



## 2007/2008 HROA Benchmark™

A Research Report for the Human Resources  
Outsourcing Association (HROA)

**Aggregate Member Report: April, 2009**

Provided by

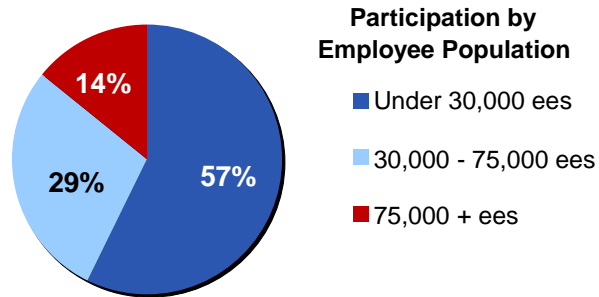




## Participating Group

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- 7 companies in pilot
- Total annual HR spend for companies: \$ 166.3 million
- Multiple industries represented
- Multinational companies included



## Executive Summary

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The HROA Benchmark Study was conducted during 2007/2008, collecting data from executed multi-process HRO agreements and invoices for that time period. The purpose of the study was to identify commercial trends and best practices relating to key aspects of the HRO relationship – pricing, scope of services, and service levels. A secondary purpose was to validate the HROA Recommended Practices for Pricing Methodologies and Resource Units and for Service Level Agreement (SLA) Methodologies and Measures, both published in May, 2008 and available on the HROA website.

The results demonstrated the emergence of industry standard practices around both pricing methodology and service levels. HRO buyers and providers may use this information in evaluating existing relationships and in identifying common practices for structuring new agreements. For example, HRO buyers will find information useful to budgeting for the total cost of outsourcing by studying the results of the invoice analysis section. The Service Level sections demonstrate strong adherence to the core aspects of the HROA Recommended Practice on SLAs and provide real life examples of measurements and performance targets actually in use.

The success of outsourcing is built on the ability to provide a standard, repeatable product or service that meets the needs of the client base. The HROA Research & Standards Committee is dedicated to providing industry research and development of practices to foster appropriate standardization and greater success for this industry as a whole.

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The research in this study was conducted by TPI, Inc., on behalf of the HROA, utilizing its proprietary Mark-to-Market<sup>SM</sup> database and methodologies.

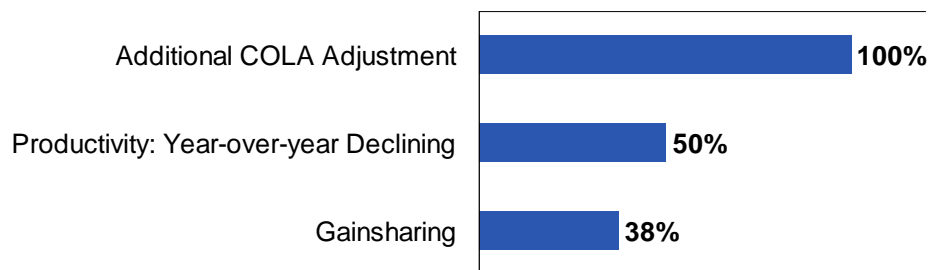
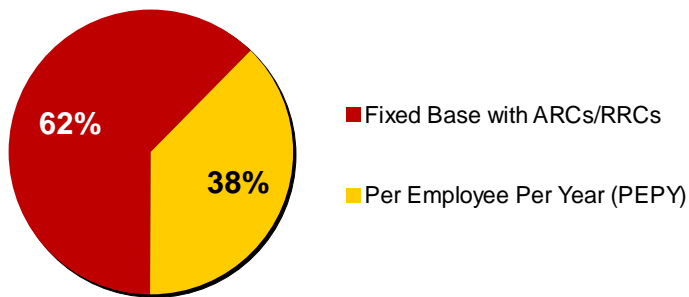
## Service Provider Pricing

The survey studied pricing methodologies and the allocation of cost between base fees, variable fees (including pass throughs) and change orders. Because of confidentiality, the study does not provide analysis on the actual level of fees paid for each process.

### Prevalence of Pricing Methodologies

The HROA Recommended Practice on Pricing Methodologies and Resource Units identified two primary pricing methodologies used in HRO. The first is a fixed annual fee based on baseline of the resource unit with adjustments made for material changes to that baseline, calculated as Additional Resource Charges (ARCs) or Reduced Resource Credits (RRCs).

The other is charge per resource unit (typically per employee) that varies directly with the number of employees serviced. These fees may be further adjusted by COLA, productivity savings and gainsharing. Prevalence of these mechanisms in HRO contracts is shown below.

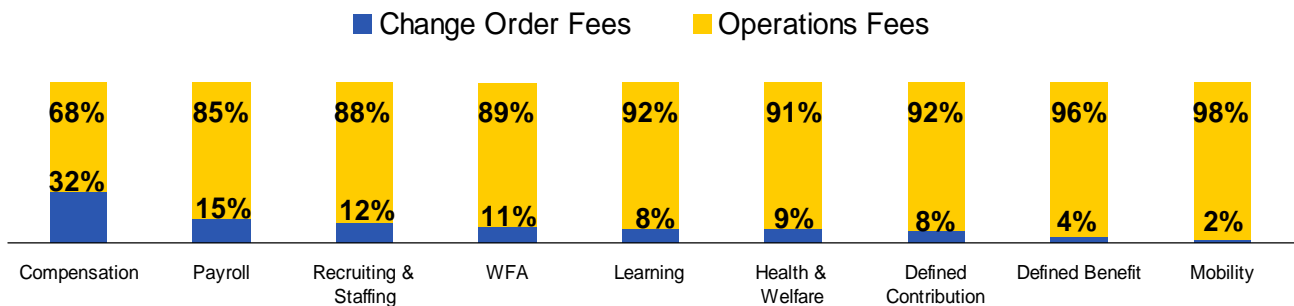


## Pricing and Invoice Analysis Findings

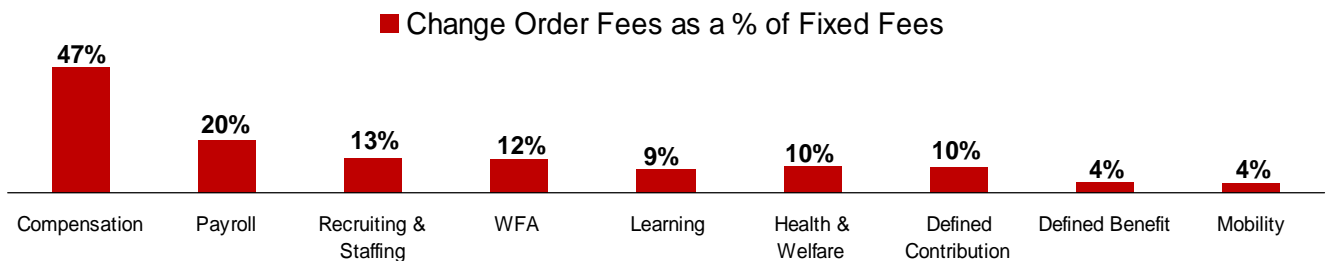
Based on survey results, HRO buyers should budget 10-15% of base fees for additional change order costs. In general, less than one-third of change orders are for activities that the HR delivery organization has no control over, such as acquisitions, divestitures, policy/plan changes, etc. Therefore, this is an area prime for careful governance.

Payroll and benefits often include additional variable charges for manual checks, direct billing, court orders/garnishments, loans, etc.

