



Everest Study: HR Outsourcing Contract Renewals to Include More Offshoring, Significant Restructuring

75-85 Percent of HRO Contracts Expected to Be Extended

Press release

DALLAS, September 30, 2009 – Although early adopters of human resources outsourcing (HRO) services will make significant changes when restructuring end-of-term contracts over the next three years, 75-85 percent of buyers will retain current suppliers, according to the [Everest Research Institute](#). As HRO clients evaluate how to drive incremental value for their organizations through the end-of-term process, areas of restructuring will range from modifying the number and type of in-scope processes, to enhancing delivery models through global sourcing, to introducing alternative pricing models. Everest will discuss end-of-term strategy development during a one-hour [Webinar](#) on October 6, 10 a.m. CDT.

While most end-of-term engagements will likely be extended, 15-25 percent will be repatriated or transferred to new suppliers, according to the Institute study, [Human Resources Outsourcing \(HRO\): End-of-Term Market in HRO](#). More than 111 HRO contracts with a combined total contract value of about US\$6 billion are nearing their term end in 2010-12. Institute analysts foresee scope reduction with large-market buyers (15,000-plus employees), whereas mid-market (3,000-15,000 employees) buyers will likely expand narrow scopes and leverage expanded supplier offerings that include talent management services.

“While extension is the most preferred option, given the current economic climate and structural changes in the HRO market, recent end-of-term events see intensive renegotiation and contract restructuring,” said [Katrina Menzigan](#), Vice President, Everest Research Institute. “Market factors in the HRO space have changed significantly over the past several years. Consequently, HRO buyers need to understand these changes and how the overall value proposition of their engagement is impacted.”

Examples of changing HRO factors include:

- Changing HRO supplier strategies and realignment of focus areas
- Shifting buyer approaches away from end-to-end and towards best-of-breed
- Market entry of new HRO and specialized HR-process suppliers
- Expansion of global sourcing as a key component of delivery models

An analysis of to-date HRO engagements reveals:

- 82 percent of buyers have extended contracts, 12 percent repatriated and 6 percent transferred to other suppliers as part of end-term decision making
- While the majority of buyers extended contracts with the same scope, more than one-third of second generation deals were reduced in scope
- Typically, judgement intensive processes are de-scoped for mid- and end-term extensions
- Most buyers that repatriated work did so during the early- to mid-phase period

“Several suppliers have recently redefined targets and strategies to achieve profitability goals,” said [Rajesh Ranjan](#), Research Director. “They will be challenged to renegotiate with legacy clients contracts that align with their new service delivery models. Opportunities exist for suppliers

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with broad capabilities to expand scope with first generation buyers. However, in pursuing HRO buyers considering transfer of services, their focus should be on offering value, demonstrated success, and a clear pathway for transition. Lastly, suppliers must continue to focus on cost savings in response to cost pressures by buyers by leveraging strategies such as global sourcing and standardization levers.”

The [Webinar](#) will be held October 6 at 10 a.m. CDT; 11 a.m. EDT; 4 p.m. GMT Summer Time. To register, please visit: www.everestresearchinstitute.com/Events/Webinars.

To read an extract of [Human Resources Outsourcing \(HRO\): End-of-Term Market in HRO](#), purchase the report, or inquire about other research services, please visit www.everestresearchinstitute.com, email info@everestresearchinstitute.com, or call +1-214-451-3110.

Other [HRO studies](#) providing additional insights into this topic:

- [Multi-Country Payroll Outsourcing \(MCPO\)](#)
- [Global HRO Supplier Landscape](#)
- [HRO Annual Report](#)
- [Learning Services Outsourcing \(LSO\)](#)

About Everest

Everest Group is a global consulting and research firm that comprehensively serves the outsourcing and offshoring market. An industry leader since creating the sourcing consultancy practice in 1991, Everest has earned a worldwide reputation for ongoing innovation by helping clients capture optimum value through sourcing strategies and implementation. Everest provides information, insight, and advice to help buyers, suppliers, and enablers of services effectively navigate all stages of the sourcing lifecycle. Committed to thought leadership, Everest is noted for its fact-based analyses and insights on the outsourcing and offshoring marketplace. For more information, please visit www.everestgrp.com and www.everestresearchinstitute.com.