

HR Outsourcing Cracking the code

Who would have guessed even 10 years ago that HR outsourcing initiatives would take on the strategic importance that they command today? For some companies, HR outsourcing contracts can run up into the billions of dollars, making them big business by any standard. So it's no surprise that today's Human Resources Outsourcing (HRO) marketplace is filled with new outsourcing solutions and service providers. Having options for outsourcing is no longer a problem. Determining which combination of those options will deliver the most value is the hard part.

Shifting roles

The HR outsourcing marketplace has undergone a fundamental shift – one that neither buyers nor providers have fully embraced. As HRO gained momentum, outsourcing providers were hungry to take on as much of the HR function as they could. But as the market matures, they are changing their offerings in response to new pressures. For starters, their everything-but-the-kitchen-sink contracts have not been as profitable as expected. As a result, many providers are now designing their contracts to offer more targeted services rather than commit to a blanket agreement covering it all. These shifts have made the competitive environment for providers more intense than ever, with new providers entering the market and established providers evolving to meet the challenge. All of which makes it a lot harder to predict what tomorrow's HRO marketplace will be and leaving providers wondering how to meet today's demands.

Along the way, the burden of determining the right approach to outsourcing has shifted to buyers. Simply throwing everything over the fence to providers isn't really an option for buyers anymore. And the penalties for making the wrong choices can destroy a ton of value in a heartbeat and can have a negative effect on everything from organizational credibility to employee morale. Today's buyers expect a lot more – and they're taking a bare-knuckles approach to negotiations to get it. The technology landscape is also evolving, with the rise of Software-as-a-Service (SaaS) offering more solutions than ever before. It all adds up to major uncertainty, with buyers asking the fundamental question: how can I make HRO work for me?

How we can help

Over its entire life cycle, an HR outsourcing initiative can go in literally countless directions. No matter where you are in the process, it's important to work with professionals who understand your broader business goals, see the challenge of outsourcing from both the buyer's and provider's perspectives and can help you achieve the results you want. That's where Deloitte excels. We are widely recognized for our ability to see the big picture, drawing from our access to experience, knowledge and skills in areas such as human capital, risk, strategy, service delivery, technology and tax. Our services are designed considering the balance we have between a deep understanding of the buyers' needs and a realistic understanding of providers' true capabilities. In an environment where "special arrangements" abound, we believe buyers always need help in developing an objective viewpoint.

We've worked on the front lines of HR outsourcing with both buyers and providers for years. And we know how to help buyers in their efforts to design HR service delivery strategies and bring them to life through effective implementation and relationship management.



Here are a few of the areas where we offer services designed to help:

- Setting the HR outsourcing strategy
- Preparing for an HR outsourcing transition
- Making the deal
- Executing the implementation
- Incorporating HR outsourcing into HR service delivery
- Reevaluating and improving the HR outsourcing relationship

Bottom-line benefit opportunities

HR Outsourcing can help organizations in their efforts to:

- Achieve measurable return on investment for HRO transactions
- Have increased options to effectively leverage HRO to deliver HR services
- Achieve better alignment between the buyers and providers of outsourcing services
- Improve HR service delivery quality

Five ways to get more value now

Deloitte has helped outsourcing buyers and providers all over the world in their efforts to work together to create breakout results for their HR organizations. Here are a few lessons we've learned along the way.

- **Start with the end.** Start by clearly defining where the organization needs to go and how the HR function is going to serve that mission. Everything is on the table – operating models, technology platforms, HR strategy and service delivery models, even the economic and political landscape. Don't depend on someone else to tell you what the outcome should look like.
- **Engage. Repeat.** Stakeholder alignment is a critical success factor for every outsourcing initiative, so identify primary and secondary stakeholders early and engage them often. Understanding their views and expectations can help you manage expectations along the way and more clearly articulate the value of the initiative at key moments.

- **Expand your SLAs.** Service level agreements (SLAs) typically assess the outsourcer's ability to perform a transaction at a target speed or quality level. But that's only one view of the big picture. How well is the overall relationship functioning? How are broader organizational goals being met – or not? What mechanisms are in place to support the overall relationship? These are the types of questions that should be addressed when measuring success.
- **Keep an open mind.** With providers being squeezed, it's important to keep an open mind when it comes to determining which solutions they can offer reliably and profitably. From partnerships to implementation approaches, providers are rethinking everything. That can help create new opportunities for buyers to seize.
- **Premium pricing for premium needs.** Outsourcing isn't always cheaper – but when it fills an important strategic need, it's usually worth it. For instance, when a company is looking to ramp up their people capabilities in new markets, or needs to reduce their exposure to regulatory risk, paying a premium upfront can be profitable in the end.

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