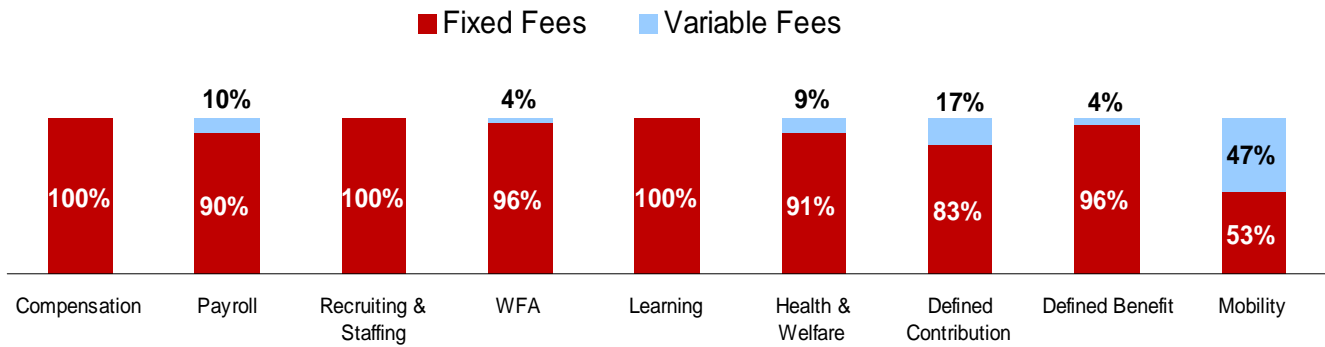
### Allocation of Fees between Ongoing Operations and Change Orders



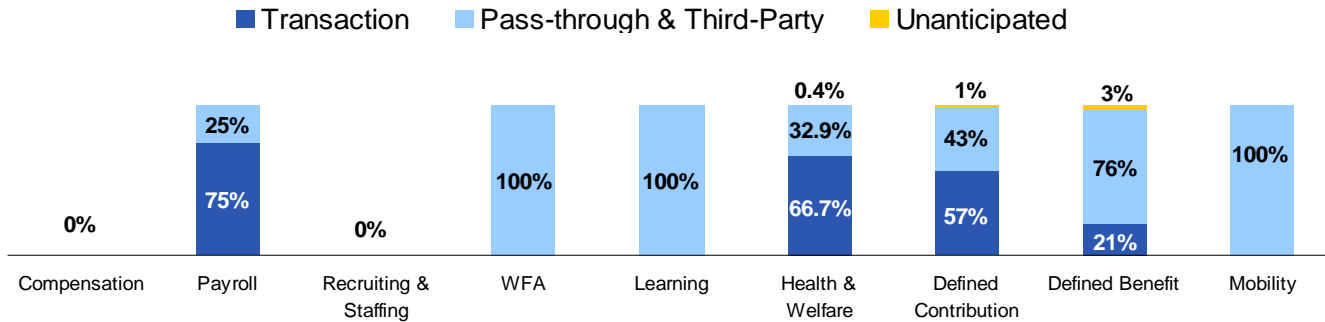
### Average Change Order Costs as a % of Contractual Base Operations Fees



### Average Fixed vs. Variable Ongoing Operations Fees



### Composition of Average Variable Ongoing Operations Fees

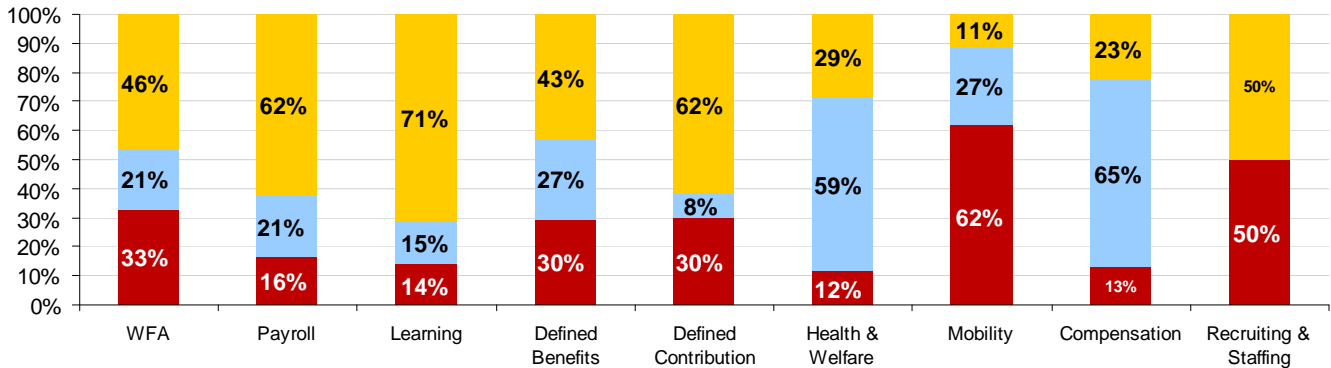


### Detail Change Order Fee Analysis

HRO Buyers can focus cost-containment activities on 1) carefully evaluating whether changes in the red and blue bars below (those with some level of HR delivery control) are actually required or could be simplified from a requirements perspective, and 2) evaluating whether the Service Providers proposed activities and costs are appropriate for those changes that are required. Discipline around standardization can decrease change order costs across all categories.

### Average Percent of Total Change Order Cost By Spending Control Category

- **Maximum Control:** Ad Hoc Requests, Data Cleanup. Consulting, Process/System Improvements
- **Some Control:** Annual Enrollment, Implementation and Conversions
- **Minimal Control:** Acquisition and Divestitures, Policy Changes, Change in Scope

