

WHAT DO HRO TODAY'S MERLINS SEE  
WHEN THEY PEER INTO THEIR CRYSTAL  
BALL? THEY HANG IT ALL OUT FOR  
EVERYONE TO SEE. BY JAY WHITEHEAD



# The Outsorceners

Imagine this: a group of powerful and highly accomplished HR Outsourcing professionals who put on Merlin the Magician's silly pointed hat to predict what the year 2003 will bring for HR Outsourcing customers and providers. Nothing—not rain, nor snow nor fear of lost bets in the office pool—could keep these visionaries from speaking their mind. Like King Arthur's legendary Merlin, they all squinted their eyes and peered into the great beyond in an attempt to see the future for the rest of us. Some of these Merlins, like late-night-TV host Johnny Carson's hilarious huckster Carnac the Magnificent, may end up on the wrong end of some water-cooler humor. Others, like Merlin the medieval magic man, will offer up predictions that may seem marvelously insightful (or at least pretty lucky).

In person and by phone, we asked half of the Merlins to tell

us in complete English sentences their future predictions in five areas: the economy, the legislative arena, their personal business lives, their companies, and in the HRO industry. Then we asked these six to write a newspaper headline that they think will actually appear in 2003.





The second half of the Merlins faced another test of fortune-telling skill. We asked them to rank the likelihood of several potential future events on a scale of one to four hats. "1 hat" means the event is highly unlikely. "2 hats" is somewhat unlikely. "3 hats" is somewhat likely. And "4 hats" is highly likely.

Which Merlins will be right and which will be wrong is anyone's guess. One year from now, we will look back and keep score. But for now, dear reader, just kick back, slap your money on the table, and gaze into our crystal ball.

## Throughout the article you will find these pieces:

As Merlins, our prognosticators all had to wear the pointed hat. So we decided to use the time-honored "hat rating" system developed by the original Merlin to determine the likelihood that King Arthur would stay with Guinevere (that rated "1 hat"). Pretty clever, huh?

## These Merlins ranked their reaction to the six questions as follows:

-  1 Hat= "I think this is highly unlikely"
-  2 Hats= "I think this is somewhat unlikely"
-  3 Hats= "I think this is somewhat likely"
-  4 Hats= "I think this is highly likely"

## We asked the Merlins to rate the likelihood of the following:

### 1. IRAQ WAR?

How likely is the USA to be at war with Iraq in 2003?

### 2. FLORIDA FIRST?

How likely is it that the State of Florida's recent outsourcing of its personnel department will encourage more HR outsourcing by government organizations?

### 3. HRO BIGGER THAN ITO?

By the end of 2004, how likely is it that HR outsourcing will be a bigger market than IT outsourcing?

### 4. HOMELAND SECURITY SPURS HRO?

In 2003, how likely is it that passage of the new Homeland

Security Act will increase outsourcing of HR-related functions in federal, state and local government to private HRO providers?

### 5. MILITARY RESERVE \$HIKE?

In 2003, how likely is it that the US government will boost wage subsidies to employers whose military reserve employees are called to active duty?

### 6. CPO?

By the end of 2003, how likely is it that you or a member of your staff will seek to earn a professional certificate in outsourcing skills, such as the Certified Professional Outsourcer (CPO) designation?

## "The Future Is a Mall"

Mark Tierney, Founder and Chairman, EBENX

Mark is an employee-benefits industry visionary who founded EBENX in San Francisco in the early dot-com years to create a standard platform for employee self-service and multi-vendor benefits bill reconciliation.

(*Publisher Note: Since this interview, EBENX has announced plans to merge with SHPS.*)

**Economy:** Steady recovery. I think we'll see a 15% rise in the Dow over the next 12 months. Unemployment will improve parallel with the Dow.

**Legislative:** The wheels of government will be held up by terrorism. There's nothing in the works like the patients bill of rights or pharmacy benefits plan for Medicare, or provisions to allow FSA dollars to be used rather than lost. The solutions are too politically conflicted.

