps fatally so.

There's simply no way to achieve true economies of scale, of process and of expertise when every large, end-to-end deal is accompanied by one-off, mega-buck pursuits, one-off contracts, and the engagement of highly customized and not very stable one-to-one ERP/HRMS implementations. Other drawbacks to the provider include taking on of the least essential to retain customer staff, customers' unwillingness to accept standard-

ization even where there's no provable business benefit to customer-specific business rules, the maintenance on a one-to-one basis of the customer's HRM delivery system, and expectations that providers will absorb all costs relating to pursuit and migration/transition as well as regulatory compliance and technology and process upgrades.

It's no wonder that some members of the provider community have already been merged into stronger firms. When you add to this, the very real talent crunch on the provider side for domain-experienced operations staff, it becomes very clear that change is needed in how this business is being conducted.

At least three different types of changes are needed, and quickly. First, it really is about technology. The comprehensive HRO industry needs software platforms that deliver not only what the customer wants but can also be operated profitably for the provider. If I have 20 instances of a non-multi-tenant ERP payroll engine that hasn't been tweaked very cleverly to provide some measure of multi-tenancy, then I'm going to make 20 sets of French work rule updates (with full regression testing!) every time French labor unions have their say. And 20 updates to every other global regulatory rule, data element, report etc. that transcends customers, with full regression testing to each customer environment. What's needed is full multi-tenancy and a laundry list of other labor and error-reducing features ▶

to make HRO software platforms—ERP or otherwise—a generator of 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 we don't seem to have learned all our lessons from those year-long sales cycles with unprepared buyers to those over-budget and over-schedule implementations led by 25-year-olds just out of boot camp. Cutting down the pursuit time and cost requires that buyers be better prepared (e.g., have already done their HRM and HRM delivery systems strategy work, complete with cost models and rationalization insights); that extremely detailed, one-off RFPs give way to scripted scenario demonstrations of provider capability and an industry domain model that defines HRM down to its lowest-level tasks; that governance is 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. And the same can be said for most single-country buyers. Cutting down migration and implementation time and costs requires we leverage the last 20 years of experience with this type of work—experience which now resides with those 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 to reap (on any given deal) or simple. Only a few firms in each target market will have the staying power to get themselves up the learning curve, achieve the necessary scale, and gain sustainable, attractive profits. There's a reason why there aren't dozens of successful ERP providers to each market segment, and there won't be a dozen providers of comprehensive HRO to any one segment for many of the same reasons. HR0E

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The Drivers of Outsourcing: Access to Know-how and Platform

We undertake HRO to:

- Reduce costs, make them variable with business activity, and create predictable expenses;
- Gain access to best-in-class HRM consulting, programs, and delivery system capabilities whose costs would be prohibitive if obtained directly for all but the very largest organizations and whose related-staffing needs may not be within our core competencies to attract and retain;
- Gain access to good HRM and HRM delivery system (HRMDS) practices. No one in his right mind shares freely a truly best HRM or HRMDS practice because that's what creates competitive advantage, but there's a great deal we can learn from emerging good and/or common industry practices;
- Move more quickly than we could on our own to implement specific HRM and/or HRMDS capabilities that we need to run our business, e.g., widespread self-service and/or the ability to handle important new programs in variable compensation or candidate sourcing;
- Achieve better service levels than we could on our own because that service will be delivered by a firm for which that HRM activity, function, or process is its core competency. But care is needed here to select the right metrics and target values so that—via recruitment BPO—you don't just hire poor performers faster;
- Eliminate the capital investments needed every year to create and then maintain the state-of-the-art HRMDS, which a workforce exposed to Amazon.com and Landsend.com have come to expect;
- Gain immediate access to that state-of-the-art, highly automated HRMDS without having to construct it for the first time (and without having to understand in detail how it's constructed, supported, and evolved);
- Free up valuable management attention to focus on running the business; and
- Reduce the time, expense, risks, and distractions of directly managing a portfolio of outsourcing relationships and integrating a portfolio of HRM delivery system components through more integrated business process outsourcing.