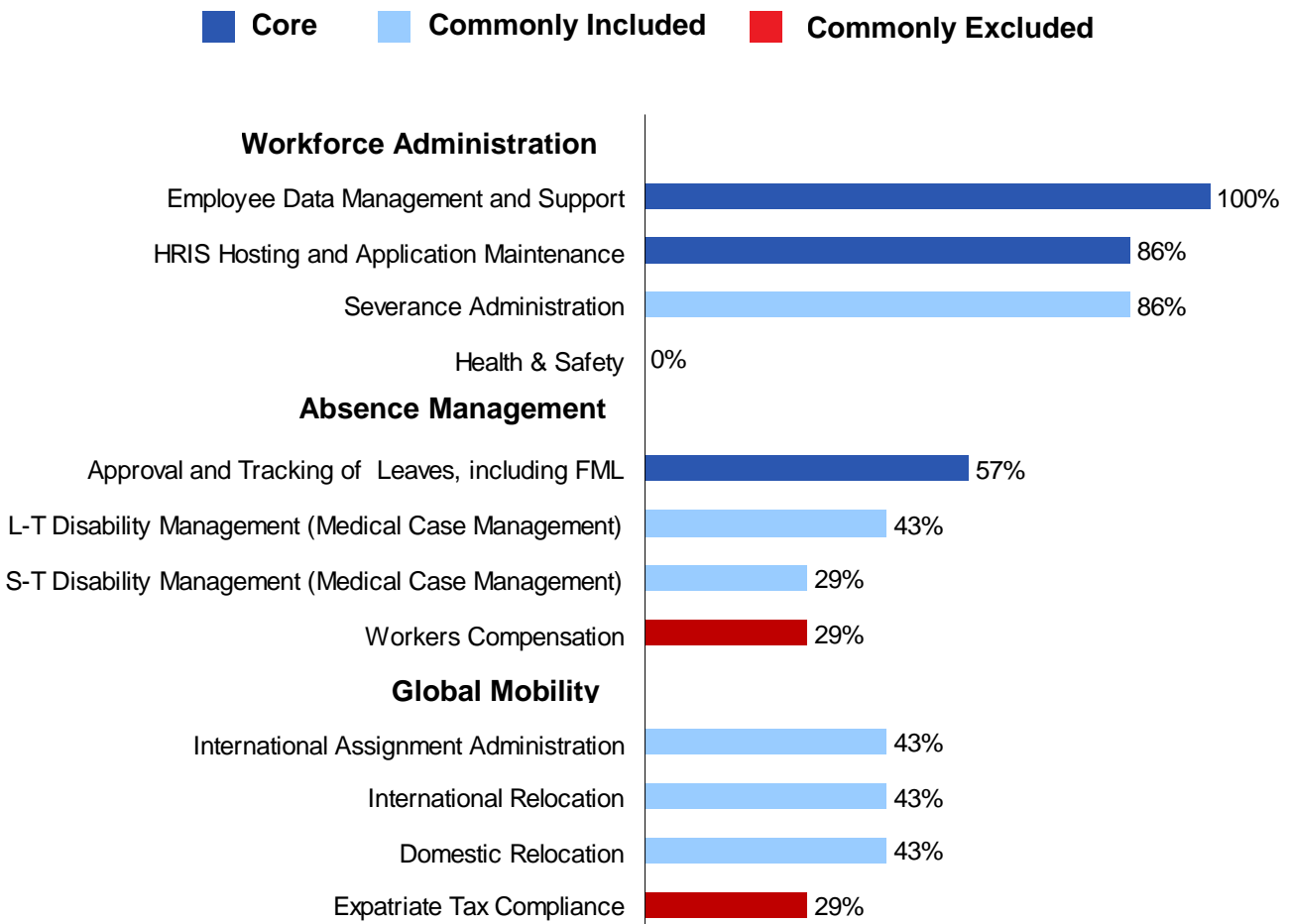


## Scope of Outsourcing Services

Multi-process HRO refers to buyer/provider relationships where multiple HR processes are outsourced, generally with a foundation of workforce administration. Workforce administration (employee data management), payroll and health and welfare benefits are the most commonly bundled services. A compensation planning tool is the most commonly included talent management process.

### Prevalence of Typical Workforce Administration Scope Items

There is a high level of inclusion of basic workforce administration processes, including HRMS hosting and maintenance, employee data management and both service center and self-service support. A little less than half the time, these services are bundled with absence management and global mobility services. This core addresses basic employment transactions that often feed payroll and talent management processes downstream.

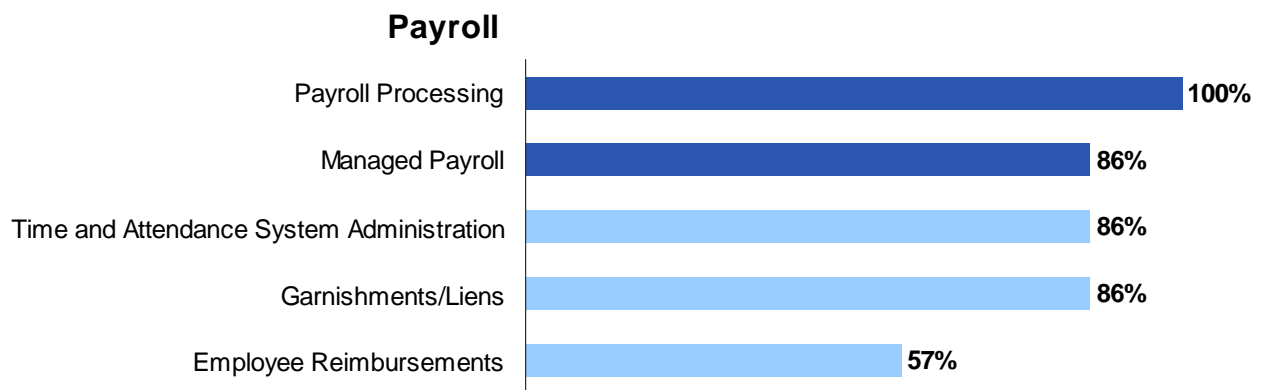




### Prevalence of Typical Payroll Scope Items

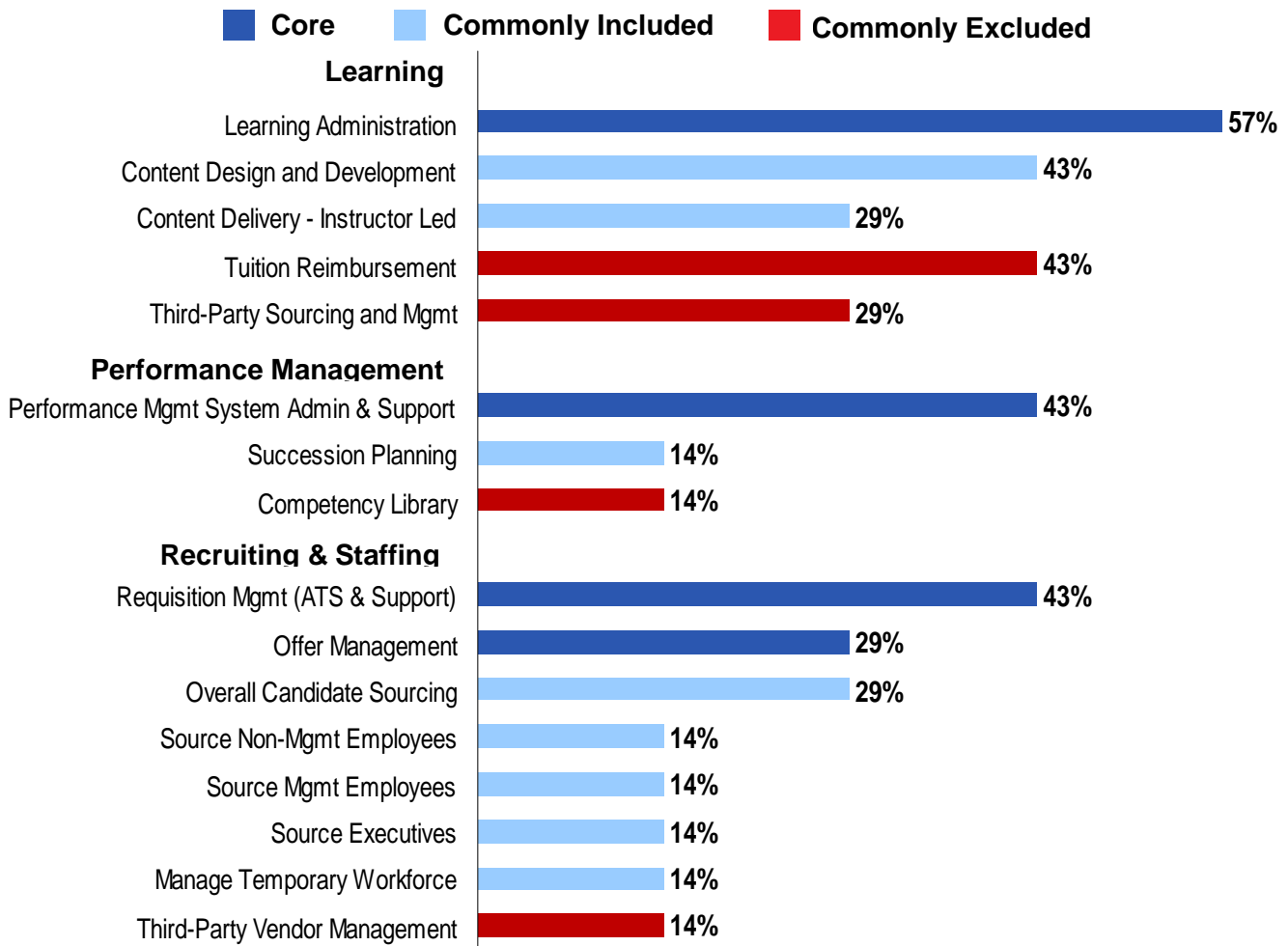
In the HROA Benchmark study group, the vast majority have outsourced their entire payroll function, including payroll expertise, employee support, tax administration, timekeeping and garnishment processing. Employee reimbursements were also in-scope when these were processed through payroll rather than accounts payable.