Two things, however, might gain momentum. The first is tort reform in health care. And the second is the concept of association plans—a pooling of small employers into a bigger plan. Republicans look favorably on that kind of development to help small employers.

**Personal Business Life:** My role as Chairman allows me to spend more time and energy supporting policy change at the federal level in health-care reform. That's where I enjoy spending lots of my time. I expect to do more.

**Company:** I've got two points here. First, benefits administration technology has



## Kevin Campbell, GOO, Exult

Kevin has his experienced and well-traveled hand firmly on the operational and marketing rudder of the good ship Exult (NASDAQ:EXLT), the General Atlantic Partners-backed enterprise HRO success-story-in-the-making.

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improved a lot, just like TVs have improved over time. The expanded technologies will allow employers to offer choices as never before. An example is BENU, a multi-choice health-benefit product that's like a big mall, offered in the State of Washington. BENU-like products were never possible because the carrier payments couldn't be reconciled, and it would be way too expensive to do it manually.

Health-care insurance is unique, because it's all about which insurance company is going to get stuck with the high-cost, chronic-user employees. BENU is beautiful, because the carriers are agreeing about risk adjustments. It's not a cartel, it's just a way of giving employers more choice. It's like a mall.

The second is the real advent of the defined contribution. It's like a 401(k), wherein each employer will provide each employee with a fixed amount of money to buy benefits from what is available in the market on a pretax basis. Definity and Health Market allow you to spend your deductible market wherever you want to. This will be a less-popular model among employers, because it doesn't help the chronic users of health care. The chronic users really drive the cost bus. Our benefit admin products are like Orbitz for air travel. They allow all users, including the chronic users, to help themselves make the best choices among competing infrastructures who go head-to-head against each other. That's why I say that the benefits future is a mall.

**HRO Industry Growth:** The mall, more competition, more choice, more technology, all will impact HR Outsourcing. There will be more aggregation and leveraging of purchasing power. It's all about market power, which is now decidedly shifted in favor of the carriers. The more that the employers move on to outsourced administrative systems, the more the administrative systems shift power to the employer.

**HRO-Related Newspaper Headline for 2003:** Consumer-Driven Health Plans Fail to Achieve Anticipated Cost Savings

## "Just a Practical Guy"

Gordon Gaddy, CEO, RewardsPlus

Gordon heads Rewards Plus, which has created a leading voluntary-benefits-administration platform with many large clients.

**Economy:** I'm going to say the 12/31/03 Dow index will be 9200, NASDAQ 20% over today.

**Legislative:** I don't see anything new coming up that's not in play now. The thing that will benefit HRO providers is HIPAA, which is heavily focused on security and privacy of data, which will make outsourcing more lucrative. We'll take that HIPAA responsibility, so we're clearly focused on that.

I think Gov. Bush's outsourcing initiatives in Florida are a trend, a harbinger of what's to



got a new CIO with a great developer team. So we will just stay focused on building a great technology-based HRO service company.

**HRO Industry Growth:** There's a huge drive to practicality. Lots of stuff feeds that, with Worldcom, Tyco, Enron; even the leader gurus like Jack Welch got clobbered. People are focusing on corporate profitability. The Internet is now a necessity, as a result.

We've got lots of competitors, most of whom are the enrollment and workforce-management companies, while we're focused on benefits. Our competitor EBenx focuses on data management for health services for very large companies, while we focus on the 1000-7000 employee companies throughout the entire benefits lifecycle and menu. Our competitor Ceridian would claim to be in our market, but they don't have the huge back-end data exchange like we do.

**HRO-Related Newspaper Headline for 2003:** Long Hours For A Few—Contract Work For Many

## "Learning How to Deal with the Outsourcing Megatrend"

### David Dell, Senior Consultant to The Conference Board

Dave is one of the leading researchers in the outsourcing world, and has recently authored



a groundbreaking study on HR Outsourcing.

