

# The Top Enterprise HRO Deals

*While IBM led the provider pack in the number of large deal signings last year, Accenture claimed the biggest contract in 2006 by landing Unilever. In a year of slowing deal growth, there were still enough big buys to keep HRO in the headlines.* **BY HRO TODAY STAFF**


Deal-making isn't what it used to be in the HRO marketplace. After a torrid 2005 in which Hewitt alone won more than a dozen large contracts, helping the industry continue its red-hot growth, providers came in for a soft landing last year.

Sure, there was the headline-grabbing \$1 billion Accenture-Unilever deal that raised the bar higher in contract value, eclipsing even the DuPont-Convergys contract signed a year earlier (compared on an annualized basis). However, there were fewer global, end-to-end HRO engagements overall, according to analysts and sourcing consultants contacted by *HRO Today*. As expected there were a few renewals as well, as some of the earlier, first-generation HRO deals neared the end of their terms, including a huge, five-year Lockheed Martin extension valued at \$500 million.

Among new signings, HRO continues to prove its appeal across a number of industry verticals, including consumer product goods (AVON), retail (IKEA, CVS), energy (Centrica), healthcare (Cardinal Health), manufacturing (Sanyo), financial services (Russell Investment Group), and quasi-public organizations such as the BBC and the Catholic Health Initiatives.



Does the slow growth in enterprise deals signal a forthcoming decline in the HRO market? Worry not, readers, as providers, analysts, and sourcing consultants say plenty of new deals are in the pipeline this year, and some deals in negotiations last year simply have taken longer than expected to execute. Moreover, look for the mid-market to make up for fewer global contracts.

HRO Buyer <i>(Deals are listed by buyer in alphabetical order)</i>	HRO Provider	Date of Contract	Employees Covered	Contract Amount (\$US)	Contract Length
<b>Avon</b> 	<b>IBM</b> The beauty products company gives its HR a makeover by turning to IBM for HR services, including administrative support for certain key HR processes, compensation, payroll, benefits, and performance management. IBM will provide call-center support in select countries worldwide and implement and maintain a global Oracle HCM solution as part of the scope of services. Efficiency tools for compensation planning, performance management, and workforce analytics are also included in this decade-long deal. "We are pleased to partner with IBM as we continue to build a leaner, faster and more strategic human resources organization," Lucien Alziari, Avon's senior vice president, human resources, said in announcing the deal. "IBM's world-class capabilities will enable Avon's HR professionals to serve our employees with leading-edge services, and at the same time, to focus more fully on implementing our strategic talent management and organizational development initiatives."	Nov. 2006	40,000	\$192 million	10 years
<b>BBC</b>	<b>Capita</b> The deal calls for Capita to work closely with BBC People, the organization responsible for the broadcaster's HR strategy. Service delivery was set up in Belfast in a location that Capita was already using to deliver some BBC services. Around 260 jobs were transferred to Capita, with 100 new positions created in Belfast. Under the new contract, Capita is delivering a full range of HR services including recruitment; payroll administration (excluding pensions); some aspects of staff development; occupational health; and other services. Stephen Dando, director, BBC People, said: "This deal marries both our expertise in HR with the resource and expertise of a leading player in business process outsourcing. The value created from this deal is a significant step for us in ensuring the BBC is fit for the future and continues to invest in creating innovative programs and services for our audiences."	April 2006	25,500	\$174 million	10 years



HRO Buyer	HRO Provider	Date of Contract	Employees Covered	Contract Amount (\$US)	Contract Length
<b>Cardinal Health</b> Comprehensive, end-to-end HR BPO services are being delivered over ExcellerateHRO's Agile Application Architecture to 30 countries. With more than 55,000 employees, the company reportedly decided to outsource to make HR more strategic, develop metrics for improving service delivery, and better accommodate its global growth initiatives. This is being positioned as one of the company's key initiatives following explosive growth at the company during the past decade. Don Mosley, who heads up Cardinal's HR transformation initiative, said in one published report that his organization was looking for ways to position HR at the table, and part of the plan is to shift transactional responsibilities to ExcellerateHRO while focusing on strategic efforts with its retained internal staff, who will concentrate on talent management, organizational effectiveness, and total rewards.	<b>ExcellerateHRO</b>	<b>April 2006</b>	<b>55,000</b>	<b>\$250 million</b>	<b>7 years</b>



<b>Centrica plc</b> and support the delivery of enabling technologies for our line managers," said Anne Minto, OBE, group HR director, Centrica plc. "This will provide them with clearer accountability in managing their people while reducing our cost to serve. We were impressed both by Hewitt's ability and willingness to understand the demands and needs of our people and the wide experience it has in supplying comprehensive outsourced HR services to large and diverse organizations."	<b>Hewitt Associates</b> Hewitt is providing a wide range of HR BPO services, including workforce administration, payroll, customer service, reward management, performance management, and succession planning in this deal, which is part of the gas company's overhaul of HR. "Centrica's HR transformation program is already well underway, and our new partnership with Hewitt will both accelerate	<b>July 2006</b>	<b>30,000 (U.K.)</b>	<b>\$75 million</b>	<b>7.5 years</b>
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## TOP DEALS OF 2006

**Buyer: Catholic Health Initiatives**  
**Provider: Hewitt Associates**  
**Date of Contract: April 2006**  
**Employees Covered: 45,000**  
**Contract Amount: \$75 million**  
**Contract Length: 10 years**  
 The Catholic Health Initiative (CHI), a nonprofit health corporation headquartered in Denver, operates 71 hospitals; 42 long-term-care, assisted, and independent living and residential facilities; and two community-based health organizations in 19 states. It represents 66,000 full- and part-time employees and is the second largest Catholic health system in the U.S. In the accord with Hewitt, the company outsourced contact center, recruiting, relocation, health and welfare, and workforce administration for 10 years. The April contract was an expansion of CHI and Hewitt's relationship. Hewitt has provided defined benefit outsourcing services to CHI since 2001 and benefits consulting services since 1989.