**■ Core**    **■ Commonly Included**    **■ Commonly Excluded**



## Prevalence of Typical Talent Management Scope Items

Where talent processes are in-scope, frequently only a tool or a tool with some administration is included. Based on the study group, only limited examples include full-scale learning delivery or recruitment process outsourcing. This corroborates marketplace trends of either retaining these key, value-added functions internally or outsourcing them to niche specialists.

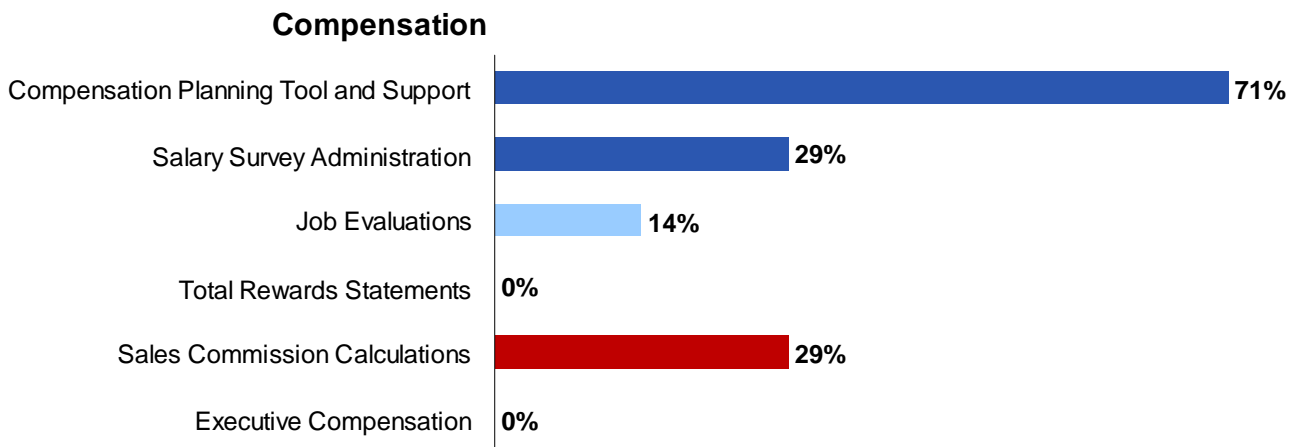




## Prevalence of Typical Compensation Administration Scope Items

While the compensation planning tool is commonly included in-scope, the higher value, more strategic aspects of job evaluation and executive compensation are generally retained or supported through specialized consulting relationships. Total reward statements may also be provided through benefits administration providers, not captured in this study.

**■ Core**    **■ Commonly Included**    **■ Commonly Excluded**

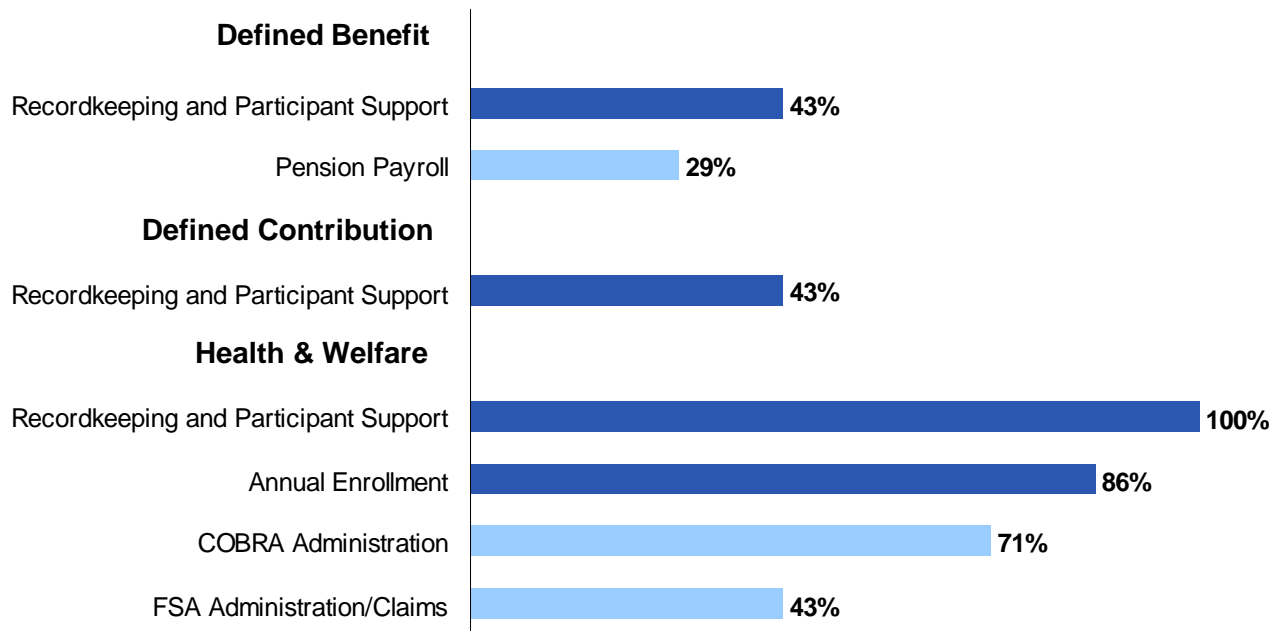




### Prevalence of Typical Benefits Administration Scope Items

Health and welfare benefits administration is much more frequently bundled within multi-process HRO relationships than retirement plans. In some cases, separate providers are used for ancillary services, such as COBRA administration, direct billing and spending accounts.