**Economy:** 2002 has been a year of wait and see on critical initiatives. That means there's a backlog of opportunities waiting for scarce dollars. While the war for talent may appear to have abated, there are many embers in the coals ready to burst into flames. Leadership skills, key technical skills, and workplace security professionals will be in high demand.

**Legislative Environment:** From the Conference Board's perspective, we're seeing good governance and sound reporting standards high on the agenda. The direct result to HR is that companies will be more accountable to show how good their workforce is, through metrics and measures.

**Personal Business Life:** I personally am seeing a lot of companies looking to understand and

come. You'll see more of this, because budgets are under pressure. There is a bigger trend here, which is a different type of employment: a core group of employees, others on a variable schedule, then some temps and contingent workers, some offshore.

**Personal Business Life:** My drive lately is focus. Subtract the poetry and get down to what it takes to sell and service excellently. You know, the difference between the leading horse and the No. 2 is only a split second.

For me, 2003 means I will be mentoring the next generation of leaders for this company. I will be working a lot more on partnering in the year ahead too.

**Company:** Rewards Plus started as an electronic broker, a portal into the workplace, where an employer could offer many different providers while not over-burdening itself with administration and data exchange and communications and service. So we created a system that let employers offer a bunch of voluntary products and manage the payroll deductions and interface with the payroll system. All these products had different premiums, terms, durations, and employees were sometimes full-time and sometimes part-time, so managing all this stuff is very complex.

We headed in the direction of voluntary plus core employer-sponsored plans as well, and integrate it all. Now we've got around 60 large clients, not all of them use all the platforms, so we're going to expand the client base. We have in excess of \$23 million in cash, and some other committed cash. We've got a good board of directors and a core team. Now we've

## Lisa Maio Ross, CEO, Ross Research

Lisa is a veteran researcher covering the BPO and IT outsourcing markets. Like her research counterpart David Dell (see above), Lisa has had a bird's-eye view of the growth of the HRO market.

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grapple with, for the first time, what outsourcing means to them holistically. This means two things. One, what competencies are needed in the marketplace to manage outsourcing. And two, getting corporate alignment around what are the best outsourcing options in the market. I am being asked to talk to companies about how to deal with this outsourcing megatrend. Within HR, it's a competency issue. That's why the HRO Association's certification program will be in strong demand. HR people need orientation to the outsourcing megatrend. Within the organization, it's an alignment issue: how do we use outsourcing to further our corporate mission.

**Company:** In 2003, the Conference Board feels that outsourcing trends are at the forefront of what HR and other service organizations within companies need to focus on. We also think that other shared-service models are important. Research shows that folks who have done shared services are neither more nor less likely to outsource.

**HRO Industry:** I see 3 major trends. One is greater clarity around service levels and what it costs to get them. Issues like ROI and what they can deliver are confusing to many HR departments. Now outsourcing provides a good map for HR departments to follow for reaching hard objectives and for give employees a choice. Two is that we are in the midst of a sea-change of awareness about outsourcing: 2002 was a year of awakening; 2003 is a year of looking at outsourcing in a disciplined way as a routine. Three is growing maturity on the part of vendors, as the first few multi-offering or enterprise-level outsourcing firms start getting significant market share. The exciting thing is to discover what good HR departments can do with good partners. Outsourcing to good partners lets HR address some things they weren't able to do before. An example is how does a company look at its overall talent sourcing for the next five years for hourly workers, and what can it do for them.

I also think we'll have much more effective coordination among providers, since many companies will have a mixed provider environment. There is not yet any outsourcing provider brand loyalty per se. Sticking with a provider has more to do with two things. One is perceived financial or organizational stability of the provider. And two is ability to

## Charles Gash, Managing Director, Transition Partners.

Chuck is spearheading his sourcing consulting firm's entry into the HRO marketplace, with several important new projects currently underway.

