

HR BUSINESS PROCESS
OUTSOURCING:

A Changing Value Proposition

Steve Resnick



Understanding how the market is evolving – and how service providers are adapting – can help HR and sourcing leaders forge stronger partnerships to better serve employees and meet broader organizational objectives.

It's hard to believe it's been 20 years since the first pioneering HR business process outsourcing (BPO) deals. The last two decades have presented both challenges and successes, from the heyday of the mid-2000s with numerous large enterprise deals inked in rapid succession, to the lean years that followed, to the more recent emergence of HR software as a service (SaaS), which is radically re-shaping the way HR BPO providers deliver services.

Does the traditional value proposition that launched the industry two decades ago still hold up? And how are successful providers adapting given changing market dynamics?

Understanding how the market is evolving – and how service providers are adapting – can help HR and sourcing leaders forge stronger partnerships to better serve employees and meet broader organizational objectives.

HR BPO Defined

Let's begin by defining HR BPO: It's the outsourcing of multiple HR back-office functions to a single provider, including functions such as workforce administration, payroll, call center, recruiting, learning, performance management and application management services (AMS). These services are sometimes referred to as multi-process HR outsourcing (MP HRO). Key providers delivering these services today include Accenture, Alight Solutions, Conduent, IBM, NorthgateArinso (being acquired by Alight), OneSource Virtual, TCS and Wipro.

HR BPO is different than outsourcing single functions like benefits administration, recruiting or payroll, although these functions can be bundled into a HR BPO deal. Stand-alone single function deals have different market histories and trajectories than HR BPO.

The Traditional HR BPO Value Proposition

The traditional value proposition for HR BPO centered around cost savings, primarily by moving "as is" manual processes, such as data entry and IT support, to a lower-cost labor environment like India or the Philippines. Efficiencies also were expected from the scale and standardization of using an expert provider. Promised savings often exceeded 30 percent.

HR BPO providers also promised more advanced capabilities through built-for-purpose applications, such as case management, call center and imaging that leveraged investments across a multi-client environment.

Finally, enterprises often opted for HR BPO so their HR organizations could focus on the core business. They outsourced the "headache" of tactical, transactional service delivery, so they could re-focus internal HR teams to support strategic business initiatives.



SaaS Disrupts the HR BPO Industry

The emergence of software as a service (SaaS) has disrupted the HR BPO industry just as it has impacted nearly every aspect of HR. Since the SaaS model has come on the scene, two of the three original value drivers of HR BPO have been diminished: cost savings and improved technology capabilities.



The emergence of software as a service (SaaS) has disrupted the HR BPO industry just as it has impacted nearly every aspect of HR.

SaaS technology provides self-service or automates many processes that were previously manual. This means the volume of work previously done by HR BPO providers is reduced, as is the materiality of labor arbitrage savings from an HR BPO deal. New SaaS customer relationship management (CRM), telephony and document-management software platforms, such as ServiceNow and Zendesk, provide capabilities similar to those HR BPO providers once offered. This limits the value of “one to many” technology investments that were previously a staple of the providers’ value proposition.

However, perhaps more than ever, the ability for HR BPO providers to enable clients to focus on strategic HR initiatives remains valuable. Expectations for senior HR leaders continue to increase as talent initiatives are now seen as mission-critical to the organization and as new SaaS technologies enable actionable insights. Having a reliable HR BPO partner to take care of “business as usual service delivery” can be key to success.

The Providers’ Financial Model Is Under Duress

Just as the value proposition has come under stress, so has the service providers’ traditional economic model.

The volume of work has gone down and so have overall fees. For example, much of the work previously performed by HR BPO IT staff to maintain the on-premise HCM/payroll platform is now performed by the SaaS provider. Outsourcers now offer AMS for SaaS, but typically at a fraction of the cost previously received from on-premise support. As another example, the volume of workforce administration (WFA) work has been dramatically reduced due to self-service and automation, sometimes up to 50 percent. New HR BPO deals and renewals tend to have significantly lower overall fees/revenue than was historically the case.

SaaS is leading to margin stress as well. Labor arbitrage has historically provided the highest-margin opportunity for service providers. As the volume of manual transactions diminishes, the impact of labor arbitrage also declines. Out of necessity, providers are searching for other ways to fill this gap, such as increased investment in new “efficiency” technologies like robotic process automation (RPA), chatbots and virtual agents.

But increased investment in new technologies is proving to be a double-edged sword. On the one hand, it does improve provider efficiency and margins. On the other hand, clients often expect to receive at least some of the benefit delivered by the new technologies through reduced fees – potentially diluting the positive margin impact.

HR Business Process Outsourcing



Just as the value proposition has come under stress, so has the service providers' traditional economic model.

Evolving to Remain Relevant and Profitable

Most HR BPO service providers have recognized the challenges the SaaS market has introduced and are quickly adopting strategies to reposition their value proposition to clients and maintain profitability. The following five strategies are helping providers remain relevant:

- 1. Increase flexibility to appeal to more buyers:** Rather than offering a “minimum core offer,” which was common in the past (often including WFA, contact center, HRIT and payroll), providers are now offering more flexibility to “mix and match” a bundle of services. For example, a client may want the outsourcer to provide contact center and payroll services but may want to retain WFA in house.

