

THE TOP HRO DEALS

This list was developed by contacting leading HRO service providers and analysts and requesting information on the largest HRO deals of the year. Contract amounts, if not disclosed publicly, were estimated based on information provided by industry observers and analysts.

HRO User	HRO Provider	Date of Contract	Employees Covered	Contract Amount (\$US)	Contract Length (yrs.)
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BASF

Fidelity

Jan. 2005

20,000

N/A

5

A market leader in the chemical business, Germany-based BASF inked a five-year contract with Fidelity at the beginning of the year to cover nearly 20,000 U.S. employees. Among the functions outsourced are integrated workforce effectiveness services such as compensation planning, performance management, talent management, and learning management; payroll timekeeping and attendance; personnel administration; employee records; HRIS management; health and welfare; defined benefit; and defined contribution plans.

"We believe that Fidelity's full range of services and capabilities may provide us with opportunities to streamline operations and achieve cost efficiencies," said Norman H. Maas, senior vice president of human resources for BASF in North America. "Additionally, Fidelity's ongoing commitment and investment in its offering allows us to provide our employees with access to leading-edge technology through a single point of contact."

The deal marks the only major win for Boston-based Fidelity, which remained relatively quiet in 2005 despite having invested a significant amount in its HRO business. However, industry observers say they believe Fidelity will make a bigger push this year.



BT

Accenture

Aug. 2005

97,000

\$575 million

10

In one of the largest HRO renewals ever signed, the European telecom giant signaled its faith in New York, NY-based Accenture by rewarding it with a mega extension to cover 97,000 employees and 180,000 pensioners—10,000 more workers than under the original contract. It was not only an affirmation of Accenture but also of HRO, according to BT management.

"Accenture HR Services has a proven track record of consistently high-quality service and a true partnership approach. These were key factors in its selection, along with its unmatched ability to deliver HR services on a global basis. This agreement will allow our staff to concentrate even more on the strategic role of HR management to our growing global business," said BT's group HR director Alex Wilson.

The services provided under the new contract include customer contact/call center; recruitment; pension administration; payroll and benefits administration; performance management administration; health and safety; HR advisory; and information services. The new accord significantly expands the original relationship—which was first signed in August 2000—by not only more employees covered but also geographically, with BT employees now in 38 countries covered by

Accenture's global delivery services.



Dana Corp.

IBM

April 2005

70,000

N/A

10

Armonk, NY-based IBM signed a sizable deal with the world's largest supplier of automotive, commercial off-highway products and technologies in April. The deal, which covered Dana's 70,000 current and retired workers in North and South America and Europe, covers administrative services for payroll and benefits, compensation, service recognition, recruitment and training, relocation, and expatriate processing. IBM will also operate service call centers for the covered employees and retirees. Also as part of the deal, IBM will provide customized, self-service tools to Dana, which said it had decided to outsource to gain greater flexibility, expanded services, and a better cost structure in its HR services.



Delta Air Lines

ACS

Feb. 2005

N/A

\$120 million

7

In an effort to lift its earnings, the nation's second-largest airline committed itself to a seven-year contract with ACS for services including compensation and benefits administration, relocation services, recruiting, learning, payroll, HR information services, and employee call-center services for its North American employees and retirees. ACS had been providing the airline with revenue accounting services for paper-based passengers under a separate contract. The new agreement reduces Delta's HR and payroll services costs by more than 25 percent over the life of the contract and saves Delta from making significant capital investment. The plan was to simplify administrative processes, enhance technology, and lower HR service costs. With \$15 billion in revenues and 52,000 employees worldwide, Delta entered into the contract months before it filed for bankruptcy and undertook its current restructuring program. Delta's contract may signal the airline industry's move into HR outsourcing years after it first undertook IT outsourcing.