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deliver in a partnership environment. Just because Mellon or Accenture or Aon or Exult or Convergys has an end-to-end solution or SHPS acquires EBENX may not necessarily oust an incumbent niche provider, as long as that niche provider is great at working in a multi-partner environment.

So it's all about integration. At the CEO-level, it's all about how much is provided by in-house versus outsourced. The IT-HR relationship is becoming more important because it's common data, common portals.

**Newspaper Headline in 2003:** Corporation X Stock Rises 3% After HRO Deal Announced

## "I'm just a relationship guy"

### Barry Wiegler, CEO and Founder, Sourcing Interests Group

For 12 years, Wiegler's "SIG," as it is known, has been the most exclusive forum for top strategic sourcing executives in big companies to meet and openly exchange experiences.

**Economy:** 2003 will be a pretty flat year; we won't see rapid recovery. A 10% gain in the Dow and NASDAQ would be good. This assumes that there is no catastrophic event.

**Legislative Environment:** I do see some increased tightening in regulations, which

would boost the HRO market. Outsource providers can spread the costs of compliance across many clients, which improves efficiencies. We've seen this in many regulated industries over the years.

**Personal Business Life:** I see spending my time helping executives improve sourcing relationships. That's really what I do. And SIG really reflects my strengths in that area. I guess I'm doing an OK job, since for 2002, membership revenues are up 32 percent from the previous year.

**Company:** SIG is all about giving nurturing guidance, if you will. It's not a class or a curriculum, it's a matter of creating the right forum. And I'm constantly working to improve the effectiveness of the forum.



**HRO Industry:** Over past two to three years, HRO has started to get legs. I see 2003 being a continuation. HRO's growth is analogous to IT outsourcing in the 1980s, although I believe HRO will grow at an accelerated pace as compared with IT. Also, more companies will look at broad-scale outsourcing in HR, rather than just outsourcing one HR function.

A few years ago at SIG, we did a session called "From Shared Services, to BPO, to IPO." I think that shared services have their place inside companies, but as external offerings they will not gain significant traction. I see shared-services units continuing to thrive internally, rather than as external offerings.

SIG members say their No. 1 concern is that their staffs are too small to handle the increased workloads. For providers, the major concern is delays in decision making. For 2003, there is a substantial amount of pent-up decisions that will open up as soon as 4th quarter '02.

I think the HROA is off to an excellent start in creating a set of standards and common language in its CPO certification. However, if standards take hold, they will be slow and limited. The smaller companies will sign up more rapidly than the larger companies.

**2003 Newspaper Headline:** Outsourcing Plays Increasingly Popular Role in Economic Recovery

## "Beware the masters of passive-aggressive resistance, the HR village"

**Naomi Lee Bloom,  
Bloom & Wallace**

According our estimates, Naomi Lee Bloom has consulted more large companies on more IT and HR-IT in-sourcing and outsourcing selections and implementations than any other single individual human. What's more, as you will see, Naomi is a bona fide character, colorful and opinionated.

*(Publisher's note: we talked with Naomi in the morning of mid-term election day.)*

**Economy:** I wish we were having this conversation tomorrow, because if Republicans gain control of the Senate, we are looking at very real prospects of war. My fondest wish is that we have political gridlock and get back to business.

Unemployment is more scary than it really looks in the official statistics. A lot of independent people, like me, were never eligible for unemployment insurance, and they don't show up in statistics. The H1-B visa holders also don't show up, because when they lose their job, they get deported. Because the contingent workforce will come on when things expand, employers' core



workforces won't expand.

**Legislative:** We'll see a lot of legislative pressure on employers to start counting their contingent workforces, and for government to include contingents in unemployment numbers. Most important for HRO buyers and providers, this drive to count contingent workers means that companies will need to manage contingent and full-time workers as one cohesive unit. The headcount problem is even greater for HRO strategies. Examples include when Bank of America does a deal with Exult, they are paying Exult as a factor of workforce numbers, which surely doesn't include the contingent workforces.