■ Core    ■ Commonly Included    ■ Commonly Excluded

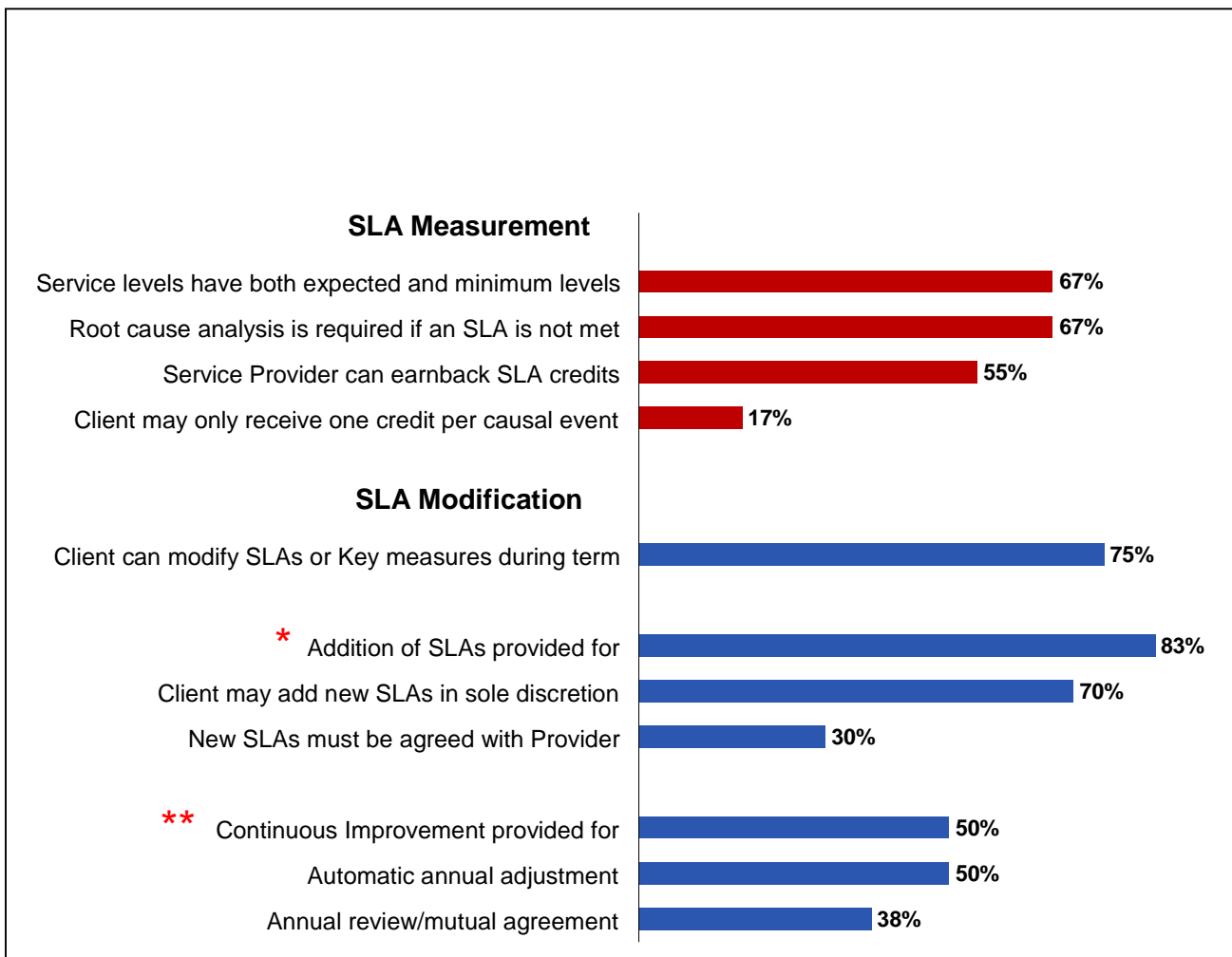


## Service Level Agreements (SLA)

Overall, there is a high level of correlation (>75%) between the HROA Recommended Practices for Service Levels, published in May, 2008, and the actual SLAs from the HROA Benchmark study group

### Prevalence of Service Level Methodologies

Common measurements and methodologies are beginning to be adopted across providers and buyers.



\* Of the 83% of contracts that allow for the addition on SLAs, 70% can be added at buyer's sole discretion and the other 30% require mutual agreement.

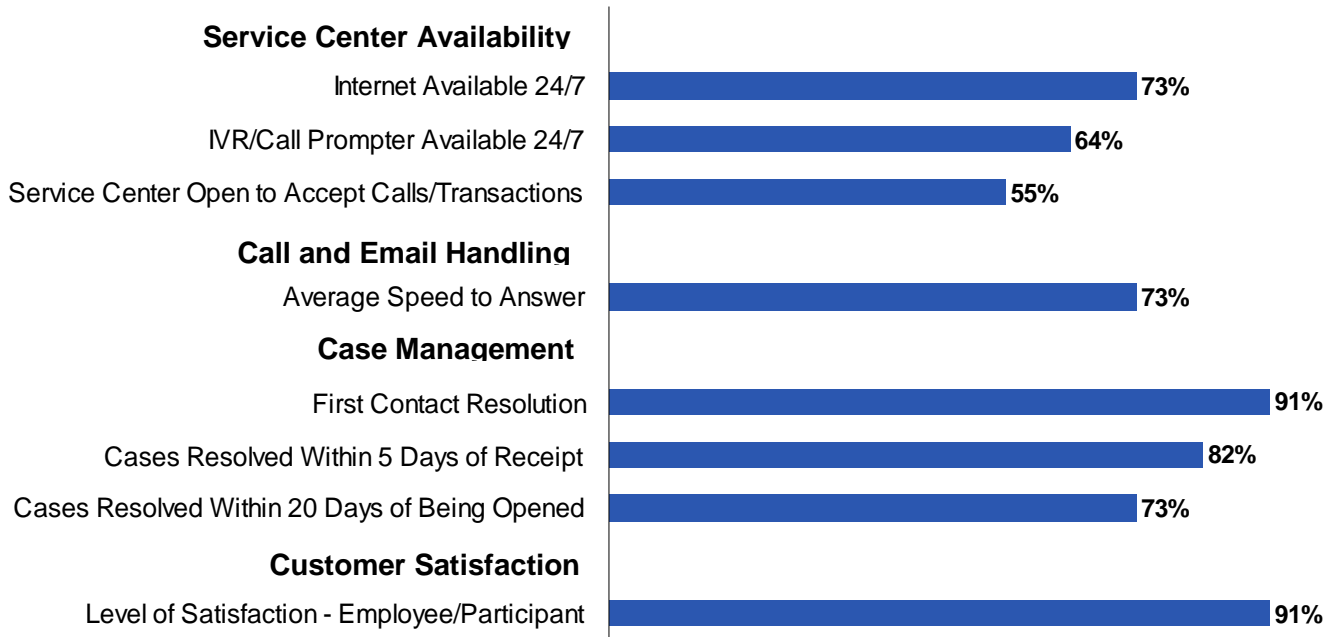
\*\* Of the 50% of contracts that have continuous improvement provisions, 50% provide for automatic adjustment; 38% provide for mutual agreement; 12% undefined.



## Percent of HROA Companies Utilizing Typical Core Service Level Measurements

### Customer Service Measures

On average 75% of the HROA Benchmark participating companies had customer service SLAs that aligned with the HROA Recommended Practice measures, as shown below.