FEATURE: TOP HRO DEALS

HRO User	HRO Provider	Date of Contract	Employees Covered	Contract Amount (\$US)	Contract Length (yrs)
DuPont 	Convergys	Nov. 2005	70,000	\$1.1 billion	13 years
<p>A full-service, multi-tower deal that catapulted Convergys to the forefront of the HRO deals in 2005, the global contract is one of the largest ever in HR and marked the second major win for the Cincinnati-based provider during the year. What's being outsourced? It might be quicker to list what is not but here it is: organization and employee development; workforce planning and deployment; compensation management; benefits administration; payroll; integrated health services; recruiting; employee and labor relations; HR process support administration; work environment support; performance management; employee data management; vendor management; and HR consultative services. Citing its goal to standardize, simplify, and automate, DuPont officials said the outsourcing deal will help make HR data more transparent and readily available so that business leaders can make better strategic use of HR. After vetting 16 potential suitors, DuPont said Convergys (with the help of Deloitte) appeared to be the best-suited provider for the job. (For more information, see the cover story in this issue.)</p>					
Duke Energy 	Hewitt Associates	May 2005	21,500	N/A	7.5
<p>Natural gas and electric energy supplier Duke Energy of Charlotte, NC signed in May an HRO deal that covered back-office administration and related information technology systems in the U.S. and Canada, including payroll, active employee and retiree health and insurance enrollment and status, retirement plan administration, staffing and training enrollment and status, work force event and salary administration, and performance management administration. With 21,500 lives affected, the deal also saw approximately 100 Duke HR professionals—the majority rebadged as Hewitt workers and the rest laid off—directly affected. The accord was an extension of their existing relationship, which had included retirement and retiree health and insurance plan administration. "This will enable us to provide enhanced service to our employees and retirees, while providing a more efficient way to handle back-office human resources work," said Chris Rolfe, Duke Energy's vice president of human resources.</p>					
Eastman Kodak 	IBM	Oct. 2005	N/A	N/A	5
<p>Rochester, NY-based Eastman Kodak tapped into IBM to provide a broad range of business support functions, including payroll services and credit and collections management, among others. Kodak said the move would lead to savings of millions of dollars in operating and capital costs while driving greater business flexibility and responsiveness in these process areas. The agreement is part of the company's broader effort to create a business model that would make it more competitive in digital markets.</p> <p>"Kodak has a huge opportunity in the digital world, and we are transforming our company and our brand to make sure we do all we can to take advantage of the opportunity," said Mark V. Gulling, director, Global Shared Services and vice president. "This agreement is a key part of our transformation because it will allow us to streamline our business processes and increase cost savings while freeing up resources to focus on our core imaging businesses."</p> <p>The two New York-based companies have collaborated on many previous projects, and the HRO accord is an extension of their existing relationship. They have also been partners in business ventures as well.</p>					
Marriott International 	Hewitt Associates	Feb. 2005	133,000	\$350 million	7
<p>As a deal with one of the largest number of employees covered last year, the Marriott-Hewitt accord touches 133,000 lives over a seven-year contract. While not as comprehensive as, say, the DuPont agreement, Marriott nevertheless outsourced a number of towers, including workforce administration, benefits, compensation, recruiting, domestic relocation, and learning and development services. Operating in 65 countries and with sales of more than \$10 billion in 2004, Marriott was one Hewitt's largest clients in 2005 with a total contract value estimated by some analysts at \$350 million. For the company, which had shied away from outsourcing until recently, the move was an effort to improve performance and garner savings. "We look forward to providing our employees with outstanding human resources services, while improving capabilities and increasing cost efficiencies," said Brendan Keegan, executive vice president of human resources at Marriott, which is headquartered in Washington, D.C. The contract also gives the company expanded HR services, performance enhancements, and easier access to HR data. With so many locations and such a large base of employees, the Marriott deal is also expected to turn out to be one of Hewitt's more complicated ones inked last year.</p>					
Mervyns 	Hewitt Associates	July 2005	29,000	N/A	7
<p>Hayward, CA-based Mervyns went shopping and ended up with Hewitt as its HRO provider. The retailer with more than 250 stores in 13 states in July decided to contract Hewitt for seven years for HR, payroll, defined contribution (401k), and health and welfare administration services for more than 29,000 of Mervyns' U.S. employees. The outsourcing move seemed logical after Mervyn was spun off and became an independent chain. "We needed to develop a completely new HR infrastructure very quickly, so rather than building it ourselves, we turned to the expert," said Kari Heerd, senior vice president of human resources at Mervyns. "We're excited to partner with Hewitt to build a new, efficient and effective HR infrastructure."</p> <p>The deal was Hewitt's second retail customer, following Circuit City.</p>					