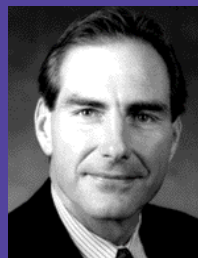
In the U.S., health care is completely dependent upon employer-funding, and costs are going up double digits every year. There will be lots more corporate buying groups, which will be justified by new legislation. There will also be more facility for people to make medical savings accounts, or MSAs, more portable so you can carry forward from year to year, and greater tax advantages for employers who offer MSAs.

**Business & personal life:** I'm not planning on becoming pregnant. I have spent my entire adult life trying not to get pregnant. I captain a 40-foot Caliber sailboat. I expect to go sailing more, intersperse more sailing with my workaholic lifestyle. I take eight to ten weeks' vacation a year. And I generally work 70 to 80 hours a week when I work. For 2003, I'll cut down my work week to 60 hours. It's more manageable now, because I've spent 15 years codifying my methodol-

## Reed Keller, CEO, Argus HR Partners

An outsourcing personality of prodigious charisma and achievement, Reed started PWC's consulting practice, which morphed into Unifi, and was ultimately acquired by Mellon. Reed is working to keep the debut of Argus HR Partners a well-kept secret. But it's hard to be invisible when, like Argus, you get a \$200 million venture capital commitment from John Clark of Welsh Carson Anderson & Stowe.

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ogy, so I can deliver client billable hours, without so many personal hours. I used to bill one client-hour for each 2.5 hours spent; I think I can get down to 1.5 hours for each hour billed.

**HRO Industry:** One of my challenges is to keep track of what's going on in HRO. One of the rules I use for allocating my time is that I follow the folks who are going to change history. That's why I really liked helping Exult. Exult's accelerated learning curve minimized the amount of time I needed to spend to get up to speed on an entire industry. The metrics of a provider are much different than the metrics of the HR community. Jim Madden, Exult CEO, is a master of the provider metrics. HR would say we have to have minimum elapsed time between when an applicant applies and when an applicant is processed, but the provider knows that we need to triage the folks in whom we really have an interest, and let the other folks wait for a while.

There are generally considered to be three value propositions to outsourcing: One is best practices, where you get a two times return. Physical arbitrage, where you get five to seven times. With technology, you get five to fifteen. In HRO, when a company has fifteen to twenty outsourcing relationships, there is another cost savings in selecting one aggregate outsourcing provider, which I call "prime contractors." Exult, Aon, Mellon, Accenture, Hewitt, EDS, Convergys, IBM Global Services would be classic examples of prime contractors in HRO.

I think it will be difficult for the HRO providers to overcome the strong hostile feeling that the HR community is building up. The new prime contractors sell at the C-level, and are considered outsiders by the HR community. HR folks are angered by selling over their heads and by IT-outsourcing native concepts. The new-style providers also have a tone or style that suggests that the HR community has not managed its own affairs well. HR folks are a village. This new breed of provider has broken up and disparaged the village. From my own long experience working with HR people, they are masters of passive-aggressive behavior. They will figure out ways to

## Ed Trolley, Head of Training Process Outsourcing Practice, Mellon HR Solutions

As head of global training at DuPont, Ed learned how to treat training like a business. Then at Forum, he wrote the book on the subject (literally). At Franklin Covey, he invented the Training Process Outsourcing practice, which Mellon HR Solutions acquired in November, 2002.

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sabotage a deal. It's not the visionary HR person who's going to be angry. It's the middle-level and lower-level HR pro who will bog the process down. The behavior of people during the transitions is very hostile. For Exult to be profitable, the time to delivery has to be reduced all along the chain. So any of these slowdowns cut the time to delivery, it draws out Exult's time to profitability.

