

The Top Global HRO Deals

A SLOWDOWN IN THE NUMBER OF GLOBAL ENTERPRISE DEALS MAY HAVE RECENTLY GRIPPED THE HRO INDUSTRY, BUT THE PAST YEAR STILL PRODUCED SOME NOTABLE CONTRACTS, INCLUDING THE \$1 BILLION WHOPPER CONVERGYS LANDED WHEN IT SIGNED JOHNSON & JOHNSON.

BY HRO EUROPE STAFF

You may have heard: growth in the global enterprise HRO market has slowed during the past year. Ever since 2005, when the number of large engagements reached an all-time high, deal-making has been on the decline. As a result, the frenzy we witnessed just two years ago has settled to a simmer, with buyers and providers cautious about the contracts they take on.

In fact, the market has turned around completely. In the earlier years of HRO, providers raced to sign new clients, regardless of whether the deal made money or not. It was all about market share and not profitability. Today, the end-to-end market is supplier-constrained, with the major providers being very selective in their choice of customers.

Buyers at the same time have grown more sophisticated in their sourcing approach, learning from the mistakes that early pioneers made and leveraging the knowledge of seasoned sourcing advisors. Some have moved away from the everything-but-the-kitchen-sink approach to outsourcing, instead focusing on specific pain points hampering their HR operations. Some have even elected to go the best-of-breed route to supplement their internal HR processes.

Despite these shifts in buying trends, enterprise, end-to-end HRO is still alive and well. This is evidenced by a number of large, recent signings, including a \$1 billion deal struck between Convergys and Johnson & Johnson, the healthcare giant. Other new practitioners joining the global enterprise group include

American Airlines, Centrica, Nestle, GlaxoSmithKline, Kimberly Clark, and other global brands. While we probably won't see the level of activity witnessed in 2005, be assured that more buyers will be getting on the enterprise HRO bandwagon.

One positive aspect of the market changes: while mega deals are on the decline, the mid-market is helping to pick up the slack. The growth potential for the 3,000- to 15,000-employee segment seems limitless, and a number of providers are now shifting their focus this way.

In putting together this list, we'd like to acknowledge the help of Everest Research, one of the leading sourcing advisory groups helping to put large buyers and providers together in these deals. **HROE**

HRO Buyer	HRO Provider	Date of Contract	Length of Contract (yrs)	Total Contract Value	Number of Employees
American Airlines	IBM	March 2007	70	\$217 million	40,000
Under the terms of the contract, IBM will work with Mercer HR to standardize the enterprise-wide HR functions of American Airlines and provide a wide range of services. IBM will provide support for various HR processes such as training, recruitment, and staffing. In addition, the company will provide HR-related systems as well as call-center support. Mercer will deliver health and benefits, pension plan, and compensation administration services, as well as employee communication consulting services to American Airlines. The airline reportedly is seeking to achieve improved employee satisfaction, reduced costs, improved operational efficiency, and access to innovative solutions so it can focus on its core business.					
Avon	IBM	Nov. 2006	10	\$192 million	40,000
The beauty products company gives its HR a makeover by turning to IBM for services, including administrative support for certain key HR processes, compensation, payroll, benefits, and performance management. IBM will provide call-center support in select countries 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. "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."					

HRO Buyer	HRO Provider	Date of Contract	Length of Contract (yrs)	Total Contract Value	Number of Employees
Federal Occupational Health	Ceridian	Sep. 2006	5	\$150 million	1.3 million
In one of the largest public sector deals announced in the past year, Ceridian won the \$150 million contract to provide employee assistance program (EAP) services to Federal Occupational Health (FOH), a division of the U.S. Department of Health and Human Services, Program Support Center. FOH works in partnership with many Federal agencies via 360 interagency agreements throughout the U.S. and internationally. FOH designs and delivers comprehensive solutions to meet the occupational health needs for 1.3 million employees and their family members. The contract has a total potential value of approximately \$150 million over five years, consisting of an initial one-year term with four one-year options of approximately \$30 million per year.					
GlaxoSmithKline	ACS	Feb. 2007	10	\$171 million	N/A
Affiliated Computer Services' win of the 10-year, \$171 million contract with pharmaceuticals giant GlaxoSmithKline covered HR services in the U.S. and U.K. Under the terms of the agreement, ACS will consolidate services currently outsourced to a variety of providers or delivered within GSK, including payroll processing and benefits administration in the U.S. and employee and manager self-service portals and integrated online tools for several HR processes across the U.S. and U.K. "ACS has been providing services for GlaxoSmithKline in the IT sector since 2003," said Lynn Blodgett, ACS president and CEO, "and the expansion of our partnership into HR BPO services is indicative of their confidence in our capabilities."					
Hartford Financial Services Group	Fidelity Employer Services Co.	June 2007	7	\$60 million	45,000
Under the deal, The Hartford Financial Services Group expanded its relationship with Fidelity to include HR administrative services, payroll, workforce, and talent management functions. Fidelity had administered The Hartford's 401(k), pension, health and welfare, and stock plan benefits programs for its 45,000 employees and retirees. Under the expanded seven-year agreement, The Hartford will now utilize the Fidelity Total HR Advantage portfolio of services, which supports critical HR functions from recruitment through retirement. "Transitioning these services to Fidelity will enable our HR generalists to spend more time engaging with their business partners and providing strategic HR counsel," said Karen Macke, senior vice president of total rewards and human resources operations at The Hartford.					
Johnson & Johnson	Convergys	May 2007	10	\$1 billion	N/A
The J&J contract was Convergys' second billion-dollar HRO contract and only the third ever recorded in the marketplace. This follows Convergys' previous billion-dollar-plus deal with DuPont signed in 2005. The J&J deal, which had been highly anticipated for months, will span 10 years and cover a broad scope of HR services. Additional terms of the deal were not released. Convergys said it expects the contract to have a significant impact on revenue and earnings beginning in early 2009. The HRO service provider has won a number of high-profile contracts in the past two years, securing household-name clients such as Whirlpool, DuPont, and now J&J.					
Kimberly-Clark	IBM	Jan. 2007	7	\$100 million	40,000
The deal to outsource certain services to Accenture is part of Kimberly-Clark's global competitive improvement initiatives announced in 2005. Accenture is providing the diaper manufacturer with administrative services in the areas of recruitment, payroll administration, workforce reporting, employee data management, and training and development. The latter includes scheduling, tracking and reporting of training activities for the company's North American workforce. In addition, Accenture will deploy an enhanced portal to provide Kimberly-Clark's workforce integrated human resource information including on-line benefit and educational materials. "Attaining and maintaining market leadership requires us to be even more effective in the delivery of non-strategic human resource activities," said Ian Maginnis, Kimberly-Clark vice president of business support delivery.					
Rogers Communications, Inc.	Hewitt	May 2007	5	\$50 million	26,000
Its first end-to-end, enterprise win of the year, this contract covers 26,000 employees of Canadian media company Rogers Communications. The deal signaled that Hewitt is still active in the end-to-end, enterprise HRO market. Under the multi-year contract, Hewitt will provide services including workforce administration, payroll, compensation, and health and welfare administration services to all of Rogers Communications' employees in Canada. HROE					