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<p>Nisource</p> <p>A 10-year deal that included IT as well as BPO outsourcing, the \$1.6 billion contract is estimated to contain an estimated \$500 million in HR-related services. Other functions include finance and accounting, supply chain, customer contact, and billing and collections. Nisource, a natural gas supplier based in Merrillville, NY, was able to shed more than 1,000 positions as a result of the deal, with nearly 600 employees transferred to IBM and more than 400 others slated to be laid off by the end of this year. Nisource's 15 subsidiaries were expected to save \$530 million as a result of the outsourcing accord. According to NiSource officials, its decision to outsource on such a broad basis was to achieve both cost savings as well as to access cutting-edge technology available from IBM. Some of the savings will be offset by more than \$100 million in special charges related to the dismissal of employees and structural changes.</p>	<p>IBM</p>	<p>June 2005</p>	<p>N/A</p>	<p>\$500 million</p>	<p>10</p>
<p>Omnicom Group</p> <p>Communications are key to any deal but it's even more important in this HRO contract since the Omnicom Group is in the business of communications. The \$10 billion business outsourced workforce administration, health and welfare benefits, and payroll services to all of its U.S. employees to Hewitt under an eight-year accord, which marked the provider's first foray into the mass communications business. Even though it tread into new territory, Hewitt's ability to learn the business quickly was one reason the company won the business, according to Randall Weisenburger, Omnicom's CFO. In addition, the company said that the outsourcing agreement would improve HR services and functionality at the communications giant, which owns some of the largest advertising agencies in the world as well as other marketing businesses.</p>	<p>Hewitt Associates</p>	<p>Jan. 2005</p>	<p>N/A</p>	<p>N/A</p>	<p>8</p>
<p>PepsiCo</p> <p>Supporting 102,000 employees, Hewitt's signing of Pepsi was another whopper contract for the company with the most number of mega deals in 2005. The 10-year contract includes workforce and benefits administration, payroll, and contact-center support in 68 countries. The maker of popular soft drinks, Frito-Lays snacks, and other foods said the outsourcing deal enabled it to improve HR service delivery to all of its employees across the world. With sales of \$29 billion in 2004, Pepsi anticipated significant savings from the contract, which was the company's eighth since it merged with Exult in 2004. Pepsi's contract was one of the largest for not only Hewitt but also the HRO industry, with only the DuPont deal possibly larger, according to industry sources.</p>	<p>Hewitt Associates</p>	<p>June 2005</p>	<p>102,000</p>	<p>\$600 million</p>	<p>10</p>
<p>PHH Corp.</p> <p>In winning PHH's business, Ceridian will be responsible for a wide range of processes serving 8,000 PHH employees in the U.S. and Canada, including HR and payroll management, benefits, time and attendance, talent and acquisition management, COBRA, flexible spending account services, tax filing, work-life and employee assistance program (EAP), and HR compliance. As an outsourced mortgage provider, the former Cendant business said it understood the value of outsourcing non-core functions. "We selected Ceridian because of the breadth of its HRO offering and proven track record in serving companies of our size. Because PHH's business is outsourced mortgage, fleet management, and other financial value-added services, we were also interested in partnering with an HRO provider with a strong understanding and track record of customer service," said Neil Cashen, PHH Corporation executive vice president and CFO.</p>	<p>Ceridian</p>	<p>Nov. 2005</p>	<p>8,000</p>	<p>\$25 million</p>	<p>N/A</p>
<p>Rockwell Automation</p> <p>Two aspects stand out in Rockwell Automation's HR outsourcing effort: the contract is the longest executed in 2005, and the buyer chose Hewitt after the company walked away from its previous HRO provider. As part of the contract, the company transferred services including workforce administration, payroll, health and welfare, and defined benefit services to take advantage of Hewitt's strengths in these areas as well as scalability at its Midwest service center.</p> <p>"This agreement will bring Rockwell Automation state-of-the-art technology, world-class HR operating efficiencies, and enhanced services for our U.S.-based workforce," said Mary Jane Hall, senior vice president, human resources for Rockwell Automation.</p> <p>Rockwell Automation provides industrial automation power, control, and information solutions to global 500 corporations.</p>	<p>Hewitt Associates</p>	<p>Jan. 2005</p>	<p>15,000</p>	<p>N/A</p>	<p>15</p>