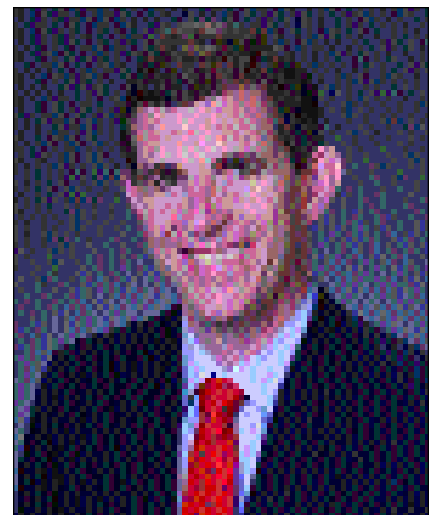
Go to Yahoo Finance and visit the message boards for HRO companies that are public. Check out the feedback from the HR professionals who are being outsourced and dumped. The tone is slanderous. It is as vicious and slanderous as anything I've ever seen. During the early days, it was not nearly as nasty. I think there are two sets of prime contractors who are friends of HR, members of the HR village or HR club. Hewitt tops the list. The outsiders, unless they do more bonding with the HR community, will be usurped by the Hewitt or Aon, prime contractors coming out of the HR community. Did you notice that Aon has EDS, an outsider, in the back room? Accenture has been rapidly fixing its relationships with the HR community, and has a good chance to rapidly be seen as a member of the club.

**Newspaper Headline:** The Big HRO Train Has Left The Station, But Not Everyone Is Cleared Off the Tracks

## "I'm dealing with a lot of technology investment bulimia"

Peter Bendor-Samuel, CEO, Everest Consulting & OutsourcingCenter.com

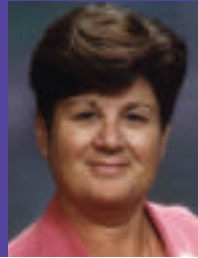
As head of one of the two largest sourcing consulting firms in HRO (the other two big dogs are TPI and Towers Perrin), Peter has dedicated his career to helping buyers (for a healthy fee) to navigate their way into IT, BPO, HR and other sourcing relationships.



## Naomi Lee Bloom, Partner, Bloom & Wallace.

We enjoyed Naomi's soothsayer commentary so much that we asked her to share more opinions in this Merlin segment.

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**Economy:** We will be in recession for most of the year, only coming out at end of year. Unemployment will be higher. What's different is that there will be more senior people out of work. It won't just be Joe Sixpack. It will be the suits-and-ties. The Dow? Maybe slightly up.

**Legislative:** The new Republican congress will not add more complexity to HR problems. If the Democrats had won, it

would be generally better for HRO. Globally, it's more complex, which drives HRO anyway. Firms are experiencing "technology investment bulimia," where firms are purging themselves of investment requirements, which drives outsourcing.

**Business & Personal Life:** For me, continued growth means a lot more travel, which is very intense. We have 60 employees now. We'll grow to 75 or 80 in 2003. We have a

huge commitment to training, so that will continue. My priority is to grow and not let quality erode.

**Company:** For Everest, finance and accounting outsourcing and HRO are the two big 2003 growth areas. This blends our historical technology focus with business strategy. IT is a mature market. It tends to move with the economic times. Outsourcing is changing to business-oriented solutions, rather than commodity IT solutions. We were doing the first BPO deals in 1995. We've done over 40 BPO deals, and fortunately, we guessed right and really focused on BPO.

**HRO Industry:** There have three Buyer-driven shifts in 2003. First, investment bulimia means that investments will be restricted in IT. Second, employee self-service is increasing, which means documenting more two-way communication processes. Third is that HR folks are moving to transactional engines that are integrating payroll, benefits, recruiting, training, and everything in-between.

**Newspaper Headline:** IBM Wins Major HR Outsourcing Market Contract HRO