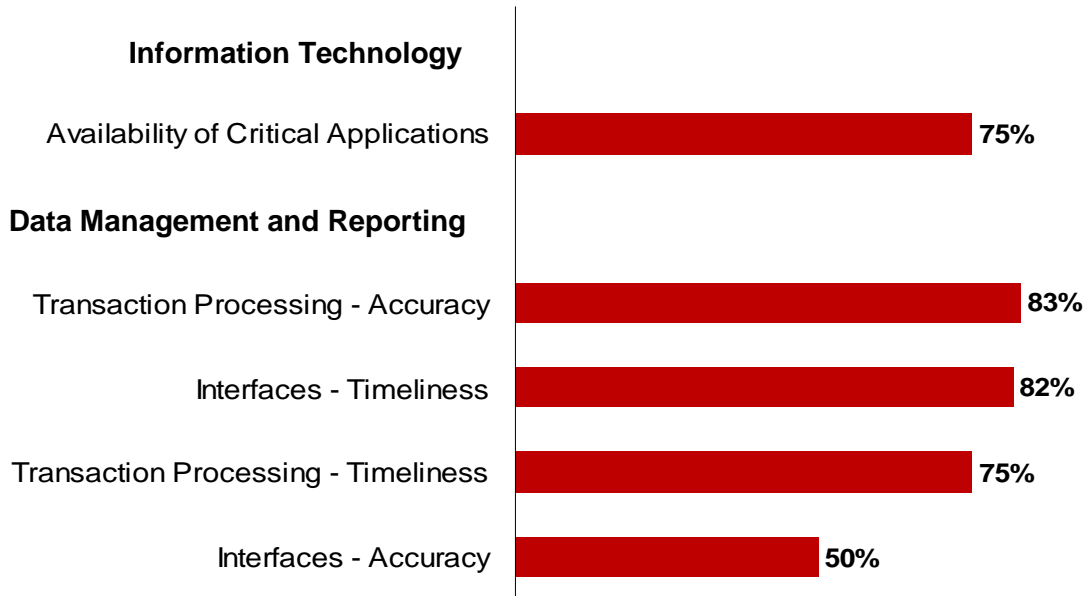




## Percent of HROA Companies Utilizing Typical Core Service Level Measurements

### Systems and Information Management Measures

Prevalence of common technology and data management service levels are shown below and again demonstrate a high-level of correlation to the HROA Recommended Practices.

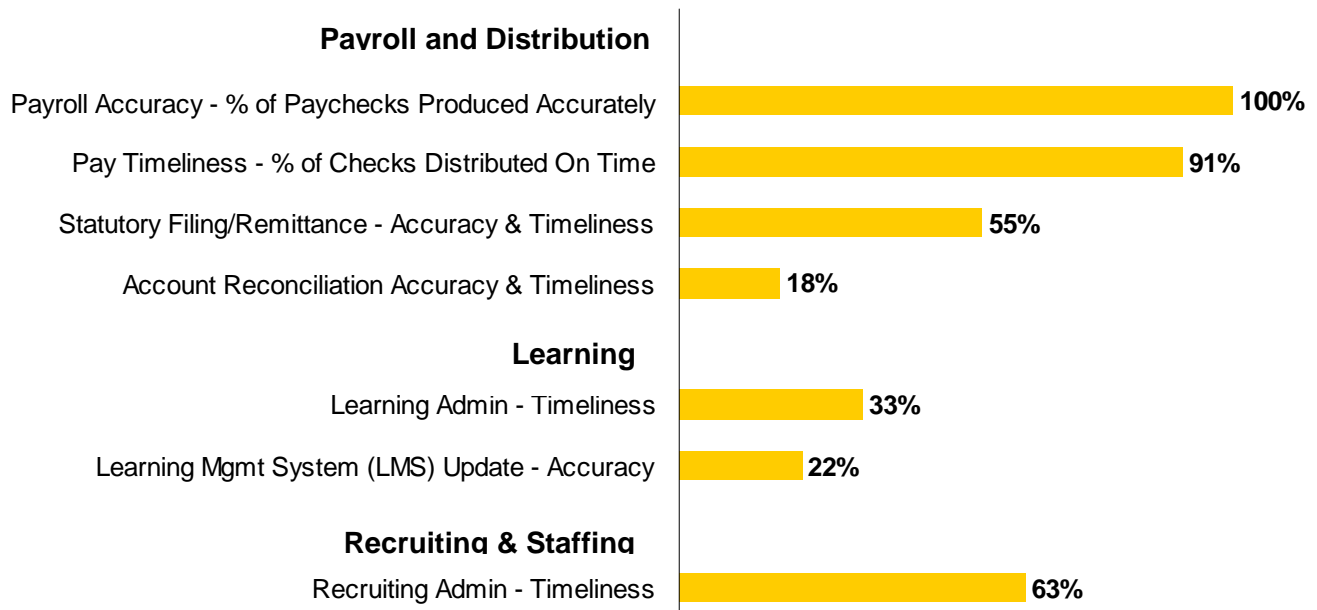




## Percent of HROA Companies Utilizing Typical Core Service Level Measurements

### Other Administration Timeliness & Accuracy Measures

Process-specific service levels have a lesser degree of conformity, with the exception of payroll timeliness and accuracy which are fairly universally adopted. Lesser adoption of learning and recruiting SLAs correlates to the lesser inclusion in-scope for this study group.



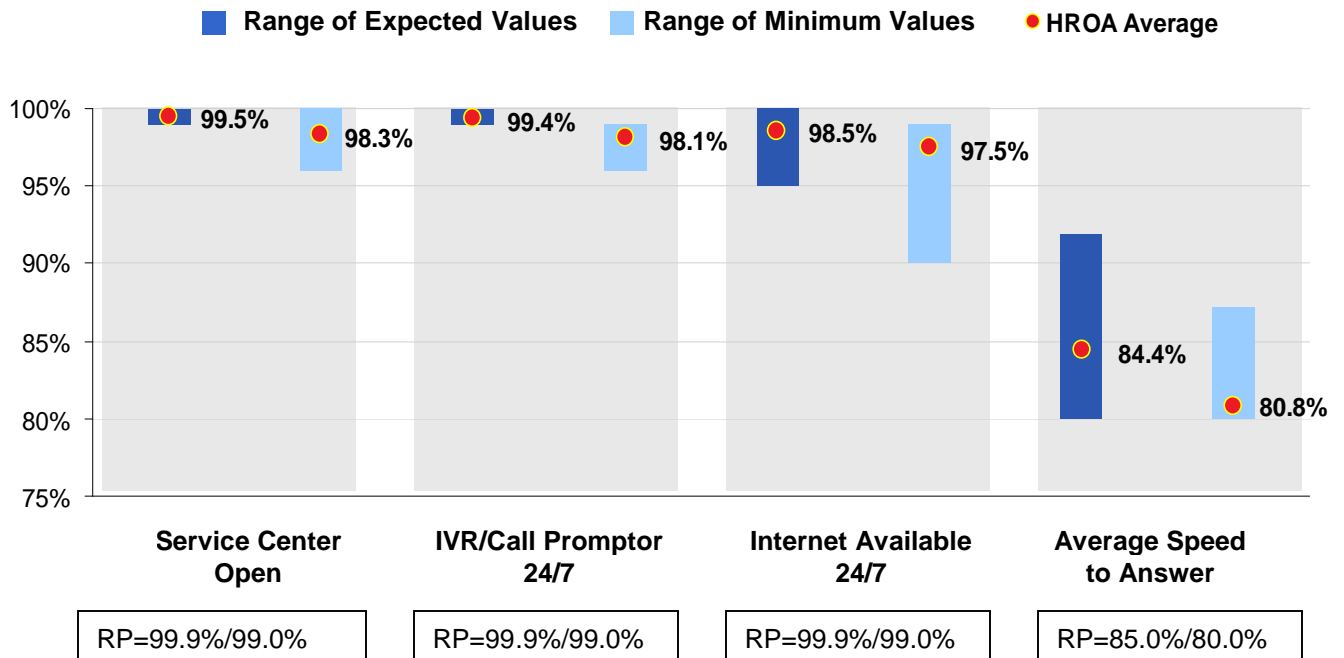
## Service Level Agreements Parameters

Service level performance targets were also analyzed as part of this HROA Benchmark Study. For many of the core SLAs, a fairly tight range of values have been established

### Expected and Minimum Parameters for Each Core Service Level

#### Service Center Satisfaction

For the majority of these SLAs, a fairly tight range of values has been established with strong correlation to the HROA Recommended Practices, as shown below.