HRO User	HRO Provider	Date of Contract	Employees Covered	Contract Amount (\$US)	Contract Length (yrs)
<p>Thomson Corp. Among the shorter contracts signed with major buyers, Hewitt's accord to provide services to Stamford, CT-based Thomson including benefits, compensation, payroll, learning and development, and recruiting is also limited to only the company's 28,000 U.S.-based employees. Being left out in the deal are the company's 11,000 other workers in approximately 130 countries outside the U.S. The information solution provider, which has \$8 billion in sales, said it turned to Hewitt after a highly competitive selection process. It was especially attracted to the provider's long history of service experience. Jim Smith, EVP, human resources and administration for Thomson, said of the deal: "With their deep HR content knowledge and process experience, Hewitt can help us improve and standardize processes, deliver quality service to our employees, and reduce costs."</p> 	Hewitt Associates	Feb. 2005	28,000	N/A	5
<p>Wachovia Financial giant Wachovia, based in Charlotte, NC, renewed its wedding vows with Hewitt Associates in 2005 after originally entering into an HRO relationship with the provider in the late 1990s. So strong a believer in outsourcing, the company turned around and bought (yet-undetermined as of press time) F&A services from Genpact. However, it was its Hewitt accord that propelled Wachovia into the realm of super HRO buyers. According to the company, the extension covers contact center, payroll, learning, and benefits. In addition, 165 of its employees will be rebadged under the Hewitt name. The deal also enabled the company to further reduce costs while receiving leading-edge services from its vendor, according to Shannon McFayden, the head of HR and corporate relations. "With this partnership, we are gaining access to best-in-class human resources services and technology while reducing further costs for Wachovia," she said in announcing the deal.</p> 	Hewitt Associates	Aug. 2005	90,000	\$275 million	7
<p>Whirlpool The other whale reeled in by Convergys in 2005, the Whirlpool deal was second only to DuPont among Convergys' wins last year. Structured with a staggered rollout (U.S. and Europe followed by Canada and South America and then in Asia and rest of the EMEA region), the deal calls for Convergys to provide a comprehensive suite of services including payroll, employee service center, benefits administration, workforce planning and deployment, and data integration aspects of compensation and recruitment. Convergys also provides support to Whirlpool's global HR group for performance management and succession planning as well as supporting functions such as vendor management, communications, change management, and policy and legal compliance. The employees will be supported by centers in the U.S. and Europe. Operating in 160 countries, Whirlpool poses particular challenge for Convergys because of its widely scattered workforce. The agreement calls for rolling out automation, bringing standardization, and providing greater efficiency across all HR functions outsourced to the provider. The deal will also be based on Convergys' SAP technology, which Whirlpool credited as one reason for its selection of the provider. In addition, the company will receive integrated contact/management technologies, Recruitmax's application, and other IT tools.</p> 	Convergys	July 2005	68,000	N/A	10

MORE MEGA DEALS ANTICIPATED IN 2006

With total contract value of the deals listed here estimated by one analysts at nearly \$4 billion, 2005 was indeed a banner year for HRO. Aided by the \$1.1 billion, 13-year mega-deal signed by DuPont, the industry received a remarkable boost last year. But will this year hold the same promise? One analyst who spoke with *HRO Today* off the record said 2006 is expected to draw some very large buyers into the market, but don't expect the 25 to 30 percent growth it has witnessed in recent years. More likely, a number of deals will raise eyebrows, but based on activities initiated in the second half of last year, the market will likely match or even beat this year's total by a slimmer margin. Additionally, expect the number of deals to trickle in during the first half of this year but then catch momentum during the second half.

Some buyers expected to announced large, global contracts include the Royal Mail in the U.K., an organization that has embarked on an extensive business realignment effort in recent years. Facing a need to make capital-intensive investments, its HR leader is seriously considering outsourcing as a viable alternative. Another major HRO purchaser expected to announce its outsourcing deal is Unilever, the global consumer product giant. Company officials have said that they are working on developing a sourcing program that balances organization comfort with maximizing HR cost savings. Sourcing advisors working with Unilever said the company will likely announce its HRO deal by March. Of course, a number of renewals will also dot this year's landscape as well, as happy buyers show their confidence in HRO by signing new contracts with existing providers.

Whatever the year brings, it will most certainly show that full-service, multi-tower outsourcing agreements are here to stay. The evidence, as you can plainly see, are contained within these pages.

