

Is Your HRO Contract Competitive?

HR Contract Review Services

Are you getting everything you can from your outsourced service agreements — or are they costing you money? Many of the first generation, and some second generation, HRO contracts have come up for renewal. As the renewal date approaches, forward thinking organizations are taking a look at existing agreements with an eye towards market developments and price changes (see figure 1). Contract reviews are occurring in greater frequency and at shorter intervals as a means to keep in step with market practices and pricing. No longer are organizations waiting until year four or five of a contract to evaluate how the delivery market has changed, because in today's challenging times every dollar counts.

The HRO market continues to evolve, and so does your organization

The HRO market may be called mature considering US companies started adopting outsourcing of HR services back in the 1990's, and Europe has seen market growth gain momentum in recent years. However, the market practices and approach to delivery continue to evolve and with it contract language, delivery architecture and performance and pricing methodologies.

We see common themes across organizations as contracts are reviewed and the future strategy is evaluated. When times get lean it can be hard for internal resources to find time to maintain good governance of the contract. Although both parties may have the best of intentions, as the saying goes "if it doesn't get measured, it doesn't get done."

Questions You Should be Asking

- As our service provider navigates the current economy, what are they changing?
- Have they reduced their cost structure? Are we receiving any benefit from productivity improvements or use of labor arbitrage?
- Is our HR contract more than two years old? What has changed in the market?
- Do we know what results could come from a modification to the scope of services?
- Are we leveraging everything we can from our existing contract?

Figure 1

This can lead the parties into a strained relationship due to missed expectations and misinterpreted requirements. This is proven true in a variety of ways:

- Annual realignment of service levels may be skipped resulting in performance drivers that aren't keeping up with the organization's changing business,
- Service delivery problems go unchecked and shadow operations start to crop up inside the client organization,
- Changes at the provider can come as a surprise when delivery locations are shifted or key account personnel change without much notice,
- Less sharing of best practices or process improvements by the provider.

All of these can not only have a negative impact on the relationship, but can ultimately translate into higher costs for the client. The underlying methodologies and contract language around these items have evolved to remove much of the complexity that was built into earlier contracts. Thus, an evaluation and possible update to your contract can lead to easier and cleaner governance enabling you to track what is truly included in your base price and core services. These are critical knowledge points in managing change work that carries additional fees.

Asking yourself the questions in figure 1 and conducting a review of your contract and services can ensure that you are keeping your agreement up-to-date with current practices and positioning your organization to leverage opportunities for improvement, including tighter cost management.

HR Contract Review

EquaTerra's HR review, re-scope, and remediation services help you evaluate how your current HR contract compares to market practices and pricing. Through the review of your contract's terms and conditions, scope of services, technology and delivery architecture, service level agreement, and pricing structure we will help you determine opportunities to improve your pricing, the scope of services delivered, performance drivers and market-current contract language and practices. Our process defines a strategic roadmap to help you meet your long and short-term goals (see figure 2).

EquaTerra's deep knowledge of the HRO service providers' offerings, business goals and direction will give you insight as to how your existing service provider aligns with your organization's direction.

Our comprehensive database of HR metrics is used to measure your contract against market practices. Our database consists of data points from over 100 comprehensive HR and HRO global projects spanning more than 63 countries. This is further enhanced with our database of service provider bid data of more than 168 bids. Overall, EquaTerra is able to offer more than 150,000 data points.

Key Outputs of a Contract Review, Re-scope and Remediation

- A comparison of current terms and conditions highlighting those that are "unfavorable" for the client given today's market practices.
- An analysis of the scope of services regarding the mix of services, delivery vehicles, delivery locations and level of services across the client population.
- An analysis of the technology and delivery architecture used to provide services.
- A comparison of current performances drivers, service levels, performance reported, provider contributions to innovation and pricing to drive productivity compared to market practices.
- An analysis of the current contract fee structure, pricing mechanisms and a comparison to market pricing.
- A strategic roadmap aligned to long and short-term goals.

Figure 2

Results that Count

Reduce fee structures 20% to 30%

EquaTerra has found fee structures from earlier deals that are inflated by as much as 20% - 30% when compared to current pricing.

Realized annual savings of 9% for \$1 million in total savings

An EquaTerra Contract Review saved one client nine percent per year over three years on its outsourced HR Services, for a total savings of more than one million dollars. The review revealed opportunities for improvement in their governance practices.

Uncovered more than \$400,000 in service credits

Another EquaTerra Contract Review revealed that over a four year period the client had not received between \$400,000 - \$500,000 in service credits. Key contributors to this included overly complex service credit methodology, and multiple and frequent changes to scope during the four year period.

Enabled fact-based decisions to facilitate an HRO contract renewal

International Paper hired EquaTerra to conduct a Contract Review as they approached the end of a seven year HRO contract. The company wanted to understand how the contract terms and conditions compared to more recent HRO contracts, how its service level agreements (SLAs) compared to best practice and industry standards and whether its pricing scheme was still competitive. Over four weeks, EquaTerra reviewed the master service agreement, addendums, change requests, decision requests, invoices, fees and budget projections over the life of the contract. EquaTerra identified variances in industry practices that had evolved over the seven years. These findings enabled International Paper to make important decisions based on facts and industry-validated practices. Finally, the diagnostic reviewed pricing and provided International Paper advice on where pricing appeared either within and outside market ranges, evaluated value capture considering volume fluctuations, and made recommendations regarding updating certain pricing and financial mechanics in the contract.

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About EquaTerra

EquaTerra sourcing advisors help clients achieve sustainable value in their IT and business processes. Our advisors average more than 20 years of industry experience and have supported over 2000 transformation and outsourcing projects across more than 60 countries. Supporting clients throughout the Americas, Europe, and Asia Pacific, we have deep functional knowledge in Finance and Accounting, HR, IT, Procurement and other critical business processes. EquaTerra helps clients achieve significant cost savings and process improvement with internal transformation, shared services and outsourcing solutions.

For more information on our HR practice or to contact an HR expert, please see our Website at: <http://www.equaterra.com/HumanResources>