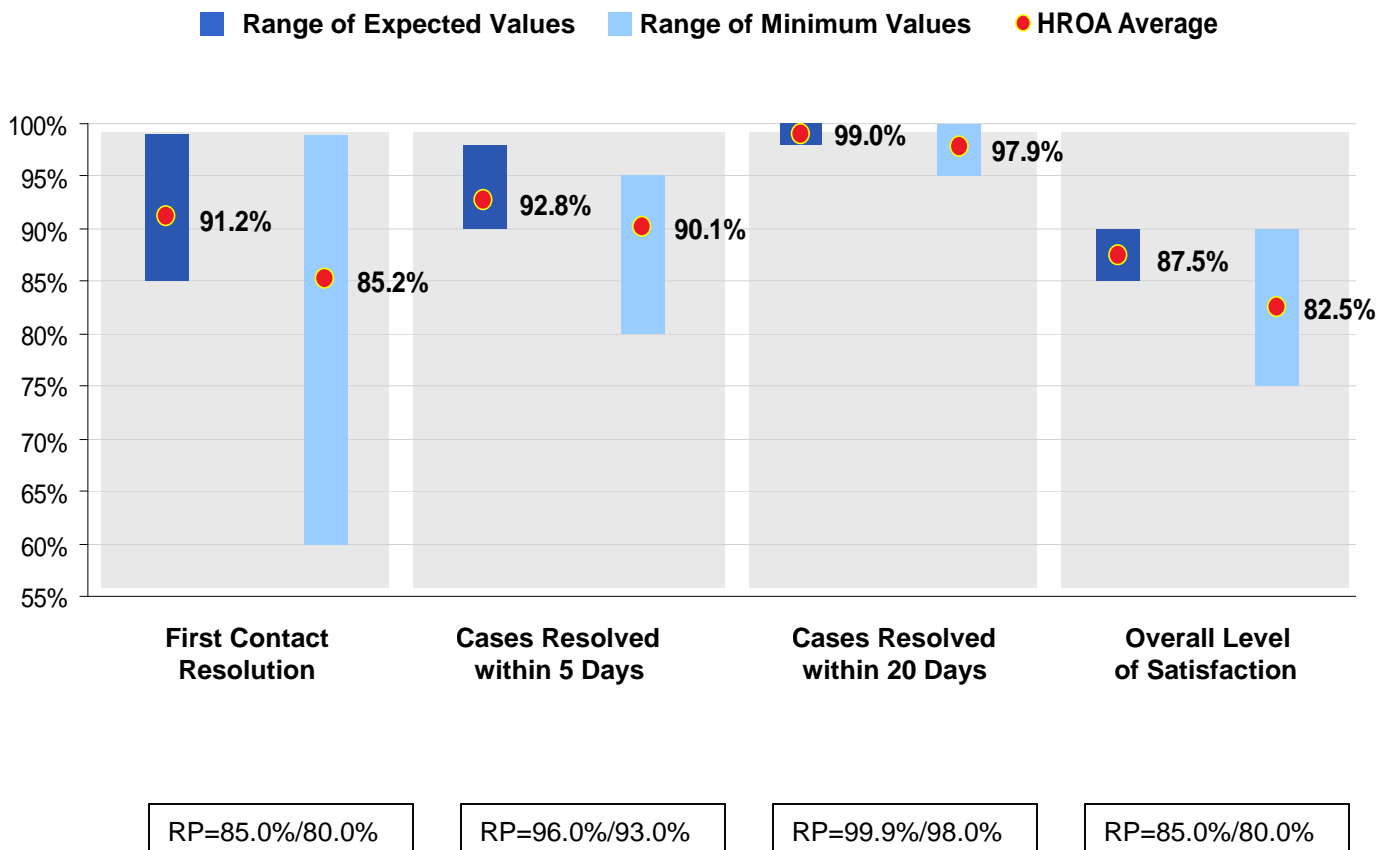


RP=HROA Recommended Practice

## Expected and Minimum Parameters for Each Core Service Level (continued)

### Case Management

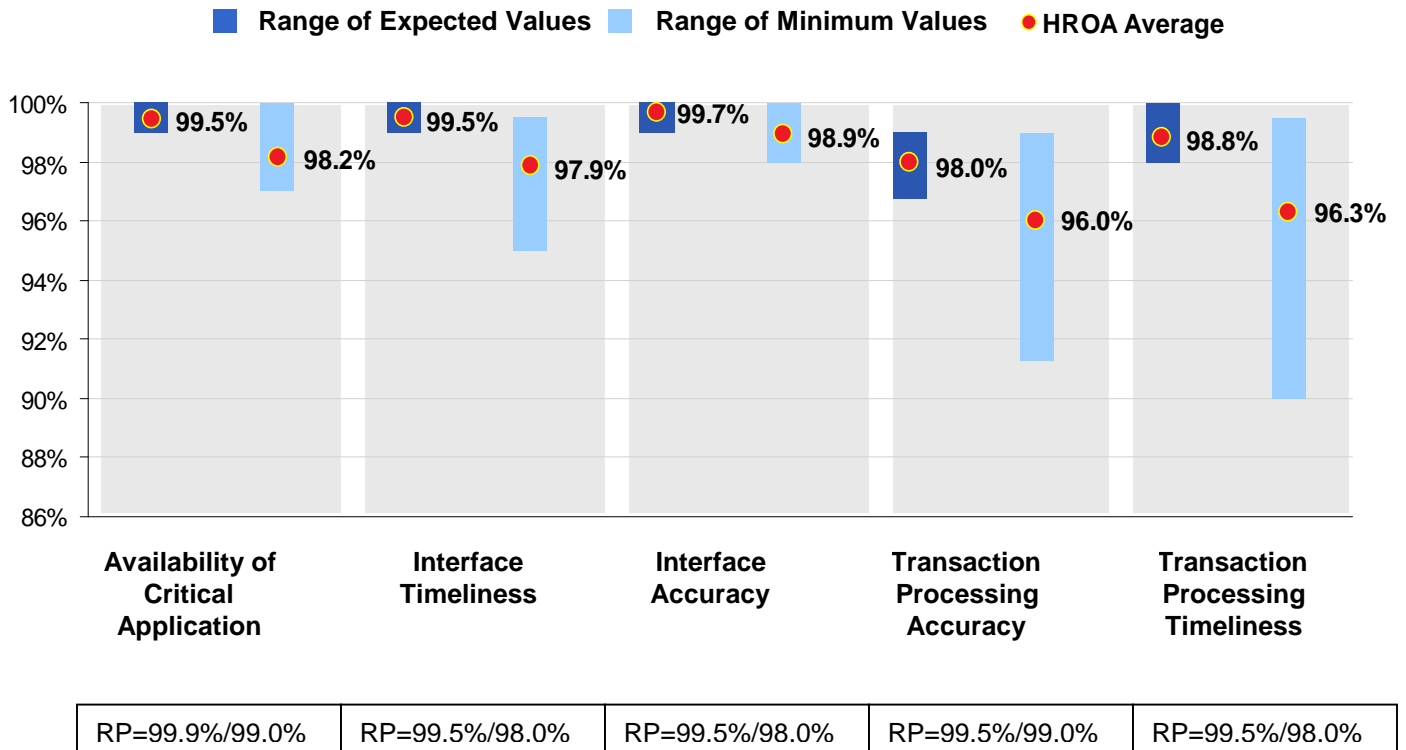
While a broader range of actual results is demonstrated with these measures, averages correlated well with the HROA Recommended Practices.