“Hybrid” or “co-sourcing” models also are on the rise. In these models, the enterprise client takes more responsibility for processing, and the provider offers services that require additional knowledge or expertise. This focuses the client’s outsourcing spend on higher value-add activities or areas of perceived risk. For example, AMS models have emerged in which the client performs certain activities but leverages an outsourcing provider for others, which provides a level of risk mitigation against attrition for employees with “hot” SaaS skills.
- 2. Focus on consumer experience and user adoption:** Many companies are finding that self-service adoption for SaaS among managers and employees remains elusive even after the new technology has been implemented. This may also have an impact on achieving the business case used to justify the investment. Recognizing this client need, HR BPO providers are rushing to assist. Many are developing tools such as integrated portals, chatbots and virtual agents that supplement the core SaaS HCM solution to help enable “self-sufficient self-service.” Another focus area is helping clients optimize interactions that have the highest impact on employee engagement, often referred to as “moments that matter.”
- 3. Make the most of SaaS by blending consulting and transactional expertise:** Successful providers are finding ways to blend consulting with traditional transactional capabilities. For example, rather than simply operating or configuring the SaaS platform per the client’s request, value-add providers are understanding the client’s business objectives and are offering a defined point of view and best practices across a broad book of business that leverage the same SaaS technology. Serving in a “one-to-many” environment, the HR BPO provider can create greater depth of expertise than many individual companies can do on their own, and forward-looking providers are finding ways to capitalize on this strength.
- 4. Achieve higher levels of standardization and efficiency:** Creating standardized, efficient processes across clients has long been the “holy grail” for HR BPO providers. This value was very difficult to unlock in an on-premises world in which every client had significantly different processes and a multitude of system customizations. In a



The wave of the future for HR BPO is a flexible model focused on providing value-added activities and user adoption support through an enhanced consumer experience, all at a lower cost point.

SaaS environment with common base business processes and no customizations, a HR BPO provider can more easily achieve a “standardized, best practice, commercial scale” operating environment. Realizing this outcome is key to improving operational efficiencies and maintaining provider margins.

- 5. Look for new markets:** Some providers have realized the number of opportunities with large enterprises are dwarfed by the number of opportunities in mid-market, and the value proposition for additional expertise is often more compelling for smaller companies that don't have the same scale and resources available. While not foregoing the large market, a few providers are shifting to add offerings attractive to mid-market clients.

The Outlook

The traditional value proposition for HR BPO is indeed under stress, but providers that can effectively shift their go-to-market approach are finding a viable and expanding market. A number of significant enterprise deals are now in their second, third or even fourth generation of outsourcing with decreasing likelihood of bringing services back in-house, although scope tends to evolve with each renewal. In fact, the general trend is for existing clients to increase use of HR BPO services, with 49 percent indicating the intent to do so in the recently published [2019 Industry Trends in HR Technology and Service Delivery](#).

Many companies view implementation of SaaS as the moment to re-examine their HR delivery model and will opt toward outsourcing, although often with an eye toward sourcing only discrete functions or augmenting internal capabilities with more specialized subject-matter expertise.

The transaction-heavy, single-model, labor arbitrage-driven HR BPO marketplace is in the rearview mirror. The wave of the future for HR BPO is a flexible model focused on providing value-added activities and user adoption support through an enhanced consumer experience, all at a lower cost point.

For current and prospective clients, the key is to understand the overall market dynamics – from both the buyer and provider perspectives – and continue to supply feedback and direction that will help providers adapt their capabilities and offerings in a way that is most beneficial to your business.

For service providers, plenty of challenges as well as opportunities lie ahead as HR BPO enters the third decade. The most successful providers will be those that can quickly reposition their value proposition and differentiate themselves in this evolving market.

ABOUT THE AUTHOR

HR BUSINESS PROCESS OUTSOURCING: A Changing Value Proposition



STEVE RESNICK

Director

Steven Resnick is a director in ISG's HR Tech practice, drawing upon over 25 years' experience in consulting, outsourcing and shared services to help clients evaluate and implement their HR technology and service delivery strategies. Prior to joining ISG, Steve spent more than 13 years in the HR BPO industry, including in several executive-level roles with a prominent HR BPO provider.



ABOUT ISG

ISG (Information Services Group) (Nasdaq: III) is a leading global technology research and advisory firm. A trusted business partner to more than 700 clients, including more than 70 of the top 100 enterprises in the world, ISG is committed to helping corporations, public sector organizations, and service and technology providers achieve operational excellence and faster growth. The firm specializes in digital transformation services, including automation, cloud and data analytics; sourcing advisory; managed governance and risk services; network carrier services; strategy and operations design; change management; market intelligence and technology research and analysis. Founded in 2006, and based in Stamford, Conn., ISG employs more than 1,300 digital-ready professionals operating in more than 20 countries—a global team known for its innovative thinking, market influence, deep industry and technology expertise, and world-class research and analytical capabilities based on the industry’s most comprehensive marketplace data. For more information, www.isg-one.com.

Let’s connect **NOW...**