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*Prolific IBM leads providers in 2006 signings*

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## FEATURE: TOP HRO DEALS

HRO Buyer	HRO Provider	Date of Contract	Employees Covered	Contract Amount (\$US)	Contract Length
<b>CVS</b> 	<b>IBM</b> IBM is providing support for the administration of compensation, performance management, payroll, benefits, workforce analytics, recruiting, and staffing. In addition, it will provide HR call-center support as part of the 10-year contract. According to CVS, the decision to outsource HR functions was a result of its tremendous growth in a short period time, which has made the company one of the largest pharmacy specialty retailers with 6,100 stores across the country. "In less than two years, CVS/pharmacy has added 55,000 employees throughout the U.S. through our strategic acquisitions. This rapid growth has stretched our current systems supporting human resources transactions," said V. Michael Ferdinandi, senior vice president, HR and corporate communications, CVS/pharmacy.	April 2006	170,000	\$190 million	10 years
<b>IKEA</b> In an effort to slash administrative costs by 25 to 30 percent (€100 million), IKEA has contracted ADP to be its sole HRO provider of HR and payroll services through its GlobalView solution. The contract calls for services in 40 countries across Europe, Asia, and North America. "With GlobalView, we have one platform for our HR and payroll services and the ability to ensure a world-class HR and payroll service experience for all IKEA employees worldwide," said Albert Martens, IKEA's director of HR services. The furniture giant said it plans to invest more in areas such as people development systems, programs. The contract involves a significant collaboration between ADP and SAP to deliver an integrated HRIS.	<b>ADP</b> 	July 2006	90,000	\$44 million	5 years
<b>Lockheed Martin (Renewal)</b> 	<b>ACS</b> One of the first comprehensive, end-to-end global deals, Lockheed Martin's re-signing by ACS showed that despite early miscues in the delivery of services and misalignment between provider and buyer, HRO engagements can recover and still offer value to the global employer. Under the new accord, ACS will continue to serve more than 345,000 Lockheed Martin employees and retirees, operate its employee service center, which handles more than 40,000 calls per month, and process more than 60,000 web site contacts. The renewal is one of the largest ever completed and may pave the way for future renewals of first-generation HROs. According to Warren Pfister, director of HR customer services at Lockheed, since embracing HRO the company has cut HR headcount by hundreds and reduced costs by tens of millions.	April 2006	345,500	\$500 million	5 years
<b>Nestle</b> In its first comprehensive HRO deal to date, HP will provide payroll services—along with possibly some benefits administration support—to the consumer product giant's employees in Europe. Although Nestle has 250,000 workers worldwide, it's not clear how many are covered under this contract. The HRO deal follows a previous agreement for HP to provide back-office finance and accounting outsourced services to Nestle, which usually remains tight-lipped about its outsourcing efforts. The signing was especially important to HP because it established the Palo Alto, CA-based provider as a legitimate global HRO provider, although it's not clear if the company will attract more enterprise HRO customers to its service offerings or simply continue to focus on delivering mostly F&A services.	<b>HP</b> 	April 2006	170,000	\$190 million	10 years
<b>Russell Investment Group</b> 	<b>IBM</b> Under the accord, the Russell Investment Group, based in Sydney, Australia, will turn over operation of its Member Administration Service Center in Australia to IBM. Russell Investment, an investment firm with clients in 44 countries and \$182 billion in asset management, said the decision to outsource was to make the company more competitive in light of rapid changes in the annuities market. "Super administration requires scale and constant technological innovation to stay at the leading edge of member services. This deal with IBM gives us the ability to scale as well as access world-leading technological innovation to meet the changing needs of our super fund clients and their members," said Alan Schoenheimer, managing director of Russell in Australasia.	January 2006	N/A	\$108 million	7 years
<b>SANYO</b> As part of the deal, IBM is standardizing and centralizing Sanyo's HR and payroll operations, including staff and benefits administration, through its delivery centers located in Japan and Dalian, China. The contract supports Sanyo's corporate reform project and follows a skills development contract signed in December 2005. Approximately 60 employees from SANYO Electric and SANYO Associate Support working in payroll and HR were transferred to IBM's Japanese group. Prior to the HRO deal, Big Blue was already training management personnel and candidates, organizational operations personnel, and professional personnel for SANYO Electric and SANYO Human Network.	<b>IBM</b> 	May 2006	38,000	\$50 million	5 years
<b>Unilever</b> 	<b>Accenture</b> HRO deals don't get any bigger than this one. In the largest deal ever signed (based on an annualized basis), Accenture is providing complete end-to-end services to the multinational consumer product goods company. These services include recruitment, payroll administration, reward administration, performance management, workforce reporting, core HR administration, and third-party provider management. With more than 200,000 employees in more than 100 countries, Unilever is hoping the HRO deal will be a big contributor to its goal of cutting back-office costs by \$900 million in near-term savings. This contract was the second, large-scale BPO deal cut by Unilever, which had signed a finance and accounting outsourcing deal with IBM in December 2005.	June 2006	200,000	\$1 billion	7 years