**Expected and Minimum Parameters for Each Core Service Level (continued)**

**Systems and Information Management Measures**

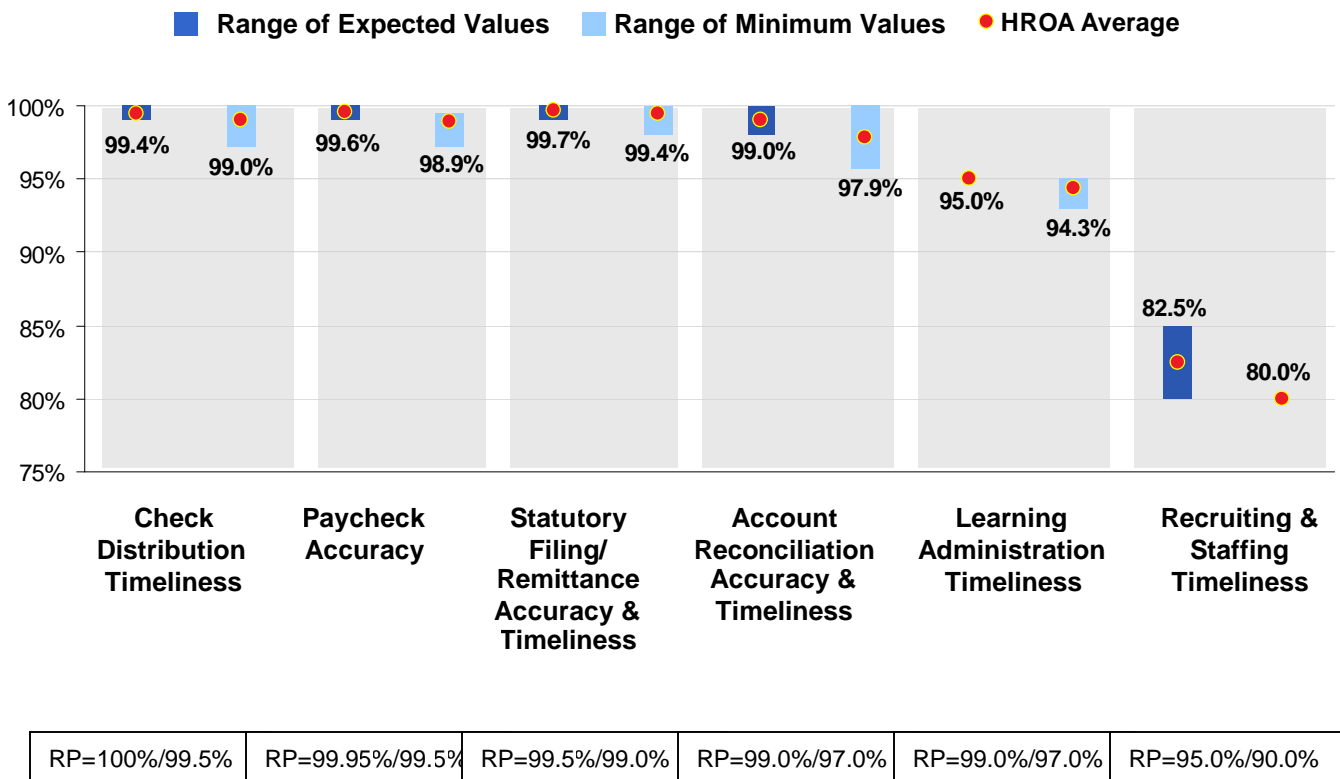




## Expected and Minimum Parameters for Each Core Service Level (continued)

### Other Administration Timeliness and Accuracy Measures

Fairly tight ranges exist for these process-specific SLAs. Correlation to HROA Recommended Practices is high for the payroll related measures, but lower for learning and recruiting.



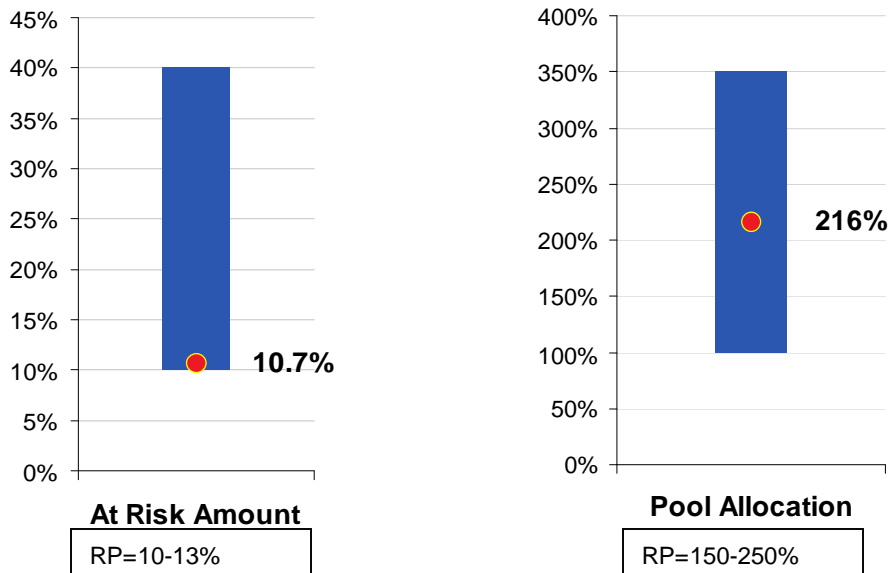
## Core Critical Service Level Parameters

Finally, the HROA Benchmark Study examined some additional parameters that are often highly negotiated in HRO Service Level Agreements. These represent the amount of fees at risk and to what degree these fees can be “stretched” across the set of SLAs.

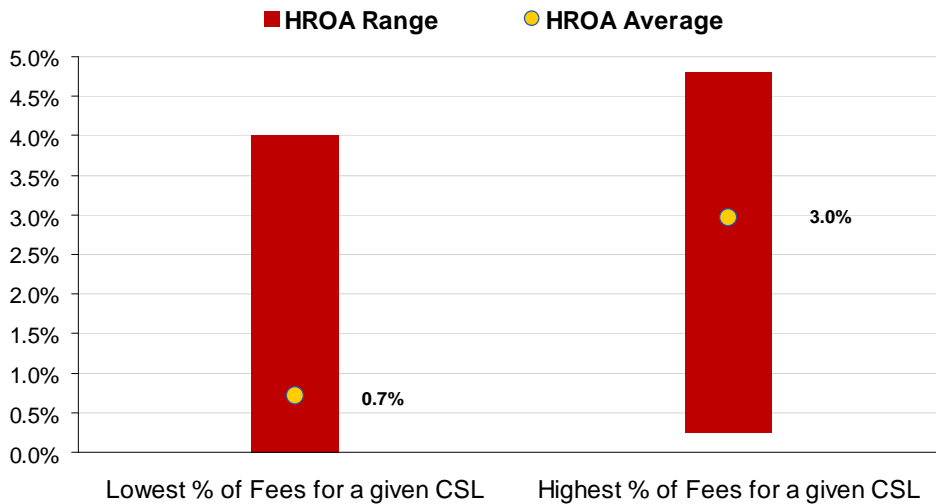
### HROA Parameter Ranges for Core Critical Service Levels (CLS)

The HROA Benchmark Study found a broad spread of results around total % of fees at risk and the pool allocation (or multiplier); however the average results are within the HROA Recommended Practices.

#### Measures Calculated as a Percent



#### Ranges of Fees at Risk



### HROA Parameter Ranges for Core Critical Service Levels (continued)

On average, companies are moving towards fewer Critical Service Levels (with fees-at-risk), supplemented by Key Measures to track less critical performance areas.

